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Chair

The Honourable Robert Nault

Standing Committee on Foreign Affairs and International Development

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● (0845)

[*English*]

The Vice-Chair (Mr. Dean Allison (Niagara West, CPC)): Good morning, everyone. Welcome to meeting number 47, pursuant to Standing Order 108(2), our study of the situation in eastern Europe and central Asia 25 years after the end of the Cold War.

We had a chance to meet as a subcommittee yesterday, and you have the report before you. I just want to know if everyone is okay with approving that report before we get started with our witnesses.

I'll give you a minute to read it. It talks about a couple of individuals we were hoping would come before the committee. We're going to send out an invitation to them and see if they can work with our schedule. We'll be looking at the main estimates, and we were going to bring in someone to give us a little bit of an overview on that. We had written letters to the chairmen of the U.S. Senate Foreign Relations Committee and the U.S. House Foreign Affairs Committee, our equivalents in the United States, to invite them to Ottawa. Those letters were sent to you electronically over the last day. Those are the four items on the subcommittee that we discussed yesterday.

Does anyone have any issues with that at all? All right, then. If there are no issues, I'll call the question.

All those in favour of adopting the subcommittee report?

Some hon. members: Agreed.

The Vice-Chair: Thank you very much.

We'll now get to our witnesses.

Gentlemen, we're starting a little bit of a study on the whole issue of eastern Europe and central Asia and their relationship with Russia. I've looked at both of your bios, and both are—I won't say "overqualified"—very distinguished. We're looking forward to hearing from both of you today.

What we normally do is start with your opening testimony, and then we'll go around the room asking questions back and forth between the opposition and the government.

I have Chris Westdal, who is a former ambassador. We're very much interested in hearing what you have to say. Then we have Piotr Dutkiewicz, who has extensive knowledge on Europe and its relationship with Russia.

We'll start with your opening comments, sir, then we will move over to Chris, and then we'll have questions.

Prof. Piotr Dutkiewicz (Professor, Carleton University, Ottawa, As an Individual): Thank you very much. It is an honour to be here.

I would like start by saying that, first of all, the challenge is to understand where the other country is coming from. I spent more than 30 years working in and with Russia. I am not Russian—I'm Polish by origin—but I will try to present key components of Russia's perspective, and later, during the discussion, maybe we will evaluate them.

Let me present my points, which answer four questions. Each question will take me about one to two minutes.

My first question is: Who does Russia need today?

Russia needs those who will not interfere in her domestic affairs or impose alien values, whatever values she sees as alien. She needs those who will provide markets for Russia. In this sense, North America, including Canada, is not a priority area. The priority area here is the vast territory of Eurasia. She also needs those who contribute to her security. Russia seeks partners in areas such as nuclear non-proliferation, terrorist pandemics, and economic security.

My second question: Who needs Russia? Russia is significantly alienated these days. There is a bit of Russian hysteria around.

My answer is those who want to mitigate any unilateralism and that's the base for Russia's relations with China; those who want to keep an open alternative to the supply of oil, gas, and weapons; those who don't need strategic allies who tie their hands, but are looking for *realpolitik* support, where power is the key word to understanding Russian policies; those for whom security and stability trump democracy; and those who want more traditional and less diluted sovereignty. So, no matter how hard we try to alienate Russia, Russia will not be isolated. Russia will find her own friends because of those points.

My third question is: What does Russia want from global and regional players, including the European Union and those countries in eastern Europe that belong to or form part of the European Union?

First, Russia would like to have influence in the belt around her. You may define this belt around her in different ways—zone of influence or zone of strategic influence—but the most important thing for Russia is to exercise some influence in the immediate zone around her. Second, Russia would like to keep control over all domestic, natural, and human resources, and she's fiercely opposing an influence in this area. Third, Russia wants to renegotiate relations with the U.S. and with the EU. In this sense, Russia is, you might say, a revisionist state because she would like to revise what she feels is unjust in the behaviour of many countries toward her during the last 20 years. In other words, Russia is trying to be at the table, rather, not on the menu of big powers. Fourth, Russia would like to keep NATO at a healthy distance, and in some cases penetrate NATO-exclusive zones, and have some influence over them. Then, Russia would like to keep the U.S. and EU confrontation at an affordable level. “Affordable level” means without destruction of her vital interests, both economic and political.

