

## ***What can we do to help Ukraine follow Poland's example?***

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### *Introductory Courtesies*

Here in Harvard, on 5 June 1947, on the steps of the Memorial Church, momentous words were said.

*It is logical that the United States should do what it can to assist the return of normal economic health in the world, without which there can be no political stability and no assured peace.*

*Our policy is not directed against any country, but against hunger, poverty, desperation and chaos.*

US Secretary of State George Marshall set in motion the most profitable financial investment in human history: the reconstruction of Western Europe:

The Marshall Plan was part of a wider Western ambition after World War Two. To create a **World of Rules**.

New global institutions were set up, led by US leadership and generosity, and with huge contributions from this University.

The United Nations. The World Bank, the International Monetary Fund. The International Court of Justice.

Despite harsh Cold War ideological differences, these institutions took root. They grew and flourished.

Why? Because the world – or at least the Western part of the world - had agreed that explicit international military aggression had to stop.

Differences between peoples and nations should be settled by peaceful negotiation.

The first principle of this World of Rules was self-restraint: *by cooperating, not fighting, we build a shared interest in success.*

Self-restraint - ruling out the war option - creates stability. Stability encourages investment. This creates innovation and new wealth.

The European Economic Community was only one of many institutions which flourished under this regime. It grew and grew to become today's European Union, precisely because it was based on the principle of national political self-restraint. And success bred success.

The second principle was that this World of Rules was worth defending from those who didn't accept it.

During the Cold War, this required a comprehensive Western approach, with the North Atlantic Treaty Organization at the heart.

There were programmes to share intelligence, especially among the English speaking nations of the West; joint military exercises; exchanges of weapons and military technology.

Institutions such as Radio Free Europe, Radio Liberty and the BBC pushed back against communist lies and propaganda.

So successful were these economic and security institutions and so attractive to those who didn't enjoy them, that when the Warsaw Pact finally fell apart after 1989, the nations of central Europe made it their national policy imperative to work closely with them, or even

apply to join them.

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Today I'm going to talk about two of those nations, Poland and Ukraine.

They are, I believe, a text-book case of what works and what fails, and why.

Between 1945 and 1989 both Poland and Ukraine were denied the chance to join the post-war economic boom in democratic Europe.

Let's run the numbers and see what happened.

Had Poland grown at the average rate of Germany and France between 1945 and 1990, it would have been *six times richer* when the Cold War ended.

Think of the blighted lives and sheer miserable waste that that statistic represents.

Think of the countless long cold hours my own family spent queuing for basic goods.

When I was little, my grandfather was a particularly valued member of our family for all kinds of reasons but also, because as a pensioner, he had the time to stand in lines for staples for the entire family.

Buying a refrigerator required queuing by rota for days. At the passport office there were actually 'queue committees' and official lists you had to sign at least once a day.

For decades, millions of people all over the Soviet bloc wasted large parts of their lives in this awful way.

Finally in 1990/91, communism collapsed, under the weight of its own stupidity.

Poland, Ukraine, Russia alike had a new chance. To join the World of Rules as normal democratic countries. To start to rebuild and grow.

25 years on, what do you see?

Well, in 1990 Poland and Ukraine were both about equally poor and had a comparable GDP.

Poland's GDP was \$65 billion – the entire GDP of Poland, a miserable total for a European country of 40 million people.

But we had two advantages.

*First, we knew what we wanted to leave behind.*

*Second, we knew where we wanted to go.*

There was a collective national determination to do whatever it took to escape from socialism, and instead to join mainstream Europe as a decent, free successful country.

This explains two key decisions taken back then, decisions whose wisdom is clear now.

First, President Lech Wałęsa, the shipyard worker who changed the world, threw his personal prestige behind the radical tough-love economic reform plan prepared by Deputy Prime Minister Leszek Balcerowicz.

It caused pain: savings were wiped out, pensions were devalued, and whole industries became unprofitable.

But it made a sharp, irreversible break with the past. The only way forward was up.

Second, and I have to acknowledge this, former communist oppressors were made welcome in the new democratic process, if they accepted the new Poland and its democratic principles. And by and large they accepted the new rules.

