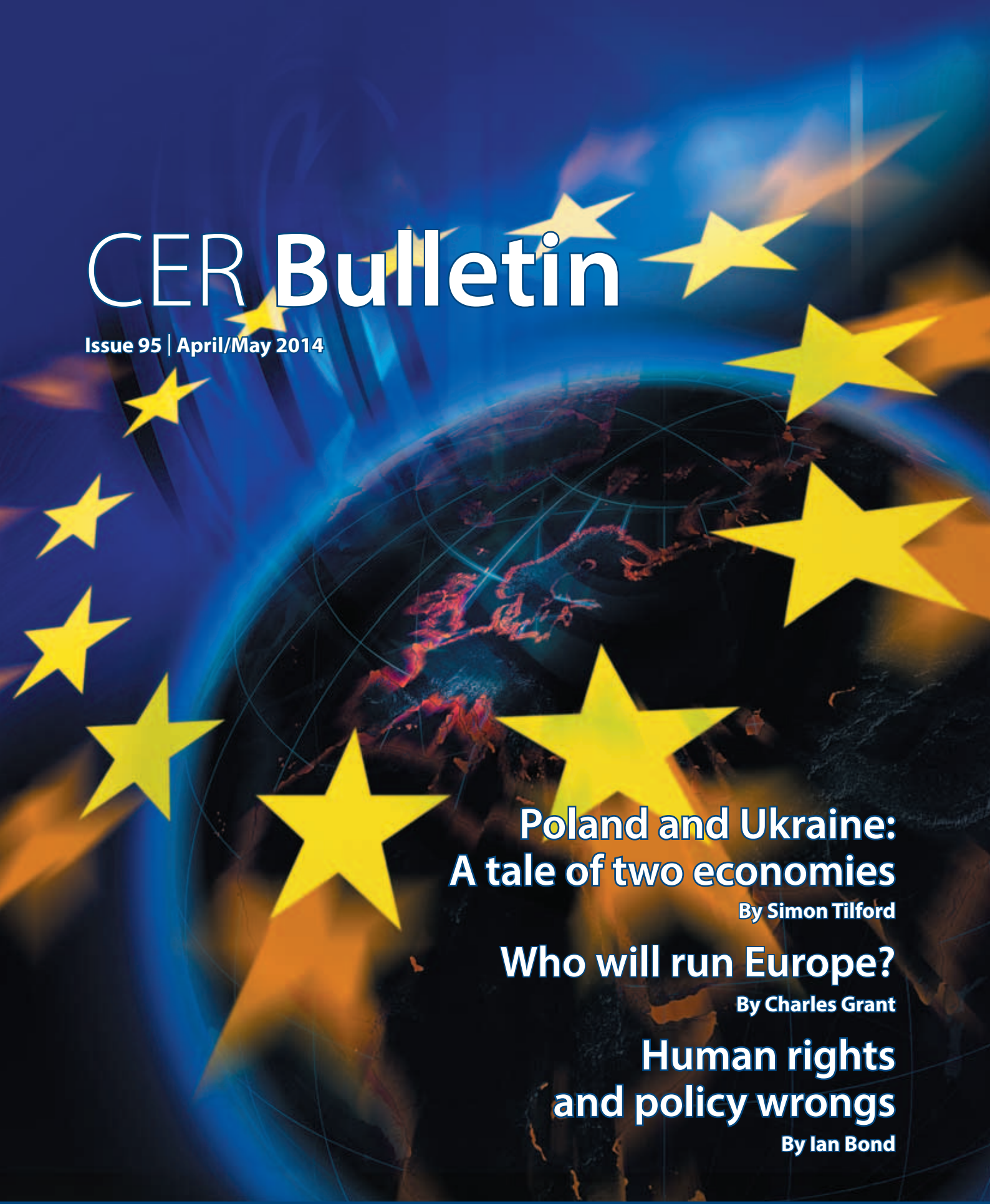
CER Bulletin

Issue 95 | April/May 2014



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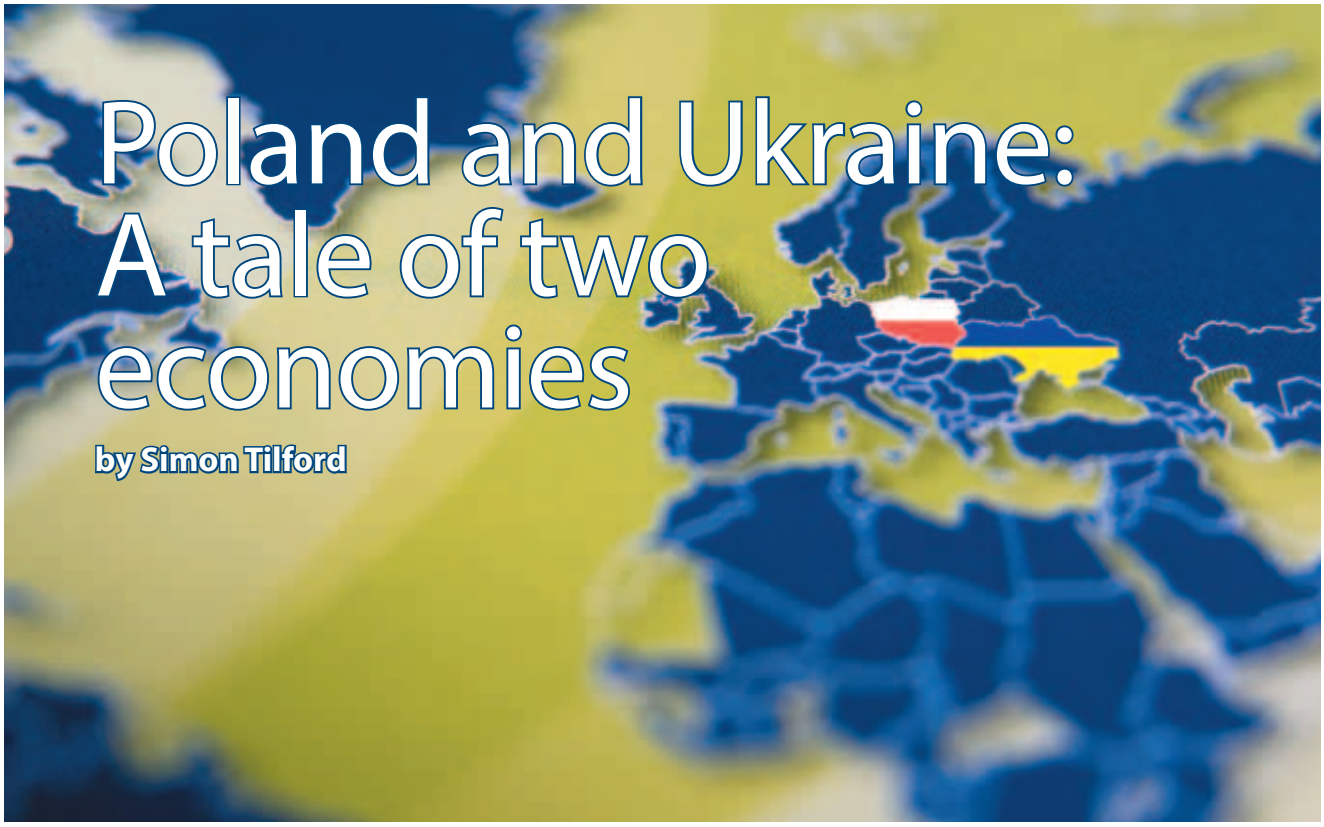

Poland and Ukraine: A tale of two economies

by Simon Tilford

Ukrainians would be forgiven for casting envious glances at their Western neighbour. Poland – especially its deprived eastern regions – may still be relatively poor compared with most of Western Europe, but it looks like a veritable Tiger economy compared with Ukraine. In 1990 the two economies seemed pretty similar: both were populous, one a former Soviet state and one a Soviet client state. Both shared a legacy of uncompetitive, inefficient Soviet heavy industry, environmental degradation and poor physical infrastructure. Why have the two countries fared so differently since being freed from communist control? Partly, because they were less similar than they seemed and partly because Poland was treated by the EU, Russia and the US as a sovereign country with the right to determine its own future. Ukraine was not.

