Introduction: The Context of the War

Nearly a year after Russia invaded Ukraine, Europe remains a continent at war. Historians will likely see 2022 as a pivotal year akin to 1989 and 2001—years that marked the end of an era and the beginning of a new historical phase. Europe’s response to the war has changed the continent.

The changes in the past year have truly been dramatic. Countries with a long history of neutrality suddenly sought to join the North Atlantic Treaty Organization (NATO) military alliance. Almost overnight, the United Kingdom, seemingly irreparably entangled with Russian investment and influence, evicted Russian oligarchs and their wealth. Germany announced a new era, invested massively in defense, sent weapons to Ukraine, and ended its deep dependence on Russian natural gas. The European Union showed itself to be a geopolitical actor, implementing massive economic sanctions and, for the first time, providing billions of euros in lethal security assistance.

Most importantly, the unity forged in Europe in response to the war held. The prevailing assumption that Europe was weak led to constant predictions that this unity would crack. There were concerns that the millions of Ukrainian migrants could trigger a populist backlash and that rising energy prices and a cost-of-living crisis would prompt Europe to push for an end to the conflict, breaking with Ukraine and the United States. Furthermore, there were concerns that Europe would not get through the winter without Russian gas and that its economy might collapse.

But again and again, Europe has held firm and adapted. Its response has often been messy and cacophonous, but this is to be expected in European democracies, where foreign policy debates and divisions play out in public. In the end, Europe’s response has demonstrated both its resolve and the strength and resilience of democracy. European democracies have demonstrated their competence and determination—from rapidly getting weapons to Ukraine to rapidly building liquefied natural gas (LNG) terminals. The war has thus strengthened Europe, the European Union,
Economically, Europe has performed better than expected and avoided falling into recession in 2022.

However, despite the strong response to the war, comprehensive structural changes to Europe’s economy and security architecture have yet to materialize. Although it is now spending more on defense, the war has revealed that the state of European forces is even worse than realized. Off-the-shelf procurement of military equipment, mostly from the United States, has taken priority over ambitious coordination efforts and investment in common European defense initiatives. Despite the war, none of the three primary Western stakeholders—NATO, the United States, and the European Union—have proposed any transformational initiatives to improve defense cooperation.

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Momentum toward greater fiscal integration has also stalled. There are growing demands on Europe to invest resources to address common problems. But the European Union lacks the fiscal capacity to address major issues—from defense procurement to providing weapons to Ukraine and from building new energy infrastructure and accelerating the green transition to securing supply chains. Additionally, once the war ends, rebuilding Ukraine will cost hundreds of billions of euros over at least a decade. The European Commission has already stated that the current EU budget, known as the “multiannual financial framework,” does not cover these needs and that new financing sources will have to be identified. Yet, despite the precedent created by the EU Recovery and Resilience Facility—toward which the European Union borrowed about 800 billion euros to help member states recover from the Covid-19 pandemic—European leaders have thus far refused to issue more common debt. It is therefore unclear how Europe will finance addressing its collective challenges, as well as Ukraine’s reconstruction. The year 2023 will no doubt pose significant economic challenges, as Europe’s economy is expected to slow, and the continent will continue to have to cope without Russian gas supplies.

This paper examines the present state of Europe one year since Russia launched its invasion of Ukraine. It gauges the continent’s political response to the war, the sanctions regime, the economy, the energy crisis, Ukrainian migration, and the enlargement and reconstruction of a wider Europe. It then evaluates defense and EU-NATO cooperation before looking ahead to the future of transatlantic relations.

Europe’s Political Response to the War

UNITY FORGED AND MAINTAINED

Since Russia launched its brutal invasion of Ukraine in February 2022, the high degree of political unity demonstrated by the European Union’s response has surprised many observers, who expected Vladimir Putin to use Russian influence, particularly Europe’s long-recognized dependence on Russian
hydrocarbons, to effectively divide and incapacitate the bloc. But Putin’s bet that Europe would not put its economic well-being at risk for Ukraine has proved wrong.

A year after the war began, European unity continues to endure. In mid-December 2022, the European Union passed its ninth sanctions package against Russia, just a few weeks after collaborating with the United States and other members of the Group of Seven (G7) to launch an international price cap on the purchase of Russian oil, in addition to an EU embargo on the maritime shipment of Russian oil. At the start of 2023, France, Germany, and the United States each announced that it would ship armored fighting vehicles to Ukraine—the first time a Western-designed light tank will be sent to the Ukrainian military. The United Kingdom also committed to sending 14 of its Challenger 2 main battle tanks to Kyiv.