This released Poland's political and moral energy. All parties shared basic goals. They could and did compromise to take tough decisions in order to join Western institutions.

Poland's steely collective will to succeed has paid off. And look where we are now.

*Our exports are now eleven times what they were then.*

*Our GDP is more than double in constant prices, eight times more in current prices.*

*Our GDP per capita was just above 30% of EU average at that time. Now it's nearly 70%.*

Now look at Ukraine.

Ukraine emerged as an independent state in late 1991, when the Soviet Union collapsed.

It too had been held back by communism. But it had some important advantages in fact: a strong industrial base, the defence and space industry, vast stretches of fertile soil, cheap electricity from nuclear power plants and cheap gas, thanks to both its own resources and

the Russia-Europe transit pipeline which ran beneath its territory.

But, Ukraine also had some key disadvantages.

It had been a part of the Soviet Union since 1917, and part of Tsarist Russia before that.

Soviet-legacy institutions and attitudes ran deep.

There was little of a democratic tradition to inspire people. Many of Ukraine's best people in fact opted to stay on in Moscow and became Russian citizens. There was no Lech Wałęsa, or anyone else with a moral authority, to stand behind the economic transformation.

Reforms got off to a slow start. Tough decisions were ducked.

Above all, Ukraine failed at that time to join the World of Rules.

Instead of adopting the packages of reform laws needed to make a modern society work, Ukraine's elite preferred corrupt business and secret deals, often under intrigue and manipulation from a far wealthier and more powerful Russia.

The comparison today between Poland and Ukraine is really stark.

Basic numbers speak for themselves.

*Last year Poland's nominal GDP passed \$500 billion.*

*Ukraine's is still far below \$200 billion, and that's for a country with almost 20% more people than Poland.*

And this, I believe, the failure of modernization, helps to explain the current crisis in Ukraine.

Ukrainians themselves see that Ukraine hasn't followed Poland's example.

They see their country underperforming – missing out on the prosperity and stability that comes with joining fully the European branch of the World of Rules.

Now for the second time, Ukrainians have taken to the streets in huge numbers to reject discredited leaders and discredited policies. They want reform, and a clear sense of direction.

They want to make up for twenty years of lost time and missed opportunities.

They know that it means a momentous national choice: *pain now, for gain later*.

It means adopting tried and proven IMF adjustment programs.

It means that energy prices need to move to world levels.

You just can't create a competitive economy when your households and industry cover only 20% of the market price of gas.

Because the shortfall has to be covered by subsidies, that eat up great chunks of your national budget and horribly skew your national resources decisions.

For years the International Monetary Fund have urged Ukraine's leaders to start moving to more realistic energy prices, offering schemes to help poorer citizens during transition.

For years, those leaders wouldn't listen to sensible arguments aimed at making Ukraine's energy sector less wasteful: simple things like

installing households gas meters, or insulating homes.

Successive Ukrainian prime ministers personally told me that they would do what's right as soon as they won the next election. And then they didn't.

Second, it means implementing the Association Agreement with the European Union with its anti-corruption procedures, legal norms and European technical standards.

As Poland shows, no country need go through this alone. Ukraine needs friends and supporters.

And it has them. The European Union and the United States and the world's financial institutions stand ready to help.

In April Ukraine unveiled a comprehensive program of economic reforms backed by a \$17 billion two-year loan approved by the IMF's Executive Board.

The loan aims to restore macroeconomic stability, strengthen economic governance, and launch economic growth while protecting vulnerable groups.

Ukraine has received \$4.6 billion of this loan. The European Bank for Reconstruction and Development is launching a special Ukraine Stabilization Account and planning to engage \$1.3 billion this year alone.

And as you know, Ukraine has been the focus of both the G-20 meeting in Brisbane and last Monday's Foreign Affairs Council in Brussels.

But help for Ukraine has to come with the usual tough-love conditions on transparency and good governance.

Poland has had plenty of this nasty-tasting conditionality medicine.

That's why we are in such a strong shape today.

We'll do what we can to help Ukraine take its dose too.

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After two wasted decades, Ukraine's journey to success and growth would have been difficult enough, even under benign conditions.