Poland faces no shortage of challenges. Slowing growth rates and weak productivity growth suggest that the country could struggle to make the transition to a high-income economy, languishing instead in the 'middle income trap'. Still, the contrasting fortunes of Poland and Ukraine since 1990 could not be starker. In 1990 the Polish economy was just 20 per cent larger than the Ukrainian one, but by 2012 it was three times bigger. Between 1990 and 2012, Ukraine's economy shrank by over 30 per cent; Poland's more than doubled in size, with the result that Polish per capita incomes are now five times those of Ukrainians. Polish exports increased six-fold between 1991 and 2012, whereas Ukraine's fell 40 per cent. Meanwhile, Ukraine's population declined 12 per cent between 1990 and 2012; Poland's edged up slightly.

Ukraine has performed particularly badly even by the standards of ex-Soviet republics. This is partly down to the country lacking significant mineral resources, coal notwithstanding. The Russian economy, for example, would look little different to Ukraine's were it not for the bounty of oil and gas. But Ukraine's dire performance also reflects the legacy of competing identities, a high degree of sovietisation of its economy, Russian meddling and a cynical EU.

Poland is an old nation-state, albeit one with mobile borders. There was a robust sense of Polish

identity in 1990, and the basis for a resurgence of civil society was stronger in Poland than in Ukraine. The latter has been ruled by and divided between other states through most of its history; its regions, though not as neatly split between Russia and the West as is often claimed, have distinct identities and cultural affiliations. To craft representative national institutions and the civil society to underpin them would have been hard at the best of times. It was all but impossible with Russia (Ukraine's biggest trade partner and supplier of gas, as well as a cultural reference point for a significant minority of its population) dedicated to thwarting it.

Ukraine also laboured under Soviet rule for considerably longer than Poland. For example, agriculture was less collectivised in Poland than in Ukraine, and Polish trade was far more diversified than Ukraine's: just seven per cent of Poland's trade was with the Russian Federation in 1992, with over 60 per cent going to the EU. By contrast, in 1994 (the first year for which reliable data is available), just 14 per cent of Ukrainian trade was with the EU against over 40 per cent with the Russia Federation. By 2012, three-quarters of Polish trade was with the EU, compared with just a quarter of Ukraine's.

This is no surprise. Ukraine's economy is monopolised by politically-connected oligarchs and has been starved of the modern commercial management and investment it urgently needs. Much as in the case of Russia, Ukraine's industrial structure has essentially fossilised and been sustained by cheap energy (subsidised by Moscow). A weak business environment, uncertain property rights and politicised tax authorities mean that Ukraine has attracted little foreign investment, and has made strikingly little progress in diversifying its economy into consumer goods production and services. The country has largely failed to exploit its hugely fertile agricultural land due to the legacy of collectivisation. Investment accounted for just 17 per cent of GDP in 2012, an amazingly low level for such a poor country.

A country with centrifugal tendencies, deeper Soviet scars, a weak basis for civil society and a powerful neighbour intent on frustrating its development explains much of the difference in economic performance with Poland. The EU accounts for much of the rest. From the mid-1990s, the EU's drive to engage with Russia and build commercial links with it took precedence over the needs of Ukraine. Indeed, many EU governments were happy to consider Ukraine as part of Russia's legitimate sphere of influence. And the country's opaque politics and extraordinary levels of corruption provided them with a useful justification for condemning Ukraine to this fate.

Ukraine is a mess, and its own politicians share much of the responsibility for that. We cannot know whether Ukraine would have done better if it had been given a perspective of EU membership in the 1990s at the same time as the Central European states. Poland had some key advantages over Ukraine, and the Russians had fewer levers with which to interfere. The Poles took tough decisions on painful reforms knowing that the carrot of EU membership was there. It is perhaps no surprise that it is Polish politicians, led by the country's foreign minister, Radek Sikorski, who best understand the relevance of this to Ukraine today.

> *"The Poles took tough decisions on painful reforms knowing that the carrot of EU membership was there."*

The EU must not allow its commercial interests in Russia and an excessive deference to Russia's undefined 'legitimate interests' in its neighbourhood to dictate its policies towards Ukraine. This approach has proved a miserable failure. Russia is further from becoming a normal European liberal democracy than it was 20 years ago, as demonstrated by its decision to invade and annex Crimea. Accommodating Russian claims to its self-proclaimed 'near abroad' would condemn Ukrainians to a bleak future.