Europeans have so far maintained solidarity and enacted robust sanctions to punish Russia. There have no doubt been sharp disagreements within both the European Union and NATO about how to respond, for instance, regarding the proper level of sanctions, the correct way to wean Europe off its reliance on Russian oil and gas, and the appropriate amount and kind of defense support the transatlantic alliance should be providing to its Ukrainian partners. But these are normal foreign policy debates, many of which are also occurring in Washington. The difference is that in Washington, these debates are between government agencies behind closed doors, while in Europe foreign policy decisions and processes play out publicly.

While some prominent European politicians, such as Marine Le Pen and Matteo Salvini, have expressed skepticism of the Western approach toward the war, and some pro-Russian protests have emerged, overall the continent’s political class and public remain supportive of the European response to the crisis. The latest Eurobarometer polls have shown that 74 percent of EU citizens approve of the European Union’s support for Ukraine following the invasion. The value that citizens place on participation in the organization has concurrently increased as well, with 72 percent of EU citizens saying their country has benefited from EU membership.

There has been concern about a new revival of populism and far-right parties in Europe, but such a sweeping narrative proved largely unfounded. European elections throughout 2022 saw far-right parties attempt to moderate their extremist tendencies and normalize themselves in the eyes of voters. In France, Le Pen moved to the center and ran as the change candidate against the establishment, embodied by President Emmanuel Macron. While Le Pen performed better than she did in 2017, she still lost by 17 percentage points to a fairly unpopular incumbent. In Italy, Giorgia Meloni of the Brothers of Italy party, which has its roots in fascism, won the election and became prime minister. However, Meloni also sought to strike a more moderate tone, took a strong Atlanticist stance in supporting Ukraine, and toned down past anti-EU rhetoric. In Sweden, the Sweden Democrats, which has neo-Nazi roots, emerged as the second-largest party, which helped the center-right Moderate Party secure the prime minister position. While the success of the Sweden Democrats is concerning, the party was not formally included in the new government, and the issues that dominated the election were crime and immigration, the very topics that helped bring it to prominence. These elections present no discernable sign of a rise in anti-EU sentiment.

The war in Ukraine also spurred the European Union to get serious about democratic backsliding in Hungary and Poland. In December 2022, Brussels withheld all 22 billion euros of earmarked cohesion
funds from the European Union’s 2021-2027 long-term budget for Budapest until the Viktor Orbán government agreed to conditions on judiciary independence, academic freedoms, LGBTQ+ rights, and the asylum system. This was in addition to the 5.8 billion euros in grants already withheld from the pandemic recovery fund until the Hungarian government addresses ongoing concerns about its court system. In the end, a deal was struck, with Budapest largely backing down. The European Union would hold back only 6.3 billion euros from Hungary, which would complete 27 reforms aimed toward addressing corruption and improving judicial independence. Hungary also dropped its vetoes of the 18-billion-euro EU aid package for Ukraine and the global minimum corporate tax of 15 percent. While this has nowhere close to resolved Hungary’s rule-of-law or corruption issues, it does demonstrate that the European Union is increasingly willing to use its considerable leverage.

The European Commission has also not released 35 billion euros in loans and grants from its pandemic recovery fund to Poland and will continue to withhold funds until changes to the judicial system are made. In addition, Warsaw owes 436 million euros as part of a fine of one million euros per day imposed last year by the EU Court of Justice for failing to comply with an EU court order to suspend its controversial disciplinary mechanism for judges. Warsaw needs to pass legislation to unlock the funds—which it desperately requires, as inflation sat at 17.5 percent year-on-year in November, one of the highest levels in the European Union. But a rift exists within the ruling coalition, where the Law and Justice Party holds the majority but needs the support of the smaller, far-right United Poland Party to form a government. Legislation recently passed in the lower house of parliament aims to address the European Commission’s concerns by removing controversial powers of the supreme court, which is one of the objectives stipulated by Brussels to unfreeze the pandemic recovery funds. However, the new bill still requires approval from President Andrzej Duda and it remains unclear whether the European Union will find the changes sufficient.

SANCTIONS
In contrast to the European Union’s limited response to Russia’s 2014 annexation of Crimea, the bloc brought its full economic weight to bear on the Kremlin in 2022. The EU economic response has far exceeded Washington’s expectations. While the Biden administration assumed it would have to push the European Union to adopt more robust sanctions, it has often found itself reacting to surprisingly strong European proposals. For instance, it was the European Union that proposed sanctions against Russia’s Central Bank. EU sanctions against the Russian oil and gas sector prompted concerns in Washington that they would send a shock to global energy markets, leading to compromise proposals such as the oil-price cap that was implemented in December.

