Heavily armed troops displaying no identifying insignia and local pro-Russian militants stood guard outside a local government building on Sunday in Simferopol, Ukraine. Sean Gallup/Getty Images

The U.S. and its European allies vowed Sunday to isolate Russian President Vladimir Putin and punish his nation's economy, demanding he withdraw what they called an occupation force from Ukraine's Crimean region.

Washington began canceling joint economic and trade initiatives with Moscow, including preparations for the summit of the Group of Eight leading nations scheduled to be held in Sochi, Russia, in June.

Senior U.S. officials said the administration was also beginning discussions with Congress on implementing targeted economic and financial sanctions on Russian companies and leaders if the Kremlin didn't begin pulling back from Crimea.

Ukraine Prime Minister Arseniy Yatsenyuk urged Russian President Vladimir Putin to pull his troops out of Crimea saying, "we are on the brink of disaster." Photo: Getty Images

"Russian forces now have complete operational control of the Crimean peninsula, some 6,000-plus airborne and naval forces, with considerable materiel," a senior official said. "There is no question that they are in an occupation position in Crimea, that they are flying in reinforcements, and they are settling in."

Officials in Washington and around Europe were searching for penalties to impose on Moscow, while acknowledging military intervention wasn't among the possibilities.

Still, the officials contended that the weakening of Russia's economy and the sagging value of its currency, the ruble, were Mr. Putin's Achilles' heel.
"We are looking at a broad menu of options to curtail our trade and economic relationship" with Russia, said a senior U.S. official Sunday night. "This will have an enormous cost for the Russian economy."

Late Sunday, members of the Group of Seven leading nations issued a joint statement condemning Russia’s "clear violation of the sovereignty and territorial integrity of Ukraine" and said they would suspend their participation in activities associated with the preparation of the G-8 summit, "until the environment comes back where the G-8 is able to have meaningful discussion."

G-7 finance ministers, meanwhile, stressed their commitment to providing strong financial backing to Ukraine.

In Moscow, there was skepticism that the Western reaction would amount to much.

"They talk and talk, and then they’ll stop," Oleg Panteleyev, a member of Russia’s upper house of parliament, said Saturday, noting that the West had made threats that came to little when Russia waged wars in the past in Chechnya in the early 2000s and Georgia in 2008.

The State Department said Secretary of State John Kerry would visit the Ukrainian capital of Kiev on Tuesday to show support for the interim government and help devise ways to quickly bolster its dwindling finances.

On Sunday, U.K. Foreign Secretary William Hague arrived in Kiev to meet the new Ukrainian authorities, make clear Britain’s support and urge continued restraint. The European Union’s foreign-policy chief, Catherine Ashton, heads to Kiev on Wednesday as the EU continues to work to put together an assistance package.

Ukrainian soldiers guarded the gate of an infantry base in Perevalnoe in Crimea on Sunday after Russia’s military intervention in Ukraine. Darko Vojinovic/Associated Press

The U.S. is fashioning a short-term financial bailout for Ukraine that could include $1 billion in loan guarantees from Washington and broader support for an International Monetary Fund package, said senior U.S. officials.

American and European officials, despite the growing confrontation with Moscow, also offered the Kremlin a strategy that would allow Mr. Putin to pull back some 6,000 troops from Ukraine while also safeguarding Russia's military assets in the country and the large population of Russian speakers.

U.S. officials said they were particularly discussing with Russia and European governments the possibility of observers from the United Nations and Organization for Security and Cooperation in Europe being deployed in eastern Ukraine and Crimea.
Ukrainians protested at the Russian Embassy in London on Sunday. Associated Press

These monitors would make sure the rights of ethnic Russians and Russian speakers were protected as Kiev forms a new government following the overthrow of pro-Russian President Viktor Yanukovych in late February.

President Barack Obama specifically raised this issue in the 90-minute phone call he had with Mr. Putin on Saturday, senior U.S. officials said.

"Putin wouldn't shut the door on this option," said one American diplomat briefed on the call.

U.S. diplomats and defense officials said there were no plans for Washington to intervene militarily in Ukraine.

"We are looking to de-escalate this," said the senior U.S. official.

The U.S. and Europe will face challenges in seeking to use diplomacy and financial pressure to rein in Mr. Putin, U.S. and European officials said.

American trade with Russia accounts for just 1% of total U.S. trade, and many European governments, particularly Germany, appeared reluctant over the weekend to impose any broad economic sanctions on Moscow.

Russian Incursion

Russian troops fanned out around Ukraine's Black Sea peninsula of Crimea, encircling national military facilities that could prove loyal to the new powers in Kiev.