Instead, the EU should be magnanimous towards Ukraine, implementing as soon as possible the wide-ranging Association Agreement that it has negotiated, and offering substantial funding. The EU also needs to make clear to Russia that it does not have a veto over Ukrainian accession to the EU and that if Ukraine meets the criteria then it will be allowed to join. It is this membership perspective that galvanised reformers in other post-communist countries in Central and Eastern Europe, and which will be indispensable if Ukraine is to clean up its politics and challenge the oligarchs' suffocating grip on its economy.

There are grounds for some optimism. Russia's annexation of Crimea has been a rude awakening for those who have stressed the need for engagement and 'partnership' with Russia. And for Germany, a leading advocate of this failed strategy, Poland is now arguably as important a partner as Russia. If France, Germany and the UK were to come out in favour of EU membership for Ukraine, the EU might yet fulfil its moral obligation: to treat it like any other sovereign country trying to escape Russia's grasp.

Simon Tilford
Deputy director, CER

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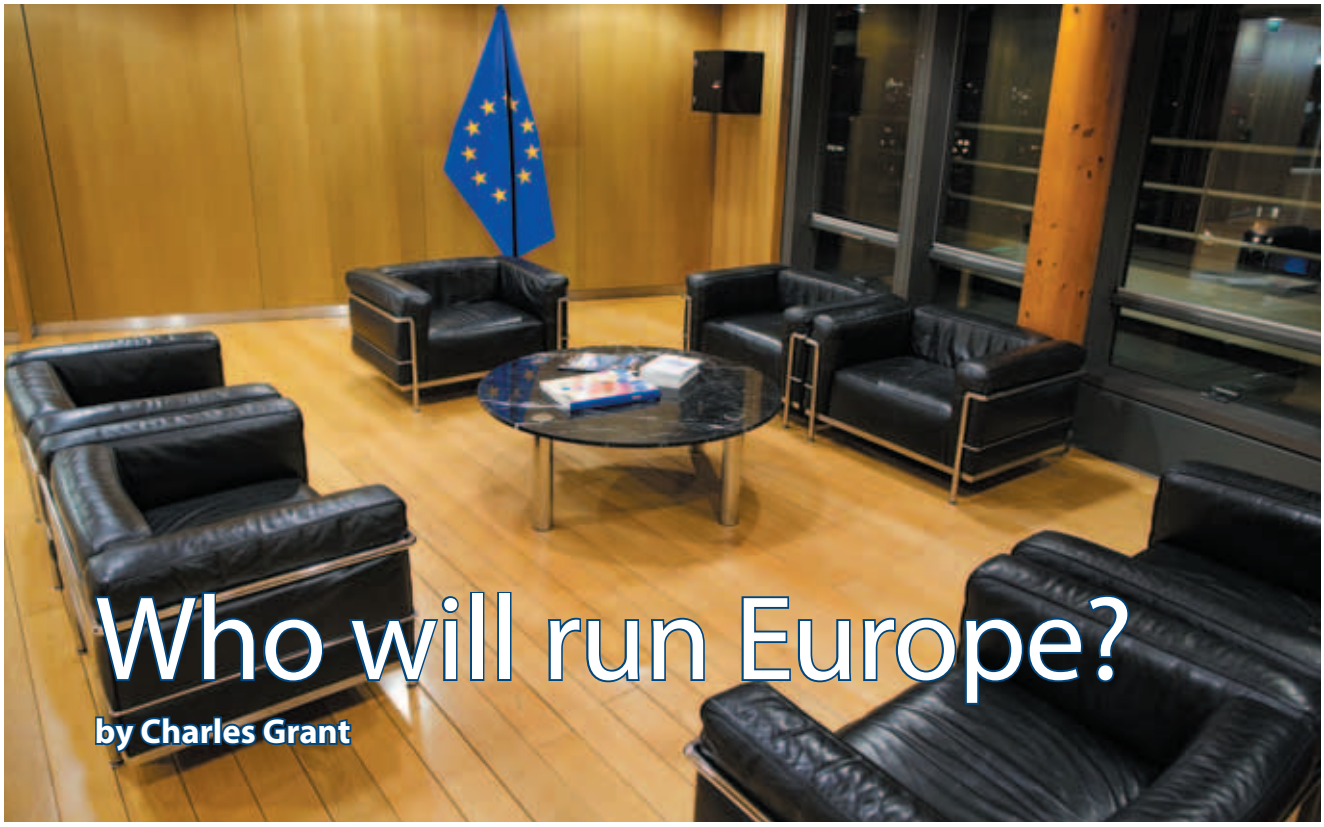