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The European Union has also been constantly updating and strengthening its sanctions regime. Nine sanctions packages imposed by Brussels have targeted a broad swath of the Russian economy,
military, and industrial base. These measures aim to punish Russia for its extraterritorial aggression and effectively diminish its ability to continue occupying Ukraine. The initial sanctions targeted individuals with ties to the Kremlin and restricted Russia’s access to European financial markets, while more recent measures have included a price cap on Russian oil and a ban on exports of dual-use goods and technology. Furthermore, several European countries have made a concerted effort to rid their societies of Russian kleptocrats. The United Kingdom alone has frozen over 18 billion pounds of Russian-linked assets, which is almost 6 billion pounds more than the total assets held under all other British sanctions regimes.

The European Union’s nine sanctions packages complement unprecedented sanctions imposed on Russia by a multilateral coalition including the United States, the European Union, the United Kingdom, Canada, Australia, and Japan. Since February 2022, Moscow has become a target of more than 10,000 new sanctions, bringing a total number to around 13,000 and making Russia the most sanctioned country in the world. While these have indeed created challenges for the Kremlin, they have not yet contributed to the full collapse of the Russian economy. However, experts believe it will take at least a decade for Russia to return to its pre-war levels of economic activity and quality of life. Limited access to Western technology will also diminish the Kremlin’s ability to manufacture and sustain high-quality defense and military equipment in the long run.

The EU market is roughly equivalent in size to the United States and China. Thus, when the European Union and United States work together on sanctions, whether related to Russia or Iran, they are immensely impactful.

ECONOMY

Europe, like most of the world, is experiencing an economic slowdown. However, defying all doomsayers, the EU economy is performing much better than expected and is projected to continue doing so throughout 2023. In mid-2022, many analysts were forecasting a European economic collapse due to energy shortages, price hikes, and increased uncertainty. However, according to the European Commission’s estimates, economic growth in 2022 has exceeded 3 percent. Unemployment is at a historical low of 6.6 percent, an industrial production has fallen much less than expected.

Nonetheless, Europe faces a challenging 2023. Essentially unplugged from Russian energy, some European countries may fall into a technical recession, and inflation will most likely continue to rise. Unlike previous crises (the Covid-19–induced economic catastrophe in 2020 and the 2007–2012 global financial crisis), this economic contraction, if it takes place, will likely be mild and short.

EU member states have made varying economic policy choices and faced some unexpected tailwinds that are likely to continue in 2023. (The situation is different in the United Kingdom, where the effects of Brexit and poor macroeconomic management led to a political crisis and will generate a deep recession in the coming year.)

- First, EU countries have implemented targeted expansionary fiscal policies. On top of the Next Generation EU program of public investments, all member governments have taken measures to shield citizens and companies from the increase in electricity and gasoline prices.
This has ensured that domestic demand (investment and consumption) has not drastically declined. These policies will continue in the coming months.

- **Second, monetary policy, while more restrictive than in the past, has still been expansionary.** With the U.S. Federal Reserve being much more aggressive in terms of restricting liquidity, the euro has depreciated against the dollar, favoring eurozone exports. Moreover, the limited increase in interest rates has generated neither substantial reductions in credit nor a real estate market crash. The downside has been persistent inflation, which probably has already peaked in the United States but not in the eurozone.

- **Third, energy prices have fallen.** Energy and commodity prices, especially natural gas prices, which skyrocketed following the Russian invasion of Ukraine, have almost returned to pre-war levels, alleviating European economies. Policies to substitute Russian gas with other forms of energy, alternative suppliers, and—above all—savings have worked remarkably well. As a result, European economies will probably ride out the remainder of the 2023 winter with sufficient reserves to avoid energy cuts, especially if temperatures are mild. (Problems might arise in the winter of 2024, but that is still far away.)

- **Finally, there are no signs of a financial crisis.** Despite slower growth, higher interest rates, and a euro-critical, extreme-right government in Italy, there are no signs of financial fragmentation or complications in the financial sector that could trigger sovereign-debt problems. In fact, the mechanisms put in place over the past decade to avoid financial crises in the eurozone, coupled with the new role that the European Central Bank (ECB) has been playing as a lender of last resort, seem to have convinced investors that the single currency is here to stay.

In the baseline scenario, the International Monetary Fund projects economic growth to be close to 1 percent in both the European Union and the eurozone in 2023, meaning a recession would be avoided. However, there are substantial risks that could undermine economic growth.

- **First, there remains uncertainty about how Europe will meet its energy needs throughout 2023.** While Russian gas flows have been substantially reduced and almost eliminated, Europe still received sizeable quantities of Russian natural gas throughout much of 2022. How it refills its reserves and prepares itself for next winter is a major economic question. Without adequate energy supply, Europe will have to reduce or ration demand, which could negatively impact major industries and economic growth.

- **Second, there is significant uncertainty around the economic performance of China.** On the one hand, the end of the zero-Covid policy–potentially leading to the virus’s unchecked spread in China–could generate new disruptions to global supply chains in the first part of the year. On the other hand, if the Chinese economy rebounds in the second part of the year, energy demand will soar, making it more difficult for European economies to continue substituting Russian gas at reasonable prices.