But as we all know, Ukraine does not have benign conditions.

The events in Crimea and eastern Ukraine are dramatic and dangerous.

They threaten Ukraine's stability. And they pose a new kind of test for the transatlantic alliance that was set up to protect the West and its rules.

Let me demolish, on the record, an assertion which is heard quite often both in Moscow and in Western capitals: that the Ukraine crisis has somehow been 'provoked' by Western governments in general, and by the US or NATO in particular.

As few now seem to remember, when the Cold War ended the Transatlantic team of North America and Western Europe welcomed central and eastern European countries into modern democratic society.

But the impetus for NATO enlargement did not come from a triumphalist Washington. On the contrary, the United States initially resisted even the break-up of the Soviet Union.

It's true that since 1990 12 European states have asked to join NATO. But they all *chose for themselves* to belong to this cooperative military alliance.

NATO membership was a key part of 'locking in' their turbulent democratic reforms.

NATO programmes helped modernise our armed forces, and bring them fully under civilian control.

NATO played a vital role in helping all these countries make a clear break from secret communist-era military intelligence machinations, right at the heart of supposedly independent states.

While this slow, cautious and – as I remember – reluctant enlargement did eventually take place, constant efforts were made to reassure Russia.

Russia was welcomed to the Council of Europe, to the World Trade Organization and given closer relations with the European Union.

No substantial NATO bases were ever placed in the new member states.

Until 2013, 14 years after our membership in NATO, no NATO military exercises were ever conducted in Poland, Baltic states or anywhere else on the Eastern flank.

No nuclear installations have been moved to the territory of new member states, even though Russia has her own nuclear installations less than 100 kilometers from Poland's border.

A NATO-Russia Council was set up and Russia was promised that as long as she respected borders in Europe, no substantial combat forces would be moved East.

Largely in response to Russian objections, Ukraine and Georgia were in fact denied NATO membership in 2008 at the Bucharest NATO Summit.

In pressing the re-set button with Moscow towards Russia, President Obama changed the configuration of the proposed missile defense installation in Poland, and then suspended its Phase 4 which Russia disliked.

In short, the assertion that Russia was “humiliated” during this period is ridiculous.

Russia took charge of all the former Soviet nuclear weapons, some transferred from Ukraine in 1994 when Russia recognized Ukraine’s borders, including Crimea. Ukraine’s territorial integrity was guaranteed in the Budapest Memorandum by Russia, United States, UK and France.

Presidents Clinton and Bush treated their Russian counterparts as fellow “great power” leaders and invited them to join the G-7, even though Russia did not qualify to join this group at that time, either as a large economy or as a stable democracy.

The US spent billions of dollars working with Russia to reduce Cold War nuclear and chemical weapons stocks, and to achieve new, better arms control agreements.

All sorts of smaller practical projects have been set up with Russia. The NATO-Russia Cooperative Airspace Initiative aims to prevent aircraft hijackings. We have agreed to help destroy dangerous ammunitions stocks in the Kaliningrad exclave.

Russia has benefited from all these programs, as have we, and many more.

Freed from decades of self-inflicted communism, Russia has joined the global economy as a normal country.

And it has seen the benefits. Russia's GDP was a feeble \$570 billion in 1990. By 2013 Russia's GDP has grown to \$2.1 trillion.

So, in the years following the end of the Cold War, did NATO and EU governments show unwavering hostility towards Russia?

Did we cynically 'take advantage of Russia's weakness'?

Have we been 'humiliating' Russia?

I answer those three questions in three words. No. No. And no.

The record since the Berlin Wall came down shows NATO and the European Union and their individual member states all working hard, and in good faith, to build normal, purposeful relations with Russia.

And it shows that Russia itself benefiting hugely from this support.

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Poland has played its part in this historic Western effort to normalise relations with Moscow.

Down the centuries Poland's relations with Russia have been long and dramatic. We remember our grievances all too well – over a century of partitions, attack on Poland in 1939 together with Hitler, 45 years of Communism. The Russians have their memories too. They have just celebrated on Nov 4<sup>th</sup> their Unity Day which replaced the anniversary of the October Revolution under the USSR. Unity Day commemorates a popular uprising in 1612 which ejected Polish

occupiers from the Kremlin. At the end of it, the ashes of a Polish-supported usurper was loaded into a cannon and shot back towards Warsaw. It was largely a private expedition but in the course of it, our ancestors did burn down Moscow.