- Military facilities surrounded by Russian troops
- Checkpoints to mainland

Senior U.S. officials on Sunday said Mr. Obama was committed to employing a campaign of targeted financial sanctions against Russian energy companies, banks and government leaders if Mr. Putin doesn't reverse course.

These measures, which ban the designated parties from using the U.S. financial system, have been enormously successful in weakening Iran's economy over the past five years.

A second senior U.S. official said the White House has already been discussing such measures with Congress to gain certain legislative powers.

"Part of it depends on how things go, how events unfold in the next few days," said the official. "In other words, the more it escalates the more our response will escalate."

Markets in Asia fell in early trading Monday amid the crisis, with Japan down 2%. In the U.S., stock futures fell 1%.

Hundreds of Russian troops surrounded a Ukrainian military base in Crimean town of Perevalnoe early Sunday morning. Photo: Getty Images

Many members of Congress expressed outrage over the weekend about the Russian invasion and demanded a harsh American response.

"In hindsight...it's important to learn from the errors of the past few years," Sen. Marco Rubio (R., Fla.) told NBC News. "[The Russians] aren't interested in building an international norm...This is a government that lies as a matter of course."
Russia joined the World Trade Organization in August 2012, a move that triggered the U.S. to pass legislation conveying permanent normal trade relations. But Congress passed the trade-relations bill in combination with a law that allows the U.S. to punish suspected human-rights violators in Russia, a move that angered Moscow and led to a ban on U.S. citizens adopting Russian children.

The Obama administration hasn’t expanded the Magnitsky list of human-rights suspects since its debut in 2013, leading to criticism from U.S. senators who sponsored the bill. State Department officials have said this year that the administration is considering expanding the list.

Many European governments, however, appeared split over how to react to Moscow’s military intervention in what could be the worst breach in East-West relations since the Cold War.

German Foreign Minister Frank-Walter Steinmeier said the answer lay in Ukraine and Russia coming together to discuss their differences diplomatically. But governments that were formerly in the Soviet orbit were more anxious and demanded tougher action.

Rolf Mützenich, a senior parliamentary figure of the Social Democrats, junior partners in Chancellor Angela Merkel’s coalition, said: "Sanctions are currently not the right option. We must keep all channels of communications open."

He said Ukraine's proposed restrictions on the use of the Russian language had "of course contributed to an escalation of the situation. This has not been a one-sided process."

Polish Prime Minister Donald Tusk said Sunday that the conflict between Russia and Ukraine could spark a war, which the global community should prevent by putting "hard pressure" on Moscow.

"It's a difficult moment in our history," he said. "It's not just a dramatic situation that might be solved with this or that initiative. This is a serious crisis that can weigh on the history of Poland, Ukraine and Europe."

An early casualty is likely to be the G-8 summit in Sochi, the site of Mr. Putin’s $52 billion investment in the Winter Olympics. Mr. Obama said Saturday that U.S. officials would stop work on the meeting and other countries followed suit.

That meeting seems unlikely to go ahead—though the other seven leaders might pointedly meet without their Russian counterpart. But there are divisions over whether, as Mr. Kerry hinted in a U.S. television talk show Sunday, Russia should be ousted from the grouping.

Germany's Mr. Steinmeier told ARD television: "I'm really with those who say that the G-8 is the only format in which we from the West can still directly speak with Russia."

The chill in relations is likely to linger longer than the frisson that followed Russia's invasion of Georgia in August 2008. Ukraine, larger and more important, borders directly on the North Atlantic Treaty Organization and the European Union. Russia's actions in Ukraine are also widely seen as unprovoked—whereas many governments believe Georgian leader Mikheil Saakashvili was at least partly to blame in 2008.

On the security front, NATO is likely to suspend some cooperation with Russia, Western officials said. Regular meetings of the NATO-Russia Council, and other areas of cooperation, such as land-mine clearance, might be halted. Some symbolic shifts of military personnel and equipment, for example to an air base in Romania, might ensue, along with movement of U.S. ships into the Black Sea. NATO air patrols near the Russian border could be stepped up. But no such measures were announced after NATO's meeting on Sunday, which called for international observers to be sent to Crimea.

Less likely, allies also have the option of poking Mr. Putin by offering Georgia a Membership Action Plan—a next step toward membership. But that would likely meet resistance in Berlin and elsewhere.

EU foreign ministers are set to meet in emergency session Monday to discuss Ukraine. They could combine financial and visa restrictions on Russians, with aid for Ukraine. But it was unclear Sunday over what issues the 28 nations could agree—and there was caution among Germany and others about pumping large sums into Kiev, given the current uncertainty.

Write to Jay Solomon at jay.solomon@wsj.com, Carol E. Lee at carol.lee@wsj.com and Stephen Fidler at stephen.fidler@wsj.com