- **Third, inflation could remain high.** Because of expansionary fiscal policy and higher energy prices, inflation will likely remain elevated, forcing the ECB to increase interest rates more aggressively. This could trigger a more pronounced economic slowdown and a stronger euro, with negative consequences
for growth. In fact, a prolonged period of higher-than-expected interest rates would increase financing costs for southern European countries and could lead to financial instability.

- **Finally, an acceleration of deglobalization** generated by political tensions, protectionism, or the collapse of economic-governance institutions, especially the World Trade Organization (WTO), would seriously damage growth prospects for European countries, which are more export-oriented and more dependent on the rules-based multilateral system than other parts of the world.

Unexpected events can substantially modify economic outcomes. As Covid-19, the war in Ukraine, and U.S.-China tensions have shown, economic performance is increasingly determined by noneconomic events—especially geopolitics.

**ENERGY**

In 2022, Europe experienced a dramatic energy crisis due to Russia’s weaponization of natural gas. The European Union has had to do whatever it takes to get through the winter and keep the lights on, including expanding its use of coal-fired power plants, increasing its use of LNG, and extending nuclear plants. But despite this, it has strengthened its commitment to combating climate change and accelerated the deployment of renewable energy technology.

Europeans have felt the impact of rising energy prices. Gas prices exceeded 300 euros per megawatt hour (MWh) in August on the Dutch Title Transfer Facility (TTF) spot market, compared to around 20 euros per MWh in 2020. Due to the difficulties French nuclear power plants faced in 2022 and climate change-related limitations on hydroelectric production, there emerged a severe crisis on the EU electricity market.

The European Union responded by launching the REPowerEU plan, a framework that enabled countries to take short-term measures to alleviate the difficulties of households and businesses. It also agreed to an embargo on Russian coal and oil, a price cap on Russian oil exports, and—after intense negotiations—to buy 15 percent of its gas jointly and with an applied price cap. European countries were also able to substantially diversify away from Russian energy. This policy goal receives broad support from EU citizens, with 82 percent in favor of the European Union continuing to take actions to reduce its dependency on Russian fossil fuels and 83 percent agreeing that Russia’s war against Ukraine makes it more urgent to invest in renewable energy.

The European Union has also greatly accelerated the deployment of renewable energy production. For instance, new solar power installations grew by 47 percent in 2022, equivalent to the power needs of 12.4 million European homes. Although volatile costs generated strong headwinds for wind-turbine suppliers, new wind capacity also expanded moderately in 2022, with onshore wind accounting for about 90 percent of this growth. To further increase the bloc’s domestic production capacity, the European Union recently adopted a reform that will rapidly accelerate the permitting process for new renewable energy power plants. It is estimated that growth in wind and solar capacity may have saved it $11 billion in gas imports since Russia’s invasion of Ukraine.

In addition, in December 2022, the European Union reformed its Emissions Trading System (EU ETS) to deepen its commitment to mitigating climate change. Per the new EU law, the number of emissions in the sectors covered by the EU ETS will be reduced by 62 percent by 2030 compared to
2005 levels, instead of 43 percent under current legislation. Between 2026 and 2034, the European Union will gradually phase out free emission allowances given to EU companies. This much more ambitious target under the EU ETS is one of the key tools that allowed the European Union to raise its greenhouse gas (GHG) reduction targets to 57 percent by 2030 compared to 1990 levels during the 2022 UN Climate Change Conference (COP27) in Sharm el-Sheikh. This commitment is part of the “Fit for 55” and “Green Deal” initiatives, which will be upscaled in 2023 with substantial investments to accelerate the energy transition. In sum, the European Union seems determined to accelerate its energy independence and its focus on renewables.

Finally, a crucial tool of EU climate policy has been the **carbon border adjustment mechanism** (CBAM), which aims to ensure a level playing field between European-based companies and their foreign competitors regarding GHG emissions requirements. The CBAM, which is essentially a “green tariff,” will apply to imports of goods produced outside the European Union in countries with lower environmental standards. It will affect sectors most at risk of “carbon leakage,” such as production of cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen. It will not be fully operational until 2026, but its approval has sent a powerful political message to other countries about the European Union’s commitment to fighting climate change. Even though the European Commission claims that the CBAM is WTO-compatible, it may well be perceived by other countries as a protectionist instrument. This could create problems for the European Union, which has itself been complaining about the U.S. Inflation Reduction Act (IRA), a $369 billion package of subsidies passed in August 2022 to accelerate the energy transition in the United States. In the European Union, there is a growing fear that U.S. subsidies, combined with high energy costs triggered by the Russian invasion of Ukraine, might lead to the deindustrialization of Europe. Although it is unlikely that the trade frictions introduced by the IRA and the CBAM will cause a transatlantic trade war, further diplomatic work will have to happen throughout 2023 to avoid a conflict that could seriously undermine Western unity.