Who will run Europe?

by Charles Grant

After May's European elections, EU leaders must decide on the Union's top jobs for the next five years. Their choice matters hugely: the EU is thoroughly unpopular across much of the continent, the eurozone still faces grave economic difficulties, Russia is a growing menace, Britain may hold a referendum on leaving the club and there will be pressure to reform the way the EU works.

EU leaders will choose the presidents of the European Commission, European Council and European Parliament, the High Representative for foreign policy and the first full-time president of the Eurogroup. The secretary-generalship of NATO will be added to this package. The leaders will strive to achieve a balance – between big countries and small ones, north and south, east and west, euro members and non-members, the left and the right, and men and women.

The most important job is the presidency of the Commission. That body's authority has waned in recent years. It has annoyed governments by doing its job of enforcing the rules. But they also complain that it has too often churned out unnecessary regulation – either so that the 28 commissioners can justify their existence, or to keep the Parliament happy – and lacked a sense of priority.

The EU cannot reform itself or better nurture economic growth without a more strategic and effective Commission. The Lisbon treaty says that the European Council should choose the president 'taking into account' the results of the European elections. Everyone agrees that means the president should come from the pan-EU party that scores best. But the parties also demand that the nominated candidate of the victorious party should automatically become president. The centre-right European Peoples Party (EPP) has nominated Jean-Claude Juncker, until recently Luxembourg's prime minister; the Party of European Socialists (PES), Martin Schulz, the Parliament's president; and the liberals Guy Verhofstadt, an MEP and former Belgian prime minister. Denizens of the Brussels institutions, they are little known in the wider world. They are federalist but otherwise conservative about the way the EU works. All three have antagonistic relationships with the UK.

Most heads of government, including Germany's Angela Merkel, dislike the idea of nominated candidates. But the Parliament is a powerful body whose approval is needed before the Commission president can take office. So the European Council may be unable to thwart the parties' wishes.

The electoral battle between left and right is likely to be close. If the PES wins, Schulz would probably be blocked by the European Council, where his brashness and bluster have made him unpopular. Were he to get the job, Europe would be run by two Germans (Merkel being the other). At least three moderate socialists would be viable alternatives. Pascal Lamy ran the World Trade Organisation and is a former trade commissioner, but is viewed as too liberal by some leftists. Enrico Letta, the recently ousted Italian prime minister, impressed the European Council with his reformist credentials, but may suffer from the fact that the European Central Bank is led by another Italian. Helle Thorning-Schmidt, Denmark's prime minister, has the advantage of being a woman and liked by Merkel. All three are broadly acceptable to centre-right governments, including that of Britain.

If the EPP wins the elections, Juncker would be much harder to stop than Schulz. For although he annoys British leaders – who believe that he wants the UK out of the EU – he is popular with many governments. However, the view in Berlin is that he really wants the presidency of the European Council. In that case the Polish or Irish prime ministers could be serious EPP contenders for the Commission.

Donald Tusk is respected as a tough and blunt leader who has managed Poland well. He would be the first politician from a 'new' member-state to get a top job. But leaders from France and some other countries argue that the president should come from a eurozone member, and there are doubts over his English-language skills. Enda Kenny is a popular figure in the European Council, having run a successful EU presidency and led Ireland out of the worst of the euro crisis.

Both these names would be fine with the British. But the centre-right leader most likely to persuade the British to stay in the EU is probably France's Christine Lagarde, the IMF managing director. She is pro-market, a fine communicator and liked by Merkel. But she is unlikely to get the job: those close to President François Hollande say he would not appoint a rightist to the Commission. Another centre-right name mentioned is Dalia Grybauskaitė, a tough former commissioner who is likely to be re-elected as Lithuania's president in May.

The European Council – where there is a centre-right majority – chooses its own president, without any parliamentary vote. Herman Van Rompuy, its first president, has shown the utility of the job by skilfully brokering compromises among the heads of government, notably between the French and the Germans, and between the Eurogroup and those outside the euro. His successor may have to manage a British renegotiation.