But when the Cold War ended, Warsaw and Moscow made efforts together to put things on a good track.

President Yeltsin threw away one of the greatest lies ever told by the Soviet Union about Poland. He acknowledged that it was Stalin who was responsible in 1940 for the mass murder of some 20,000 Polish POW, in the Katyn forest and elsewhere.

Though it took a few years, Soviet troops finally left Poland.

In recent years, Poland has made a systematic effort to improve relations with Russia.

As foreign minister, I re-launched a joint commission on Polish-Russian history.

We negotiated a border arrangement that allows Russian citizens living in the Kaliningrad district to travel back and forth to Poland, which is to say a part of the European Union, with ease.

We expanded trade and business contacts. And there was marked improvement.

In 2009, President Putin came to Poland on the 70th anniversary of the outbreak of World War II.

This was the first time that a Russian leader had acknowledged that World War II began in September, 1939 with the Nazi-Soviet invasion of Poland, and not, as Stalinist historiography would have it, in 1941 when Hitler attacked the USSR.

In 2010, President Putin was in fact the first Russian leader to pay respects to our murdered officers at Katyn. Our Churches published a joint letter in the spirit of mutual forgiveness and reconciliation.

Should we regret doing all this?

Of course not. Good faith moves to build new areas of cooperation and opportunity. This is what diplomacy is all about.

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So where has it all gone wrong?

The basic problem is that the current leadership in Moscow depends on corrupt business structures and media manipulation to keep power.

The Russian elite is dominated by former KGB officers who, starting in the late 1980s, used Russian state money, sometimes laundered through Western offshore banks, to purchase land, natural resources and property on a vast scale.

To protect this wealth, they must prevent the outbreak of a democratic revolution of the kind that shook central Europe after 1989, or an anti-corruption revolution as took place on Kiev's Maidan square early this year.

Using military invasions of Georgia and now Ukraine, or strong-arm tactics as in Armenia, or corrupt proxies in Moldova, they seek to stop nations of the former Soviet Union from daring to join the successful institutions of the West – and from setting an example that Russians might want to follow.

They are playing games with our public opinion through propaganda

tricks. Paid Internet “trolls” pollute our newspaper comment pages, Twitter, Facebook and other sites. They roll out fake “experts” with fake authority.

They try to legitimise extreme political forces of all kinds, paying for far-left anti-American rhetoric on their English-language Russia today channel, while simultaneously supporting far-right anti-Europe politicians in Europe.

Not content with that, they are testing our very military resolve.

Russian planes buzz American, Swedish, Danish, even Canadian planes.

Russian troops have captured an Estonian security officer working on the Estonian side of the border. Russian navy captured a Lithuanian fishing boat and held it for ransom.

All these obnoxious ploys are intended to nibble away at Western resolve, and our own and wider faith in NATO Article 5. To test the value of our mutual security guarantees.

But also, as events this year in Ukraine have shown, to challenge head-on the most basic rule of international law and the World of Rules: that international borders cannot be changed by force.

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The international response to Russia’s policies has been restrained. It has been designed to raise the cost to Russia of undermining Western institutions.

The policy is working, up to a point.

Russia's president has just admitted that the price his country is paying is high. Let's run the numbers again.

In the decade from 2002-2012, Russia's economy grew on average by 5% per year. Russia, like Poland, was integrating with the global economy, and seeing very positive results.

If Russia were to grow at the same rate from now until 2025, its GDP would be in 2025 \$3.7 trillion— up from today's \$2.1 trillion.

If instead Russia grows at only 1% over the next decade, which seems to be the case this year, because of sanctions and because of global mistrust of its intentions, its GDP in 2025 will be far less - \$2.3 trillion. Therefore, cumulatively over the decade, Russia will have lost the staggering sum of over \$8 trillion! Its leaders have decided to gamble with their own citizens' lives and hopes, by looking to the past, not the future.