**MIGRATION**

Europe has felt the secondary impacts of the war in ways the rest of the world has not. For one, its geographical proximity to the frontlines means it is facing the worst humanitarian displacement the continent has seen since World War II, with millions of Ukrainians fleeing the conflict. On top of that, worries that the war could spill further into Europe continue to loom. The European Union has responded to the crisis with various instruments, including humanitarian aid, emergency civil protection, and granting immediate protection in its territory.

For the first time in its history, the European Union has activated the **Temporary Protection Directive** for Ukrainians fleeing war. An estimated **5.3 million Ukrainians** have entered the European Union since the beginning of the invasion, and the total number of arrivals (including non-Ukrainians) is estimated at 7 million individuals. Under the Temporary Protection Directive, Ukrainian refugees have the right to residence, healthcare, education, and work in any EU member state until March 2024, per the latest prolongation of the directive. For now, public support for taking in a large number of Ukrainian refugees remains robust across a large swath of EU member states.

**ENLARGEMENT AND RECONSTRUCTION OF WIDER EUROPE**

Russia’s invasion of Ukraine has revived the European Union’s pursuit of enlargement. Ukraine’s
application to join the bloc was embraced by European Commission president Ursula von der Leyen, who helped convince EU leaders to grant Ukraine and Moldova EU candidacy status in June. Furthermore, after years of waiting, the European Union finally opened accession negotiations with North Macedonia and Albania in July and granted candidate status to Bosnia-Herzegovina in December.

While EU enlargement is gaining momentum, the prospects of full membership for any of these countries are in doubt. Most of all, before the European Union considers another round of enlargement, it will almost certainly need to adopt a new treaty to reform how it functions. This sentiment was echoed in August by German chancellor Olaf Scholz, who suggested the bloc could expand to include as many as 36 member states but not before revisiting, for example, the unanimity requirement that has kept Brussels from acting swiftly on foreign policy, taxes, and holding Hungary and Poland accountable for democratic backsliding. These reforms currently require unanimous support among EU members. However, while countries like Poland and the Baltic states are fully supportive of enlargement, they also oppose efforts by countries like France to reform the European Union. This political deadlock will stand in the way of future enlargement, no matter how much progress countries make in meeting the requirements for joining the bloc. Thus, granting candidate status does not necessarily mean what it has meant before: becoming a member in a fairly short time.

However, the hope for these countries is that a virtuous cycle is formed, wherein the renewed EU interest in enlargement (however distant), leads to momentum for internal reforms within EU aspirant countries, thereby prompting the European Union to grant them greater market access and increase its investment in them. This, in turn, will prompt greater integration of the electricity, telecommunications, and transportation sectors.

**NATO and Defense**

**NATO**

Russia’s full-scale invasion of Ukraine is one of the most significant tests NATO has faced since the alliance formed in 1949. The challenge is twofold: defending allies and supporting Ukraine. So far, NATO’s response to both has been robust. But the alliance will come under intense pressure in 2023 ahead of the Vilnius summit in July, and with a historic, 75th anniversary Washington summit on the horizon in 2024.

NATO’s foremost commitment is to defend its own members. More U.S. and Western European forces have been deployed to NATO’s eastern flank during the war, significantly strengthening its combat capacity in eastern Europe. There has also been a significant increase in NATO spending commitments, with most allies now either reaching the 2 percent defense spending goal or having a clear path to hit it. As a result, defense investment by EU member states has risen by a third, from 163 billion euros in 2014 to 214 billion euros in 2021 (according to the latest EU figures). The war has also triggered a return to Cold War-style forward defense, which has involved bolstering NATO’s “enhanced forward presence” missions in the east and establishing a new rapid reaction force. After the 2022 invasion, the alliance’s new approach was crystallized in its Strategic Concept, which describes Russia as “the most significant and direct threat to Allies’ security.” This concept was agreed at a historic summit in Madrid alongside the approval of more forward-deployed and high-readiness forces.
However, this period has seen plenty of challenges to NATO’s integrity, including rising energy prices, an anonymous attack on the Nord Stream gas pipeline, a stray missile that killed two Polish farmers, and the failure of Hungary and Turkey to ratify Finland’s and Sweden’s membership bids. These challenges are likely to intensify in the coming months as Russia doubles down in Ukraine and beyond. Despite these obstacles, support for NATO in European countries has grown dramatically in the past year and remains particularly strong in countries located near Russia or Ukraine. This trend is most evident in Poland, where the share of the public who consider NATO very important has grown from 43 percent to 66 percent since 2021, according to the German Marshall Fund. Even countries that have historically been more skeptical of NATO have embraced the alliance as central to their security; in the same survey, 72 percent of French and 77 percent of Spanish respondents considered NATO somewhat or very important, an increase from 52 percent and 65 percent, respectively, in 2021.