If Juncker wants the European Council, but is blocked, an alternative could be Mario Monti, the widely respected economist and former Italian prime minister (if Letta does not go to the Commission), or indeed Letta or Grybauskaitė. There are also two former prime ministers who will soon retire from international institutions but would like another job: José Manuel Barroso, the Commission president, and Anders Fogh Rasmussen, NATO's secretary-general. Neither is hugely popular in the European Council.

> *"The EU cannot reform itself or better nurture economic growth without a more strategic and effective Commission."*

The European Council chooses the High Representative, a job that may well go to the party that does not win the Commission presidency. From the EPP, Carl Bildt and Radek Sikorski are eminently qualified. The foreign ministers of Sweden and Poland respectively, they have a profound knowledge of foreign affairs and would lead from the front. But their outspoken style causes offence and some think them too critical of Russia. Two experienced PES figures are potential High Representatives: Frans Timmermans, the blunt Dutch foreign minister, and Stefan Füle, the more emollient Czech commissioner for enlargement. Schulz's friends believe that if he is blocked for the Commission, he will be 'compensated' with the foreign policy job.

Five years ago, the European Council chose leaders who were competent, safe and unthreatening. This time, however, it should choose heavyweights. The Commission needs a reforming president who will champion growth-boosting policies. The European Council needs a leader who can manage the potentially fraught relationship between an integrating eurozone and the non-euro states. Economic expertise of the sort that Lagarde, Lamy or Monti possess would be a great asset. One of these two presidents should come from the non-euro countries, to reassure them that their interests will not be forgotten. The High Representative should be strong enough to help forge common foreign policies and to speak credibly for the EU. Having the chutzpah to stand up to Russia should not be a disqualification.

Charles Grant
Director, CER

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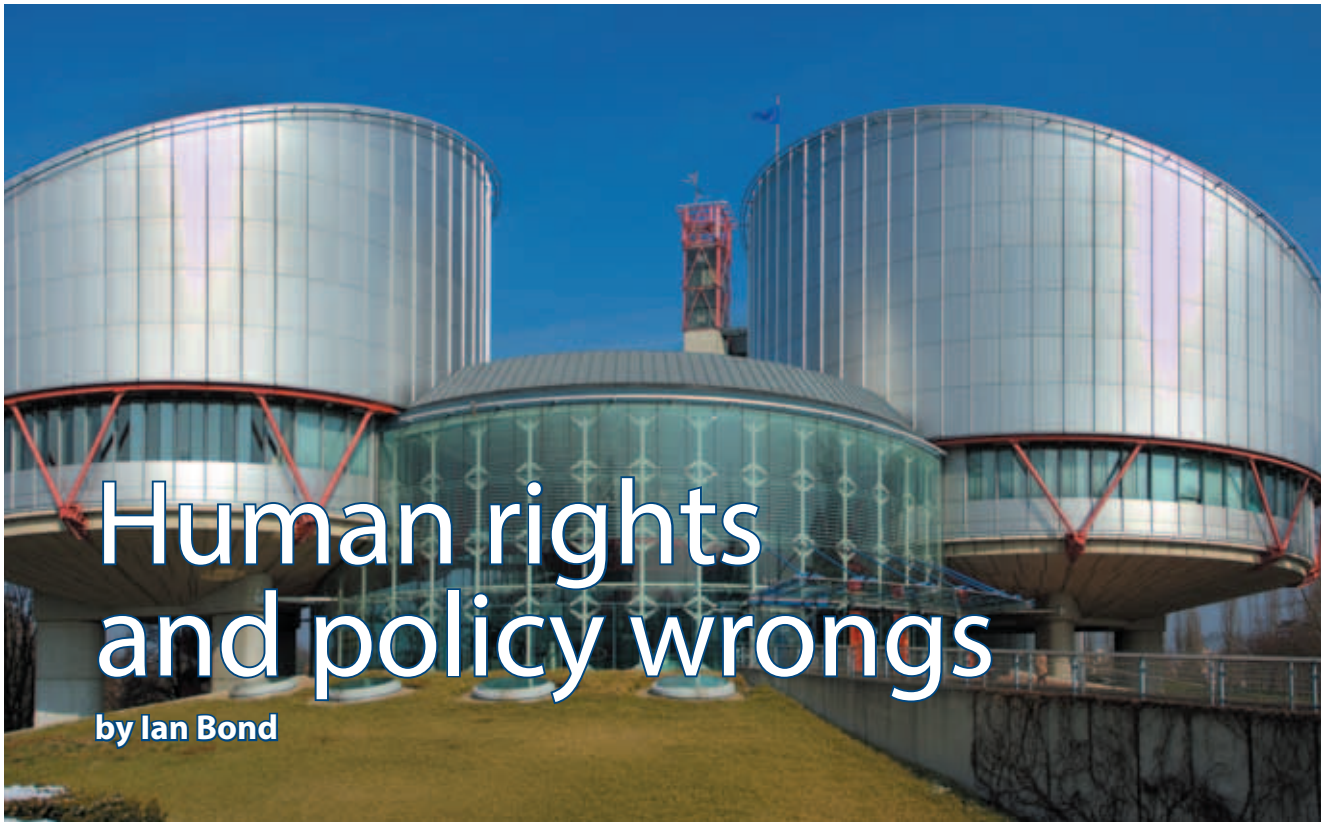