Some of Russia's citizens are wondering whether this enormous price is worth paying – and what Russia is getting for it?

Tens of thousands of Russians marched recently in a march against the war in Ukraine.

A small number, but far more than the 8 brave people who dared demonstrate in Moscow in 1968 against the Soviet Union's invasion of Czechoslovakia.

They are not the only ones who are asking whether it is worth hundreds of billions of dollars to fly the Russian flag over the impoverished Crimean peninsula.

Is it worth hundreds of billions of dollars so that criminals and mercenaries can destroy Ukraine's Donbas region?

How many Russian soldiers have died or been seriously injured in Ukraine? Russian families would like to know. They want to know what's happening.

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Maybe Russia's leaders too are starting to conclude that this price is not worth paying.

I truly hope they do. But we need to be prepared if they don't, at least in the short term.

We need to think hard about the health of those institutions we set up half a century ago.

First and foremost, we need to face a grim reality. Hard, sharp security questions are being posed to us in Europe once again.

The NATO that we have now is not the NATO we need to deal with these challenges.

If we were starting from scratch now, nobody would put NATO troops and equipment where they are now. NATO should shut down unnecessary commands and legacy bases, and get back to its primary mission: deterrence.

NATO is a defensive alliance. But for deterrence to work, our military capability has to look - and be - serious.

Second, follow the money.

Have we been complacently turning a blind eye to an uncomfortable truth: that our own tangled, over-complex banking systems have been exploited by international semi-criminal networks, not only

from Russia but from all over the world?

Simply by enforcing existing money-laundering laws and asking hard questions about murky money, we will help ourselves and help others who are trying, against high odds, to join the World of Rules. Peoples around the world would be empowered and kleptocrats would be restrained if only we implemented existing laws!

Third, we need to think hard about how Europe and the United States work together in Ukraine and other countries wanting our help. It's demoralizing for them that so much Western money is wasted through duplication and institutional jostling for position.

Swedish technical assistance agencies and Dutch or American technical assistance agencies shouldn't be duplicating or contradicting one another's programmes.

Technical expert "advice" works best when supported by pragmatic peer-to-peer consultations.

Ukrainian ministers turn to us, to Polish counterparts to ask what we think. They say: *"You Poles have been through this. What do you think makes sense?"*

We try our best to tell them.

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Here in Harvard today we honor the memory and leadership of George Marshall.

Back in 1947 Ukraine, like Poland, was blocked by Stalin from taking part in those generous programs that he launched.

Let's help Ukraine now, when at last she is free to ask for, and ready to receive, our help.

The principled way out of this crisis is based on all sides returning to the principles that George Marshall articulated right here in Harvard.

Teamwork. Cooperation. Russia's return to the World of Rules.

If this happens, sanctions can be lifted. Russia can again participate normally in international financial markets and institutions.

All Russia's grievances concerning Ukraine or anywhere else can be tackled sensibly and fairly through the United Nations, OSCE, Council of Europe, or other fora created for precisely such problems.

*Moscow itself* asked to join these organisations when it wasn't a founder partner.

*Moscow itself* has pledged to respect their rules.

Let's be very clear, here in Harvard today, what is at stake in Ukraine.

The alternative to working through these issues normally and peacefully in a spirit of successful partnership is a new dividing line across the European continent. It won't be made of iron but it'll be real enough.

On one side of the line countries and peoples free to choose their own democratic destiny.

On the other side countries in a decaying Twilight Zone. A blighted, unhappy, unstable place outside the World of Rules.

If we get this wrong, our shared Western decades-long strategic

ambition to create a Europe whole and free will falter.

I have stood in Kiev with ordinary Ukrainians demonstrating for the right to live decently and peacefully.

They want only what we Poles now have: to move on from drab oppression and start being successful. To be a part of the Western family of nations led by this country, the USA.

Ukrainians under terrible pressure have voted this year twice. They have voted for the values that this university represents.

They have voted overwhelmingly for pluralism and honesty in domestic politics, for respect for minorities, cooperation with neighbors and association with the European Union.

The values that have helped Poland achieve such success in the past two decades.

These values can in turn bring success to Ukraine – and, yes, to Russia too.

*Thank you for your attention*