Although Ukraine is not a NATO member, allies have made supporting Ukraine a matter of alliance credibility—providing billions in financial and military assistance, updated equipment, training, intelligence sharing, and a long-term commitment to reconstruction and reform. However, differences have emerged among allies over their political willingness and ability to provide military assistance, and there have also been industrial-capacity challenges (e.g., for manufacturing ammunition). In addition, assistance to Ukraine is further depleting the readiness of European militaries. As stocks of ammunition, artillery, vehicles, and tanks flow to Ukraine, Europe will need to find funding to replace the equipment outflows.

Russia’s invasion of Ukraine also prompted a Scandinavian NATO enlargement that had previously been considered unlikely. On May 18, 2022, Finland and Sweden jointly applied for membership after months of domestic debates, reversing long-standing policies of maintaining military neutrality. The inclusion of the two Nordic countries as NATO members constitutes a major shift in European security and a historic strengthening of the alliance, both politically and militarily, given their geostrategic location and military capabilities. On the one hand, Finnish and Swedish NATO membership will contribute to the collective defense of the Baltic Sea region and help counter Russia’s expansion of Arctic bases in the Kola Peninsula. Furthermore, Finland has valuable experience as Russia’s neighbor, sharing a 1,340-kilometer (832-mile) land border with it, and both Finland and Sweden have valuable practical insights into operating in sub-Arctic climates. On the other hand, the enlargement will bring NATO to Russia’s doorstep and more than double the border between them, locking the alliance into a more strangled relationship with Russia.

To grant membership, the governments of all 30 NATO members must sign and ratify the accession protocols. Following a September 27, 2022, vote in Slovakia, legislatures in 28 NATO countries have ratified the accession, with the exception of Turkey and Hungary. To mitigate risks during the accession period, Finland and Sweden have received security guarantees from France, Germany, the United States, and the United Kingdom. They are expected to join NATO as full members prior to the alliance’s Vilnius summit in June 2023.

EUROPEAN DEFENSE AND FOREIGN POLICY
The war in Ukraine has prompted European countries to get serious about defense and increase the role of the European Union in defense and foreign policy. The organization has released a raft of initiatives to address some of the issues at hand.
In March 2022, the European Union adopted its first-ever equivalent of a national security strategy, the **Strategic Compass**. Negotiated and drafted mostly before the Russian invasion of Ukraine, it was hastily revised to take this major shift into account but could not capture the full scale of the war’s impact and consequences. It still puts forth an ambitious yet realistic roadmap for the European Union to become a more responsible and credible security provider. The document lays out a joint threat assessment that presents Russia as severely and directly threatening the European security order and China as a partner for cooperation, an economic competitor, and a systemic rival. It also highlights the need for Europe to develop military capabilities, such as the ability to rapidly deploy up to 5,000 troops in all types of contexts. This goal was a direct response to the difficulties of the withdrawal from Afghanistan, where the European Union was dependent on the U.S. military to get EU citizens out.

For the first time in its history, the European Union has provided lethal security assistance to a foreign partner, **providing** more than 3.1 billion euros to Ukraine through the European Peace Facility (EPF). The EPF, used to reimburse EU members sending military equipment to Ukraine, was originally intended for use in countries outside Europe. The union has also created the EU Military Assistance Mission in support of Ukraine (EUMAM Ukraine), which provides combat training for the Ukrainian armed forces.

European nations have also provided direct military assistance to Kyiv, sometimes on a strictly national basis and sometimes within a multilateral framework. According to the most recent data collected by the Kiel Institute, as of November 2022, EU members had allocated 8.61 billion euros toward military commitments to Ukraine; this number is a combination of both specific weapons and equipment purchases, as well as financial commitments related to a military purpose. EU institutions have added 3.1 billion euros to that tally via the EPF, and the United Kingdom has committed an additional 4.13 billion euros, bringing total European military commitments to Ukraine to 15.84 billion euros as of November. This is less than the U.S. contribution of 22.86 billion euros ($24.44 billion) but is nonetheless significant.