Human rights and policy wrongs

by Ian Bond

David Maxwell Fyfe, first Earl of Kilmuir, should be a hero of die-hard British Tories. Instead, his most important work is a target of their misguided hostility.

A tough Conservative Home Secretary and Lord Chancellor, Fyfe strongly supported the death penalty. At the Nuremberg war crimes trials, he conducted a devastating cross-examination of Hermann Göring in relation to the murder of RAF prisoners of war. But Fyfe's most enduring legacy is the European Convention on Human Rights (ECHR), of which he was the main drafter.

The ECHR is the only legally enforceable set of international human rights norms. Only in the 47 countries that have acceded to the ECHR – every European state except Belarus – can citizens seek a legal remedy from an international tribunal if they have not got satisfaction from domestic courts.

The ECHR and the Strasbourg-based European Court of Human Rights that enforces it have become hate-objects in the UK for a variety of reasons. From ignorance or by intention, eurosceptic politicians often conflate the Strasbourg Court with the European Court of Justice, tarring it with Britain's general suspicion of the European Union, though it is entirely unrelated to the EU. Some MPs and judges object on principle to an international body which can limit parliament's absolute sovereignty. Some of its decisions arouse populist frenzy – Prime Minister David Cameron said that the idea of giving prisoners the vote, as directed by the Court in 2005 (but still not implemented by the UK), made him "physically ill".

In reality, neither the ECHR nor the Court threaten the British way of life. Relatively few cases from the UK reach Strasbourg: in 2013, the Court started to examine around 2,500 against the UK, while Russia faced 36,000 cases and Ukraine 26,000. In 2013, the Court delivered 13 judgements involving the UK and found against the government in eight – a better success rate than most countries in Europe. For Russia, the corresponding figures were 129 and 119; for Ukraine, 69 and 65. And the Court tends to give governments significant room to interpret its judgements: its 2005 decision was not that all prisoners should have the right to vote, only that a blanket ban was a violation of rights.

For UK citizens, the ECHR and the Court are the ultimate check on what another Conservative Lord Chancellor, Lord Hailsham, called "elective dictatorship" – the power of the government to pass any law it chooses, however illiberal or repressive, if it can find a parliamentary majority for it.

But the ECHR is more important for the British government than it seems to realise. The ECHR is woven into the Good Friday Agreement which brought the conflict in Northern Ireland to an end: the British government undertook to "complete incorporation into Northern Ireland law of the European Convention on Human Rights, with direct access to the courts, and remedies for breach of the Convention, including power for the courts to overrule Assembly legislation on grounds of inconsistency" with the ECHR. It is hard to see how the ECHR could still apply in Northern Ireland if the UK were no longer a party to it; yet it is central to creating confidence that the minority community in Northern Ireland will not in future suffer the discrimination it faced in the past.