Unfortunately, Europe’s generosity and the resulting need to restock armaments has exposed the hollowness of Europe’s defense industrial base. This vulnerability began to develop after the end of the Cold War, primarily as a result of low defense spending: European governments **reduced** their military expenditure from roughly 2 percent of GDP annually to 1.3 percent between 1993 and 2014. Other causes include a focus on low-intensity military missions such as counterterrorism operations and the potentially stifling effect of U.S. arms sales that, often for good reason, lure public money away from homegrown European defense companies. Furthermore, while it is widely recognized that more joint procurement would be beneficial, member states regularly fall short of the EU benchmark that 35 percent of total defense equipment procurement expenditure should be spent collaboratively; in 2021, cooperative spending comprised only **18 percent of military expenditure**. This leads to redundancies in the defense industrial base, with many individual European states maintaining their own protected industries. Europe now has the will to rearm but perhaps not the capacity.

Consequently, European countries were already lacking in military capabilities, **particularly** those needed for high-intensity conflict, even before they began sending equipment to Ukraine. This is a liability for NATO, not least because the **rate of attrition** characterizing the Russia-Ukraine war has underscored the need to rapidly produce basic supplies like munitions and ammunition at scale.
Now, Europe likely could not engage in a conventional conflict for more than a handful of days before running short.

Europe’s ability to resolve these problems in a timely manner is in doubt amid reports that its defense industry is already failing to keep up with the demand that Russia’s war has stoked. Fortunately, European countries have pledged to increase defense spending, and the European Union has developed or is developing a raft of initiatives to either reimburse EU countries sending military equipment to Ukraine (such as through the EPF) or to incentivize cooperation (e.g., the European Defense Fund, the European Defence Industry Reinforcement through Common Procurement Act, and the forthcoming European Defence Investment Program). So far, however, three things are not yet clear: the degree to which national defense-spending pledges will turn into actual procurements; whether member states will allocate sufficient funding to the EU initiatives; and whether the funds that do materialize will be spent efficiently, collaboratively, and in such a way that the European defense industry is revitalized.

The most consequential national development in the defense realm was Germany’s decision to shed its pacifist tendencies and embrace a more active role in Europe’s security order. Chancellor Scholz heralded a Zeitenwende (“change of era”) in his speech to the Bundestag during an extraordinary session only three days after Russia’s invasion of Ukraine. He called for a major overhaul of German defense planning, promising to spend 2 percent of the country’s GDP on defense, with the support of an exceptional emergency fund of 100 billion euros to reform the German armed forces.

Since then, critics have claimed the German chancellor and government are not up to the task of following through on their historic commitments. First, they argue that Berlin has insufficiently altered the course of its foreign policy, shied away from taking the lead in supporting Ukraine’s efforts to defend its sovereignty, and conceded to supplying Kyiv with critical military supplies only after facing untenable political pressure. Second, they claim that Germany is repeating the mistakes of its past policy of engagement with Russia in its current diplomatic approach to China, epitomized by Scholz being the first Western leader to visit Beijing after the reelection of Xi Jinping as leader of the Chinese Communist Party in October 2022. Lastly, critics blame Berlin for thus far not taking significant concrete steps to differentiate its current defense overhaul from past failed efforts at reform. It has mostly used the emergency fund to buy off-the-shelf U.S. equipment and folded it into the annual defense budget instead of dedicating this money to ambitious national or European defense projects. As it stands, Germany may only reach the 2 percent spending benchmark it has set for itself by 2025 at the earliest.

What is clear is that 100 billion euros will not solve all the problems plaguing the German armed forces after decades of neglect. Nevertheless, the additional investment will significantly boost the German military and make the country a much stronger defense actor—though how much so remains an open question.

**TRANSATLANTIC RELATIONS: STRONGER THAN EVER?**

The war in Ukraine has significantly strengthened transatlantic relations. In its first year, the Biden administration emphasized the importance of transatlantic ties and struck a significantly more cooperative tone than the Trump administration. Yet it was also clear to Europe that its focus was on China and the Indo-Pacific. Europeans received no warning from the United States regarding
the Afghanistan withdrawal; Franco-American relations nearly collapsed over the Australia-United Kingdom-United States (AUKUS) submarine deal in September 2021; and U.S.-German relations were dominated by opposition to the Nord Stream II pipeline.

The war in Ukraine paused this pivot to Asia, and senior U.S. officials descended on Europe. The war also scuttled the Nord Stream II project and prompted Europeans to dramatically increase defense spending. Furthermore, the incredibly robust U.S. response to the war in Ukraine has demonstrated Washington's indispensable role in European security. The United States has shown its military and intelligence capabilities through massive security assistance to Ukraine. In a September 2022 survey conducted by the German Marshall Fund, a majority of European respondents believe that EU-U.S. relations will remain stable over the coming five years, while more than a quarter expect ties to become closer. Among the same respondents, support for President Biden's handling of international affairs is robust in European countries, with particularly strong support in Eastern Europe.