Almost as damaging would be the effect of withdrawal from the ECHR on British foreign policy objectives, particularly in Eastern Europe and the Balkans, where ineffective courts and corrupt governments hinder political and economic progress. The Council of Europe Commissioner for Human Rights, Nils Muižnieks, said recently that the UK debate on the ECHR and the Court was having a "corrosive effect" elsewhere in Europe. If the UK declares itself not bound by Court judgements, then why should Russia not follow suit? A topical example of what this would mean: the Court has found that countries have a duty to protect human rights in territories they control militarily, which gives Ukrainian citizens in Crimea a chance to seek redress for crimes committed under Russian occupation.

Whether leaving the ECHR would call into question the UK's membership of the EU has been hotly debated by lawyers. ECHR accession is a condition for applicant states, but continued membership is not an explicit requirement for existing member-states. The EU itself, however, plans to accede to the ECHR, which would leave the UK bound by the ECHR in any area relating to EU law, regardless of whether London had withdrawn from the Convention.

> *"The European Convention on Human Rights is more important for the British government than it seems to realise."*

Britain's Justice Secretary, Chris Grayling, and Home Secretary, Theresa May, both want the Conservative party to go into the 2015 general election on a platform of curtailing the power of the European Court of Human Rights, including withdrawing from the Convention if that is the only way to achieve their goal. They should look at the bigger picture before aligning the UK with Belarus. The ECHR may occasionally inconvenience the UK, but in every European state it is a vital safeguard against arbitrary rule.

Ian Bond
Director of foreign policy, CER

CER in the press

Bloomberg
14th March 2014
"A lot depends on how firm the signaling is to Putin at this stage," said Ian Bond of the **CER**. "There is a risk he may think he can take more bits out of Ukraine."

The Guardian
5th March 2014
In a speech to the **CER** today, in which he declared that pro-Europeans were best placed to modernise the EU, the Deputy Prime Minister Nick Clegg said Cameron would only achieve a "little tweak here, a little tweak there".

The Telegraph
18th February 2014
"If poorly managed, Cypriot gas could harden political divisions. Ankara does not recognise the government in Nicosia and has threatened military force if Cyprus allows drilling in the disputed maritime zone," said Rem Korteweg of the **CER**.

BBC News
17th February 2014
Stephen Tindale of the **CER** said the European Citizens' Initiative was a useful way to put an issue on the EU's agenda. ..."It requires the Commission to meet groups, consider the issue and give a response, but it won't necessarily lead to a change in policy".

Financial Times
13th February 2014
John Springford of the **CER** says in a 2013 paper on EU immigration that the UK looks to be following the US example, where skilled natives are more likely to work as managers and executives while skilled immigrants are more likely to work as scientists, engineers and statisticians.

Reuters
31st January 2014
"We cannot afford to be complacent," Benoit Coeuré said in a speech to the **CER**. "Debt levels and unemployment are high and unevenly distributed, and the nascent recovery remains weak and uneven".

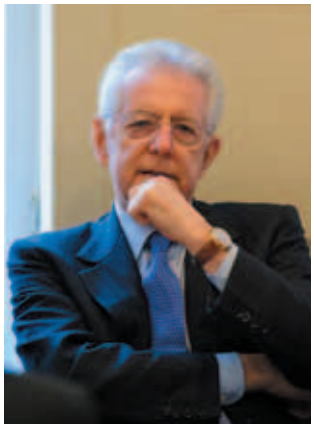
Financial Times
29th January 2014
"My own feeling is that the strategy of a referendum that he announced 12 months ago is now almost impossible to achieve," says Charles Grant, director of the **CER**. Mr Grant argues that in his quest to win re-election and to vanquish the threat of Ukip, Mr Cameron is simply making too many enemies.

Recent events

Nick Clegg MP

5 March
Launch of CER report 'How to build a modern European Union', London
With a keynote speech by Nick Clegg MP

19 February
Roundtable on 'Prospects for the eurozone', London
With Mario Monti



Mario Monti

László Andor

12 February
Allianz-CER European dinner on 'What should the EU do to reduce unemployment?', Brussels
With László Andor

11 February
Breakfast on 'Is the global financial system more stable than it was in 2008?', London
With Sir Jon Cunliffe

Sir Jon Cunliffe

Forthcoming publications

The EU and Russia: Uncommon spaces
Ian Bond

The City of London: In or out of the EU
John Springford and Philip Whyte

The transatlantic relationship and the Asia pivot
Rem Korteweg

The green advantages of British EU membership
Stephen Tindale

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