However, there is also a danger that 2022 will be a high-water mark for transatlantic relations. The U.S. pivot to Asia is no longer paused, as made clear with the release of the National Security Strategy and National Defense Strategy this past September. It is unlikely the United States will be able to maintain the tempo of senior-level visits to Europe or the force posture it inserted into Europe when it looked like Russia might take Ukraine. Given Europe's dependence, it may react with increasing concern if it feels Washington is not adequately focused on the threats to the continent.

The Future

While Europe's response to the war has been laudable, several questions remain unanswered. Russia's invasion has accelerated European countries' plans to distance themselves from authoritarian regimes and decrease dependencies in critical sectors such as semiconductors and renewable energy. Increased defense commitments are also straining national budgets, as EU member states are forgoing the interoperability benefits and lower costs of joint procurement, opting instead for more expensive off-the-shelf solutions (mostly imported from the United States). This has revived both long-standing debates over greater fiscal and defense integration, as well as regional fissures over EU spending. With ambitious new proposals on the docket in both realms, funding challenges will persist in the new year.

It will also be a big year for European countries facing presidential and parliamentary elections. Elections are due in Estonia, Montenegro, Bulgaria, Finland, Greece, and Turkey in the first half of 2023 and in Slovakia, Switzerland, Luxembourg, Poland, and Spain in the second half. The elections in Turkey and Poland are by far the most geopolitically significant since their future governments will set the tone of their relations with the West.

As in Hungary last year, the Turkish elections are unlikely to be fair. The six major opposition parties will probably unite behind a consensus candidate to run against President Recep Tayyip Erdoğan. Public polling suggests that the the country's severe economic crisis is the most important election issue, reflecting the impact of Erdoğan's unorthodox and bizarre economic policies—such as cutting (rather than raising) interest rates in the face of growing inflation, which is unofficially estimated to be as high as 170.7 percent. Furthermore, some of his efforts to gain political support, such as by increasing the minimum wage and pensions, have also fueled inflation. In addition, there is a concern that he may escalate tensions with Greece (which is having its own elections the same month) over
a disputed island or provoke a fight with NATO over Sweden and Finland. But while it is clear the election will not be fair, the question is how far Erdoğan can go to manipulate it. There is a general expectation among the opposition that the actual vote will be legitimate. Should Erdoğan attempt to steal the election outright, Turkey may erupt in significant civil unrest.

Poland also goes to the polls in 2023 (likely in October). The populist, right-wing Law and Justice Party is seeking a third term, something no incumbent party has ever done before. According to polling, it is on course to lose its parliamentary majority. Although the Polish government had been on a collision course with the European Union and United States over its efforts to subvert the independence of the judiciary, Polish support for Ukraine, its clairvoyant stance on Russia, its acceptance of millions of Ukrainian refugees, its dramatic increases in defense spending, and its distancing from Viktor Orbán in Hungary have granted the country a temporary reprieve. However, the Polish government has recently turned up the nationalist dial, ferociously attacking Germany, including demanding additional reparations for World War II. The rhetoric will likely stay heated until after the country’s parliamentary elections later this year.

A major question for the European Union is whether it will expand its financial capacity and move toward a “fiscal union.” Although it has already created a monetary union with the establishment of the ECB and the euro, it has so far hesitated to move toward closer, permanent fiscal integration. However, pressure for more EU investment or spending to address common European issues will only grow. Washington has increasingly become supportive of the European Union becoming a fiscal actor, with John Kerry, special envoy for climate change, and U.S. Trade Representative Katherine Tai both encouraging Brussels to emulate the U.S. Inflation Reduction Act and invest in fostering clean-technology sectors. The United States also wants the European Union to play a leading role in reconstructing Ukraine. This will require additional resources, in turn prompting important institutional debates that will play out throughout 2023.

In addition, the future of European defense is uncertain. The war has revealed huge weaknesses among the continent’s militaries—and although European countries are spending more on defense, this spending is largely uncoordinated. Instead of working together to address common challenges, European defense cooperation has gotten worse over the past decade. Despite the shock caused by the war in Ukraine, there are no major Europe-wide initiatives to significantly improve coordination. Furthermore, the acute threat Russia poses to NATO has dissipated due to the performance of the Ukrainians and the depletion of the Russian military. There is a risk that this will sap Europe’s political momentum to maintain elevated investments in defense.

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The coming year—the last before EU parliamentary elections—will be critical to Europe’s future direction. While the outcome of the war remains uncertain, there are many economic and political challenges that will require significant political leadership, vision, and capital. Transatlantic allies
should continue strengthening their relationship, using institutional platforms such as the Trade and Technology Council to its fullest while easing trade tensions created by the U.S. Inflation Reduction Act. The following year, 2024, will be tumultuous, with important elections on both sides of the Atlantic and the war in Ukraine likely entering a critical phase. In this context, the political momentum created by the war should be used wisely to resolve existing issues and prepare a united Europe for the challenges that lie ahead.

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