● (0850)

In this case, and in the same manner, Russia would like to keep China content, but without the illusion of being a strategic ally to China. Russia would like to assure the Chinese that in the case of a deepening China-U.S. confrontation, Russia will take the Chinese side. There's no doubt about this.

Also, Russia would like to be an alternative to the NATO security umbrella as a potential partner, and the Syrian example comes in here. Russia would also like to participate in and, if possible, reorganize some alternative regional organizations that have a global reach, such as the Eurasian Economic Union, or a Russian effort to adjust the work of the OSCE.

The last question is: What are Russia's options with the EU, Ukraine, and central Asia?

First of all, Russia would like to weaken the coherence of the EU, because Russia prefers bilateral relations, not multilateral relations. It is much more comfortable with face-to-face negotiations rather than multinational forums.

Russia would like to slowly break the barriers imposed by sanctions since 2014. It builds, very patiently, selective relationships and dialogues with those that favour re-engagement over continuing isolation. In Europe, at least two countries come to mind: Hungary, which makes a certain adjustment to the Russian point of view, and Slovakia. I believe there are some hopes that after the election, France will become another, closer, partner to Russia.

On Eurasia and China, for Russia, I believe the future is located in central Asia. In central Asia, Russia prefers to resign from universal values and rather focus on delivering public goods jointly with China —roads, stations, and schools—and create a new patronage network in which Russia plays the significant role as a more significant partner in a Eurasian Economic Union.

To some extent, Chinese initiatives and the new Silk Road, One Belt, One Road, are overlapping with the Eurasian Economic Union. In this sense, it is a form of creating quite a big market for Russian goods jointly with China.

Also, Russia knows her limits, and the limitations related to her own economy and her own political influence over there with some countries that belong to the Eurasian Economic Union definitely trying to be as independent from Russia as possible, and we have seen this even in recent weeks in relations between Belarus and Russia.

For Ukraine, which is my last point, the only option available at the moment is the Minsk agreement, but possibly revised, because it was signed at a time when the political situation was different. To my mind, Russia will be looking for U.S. support to revise this agreement or to force Ukraine to comply with certain aspects of the agreement.

To conclude this brief introduction, I would like to say that Russia is not for beginners. Russia is a complex country, and easy solutions do not work. In the case of Canada, we are not a Russian priority, and Russia is not our priority. However, for many reasons—and I hope that we'll come back to this during the discussion—Russia is important for Canada, not only with regard to the Arctic, but for other reasons.

● (0855)

Our current policy towards Russia is haphazard and zigzag. It's supposed to be re-engagement; it is not. It's one step forward, two steps back. We don't have a policy towards Russia and we may be, as I said, rather not at the table, but on the menu in case of the closer of U.S.-Russia relations.

Thank you very, ladies and gentlemen.

The Vice-Chair (Mr. Dean Allison): Thank you, sir.

Mr. Westdal, I'll turn the floor over to you, sir.

Mr. Chris Westdal (As an Individual): Thank you, Mr. Chair. It's an honour for me to address you.

Since I retired from our foreign service 10 years ago, I have sustained an active interest in Russia and in Ukraine, and I'll focus on them today. You should know that I have served on the boards of public companies with interests in both of those countries and that I now chair Silver Bear Resources, a Toronto Stock Exchange listed public company that's completing a silver mine in Yakutia, Russia's Sakha Republic. I'm also a member of the board of CERBA, the Canada Eurasia Russia Business Association, both the national board and the Ottawa board. CERBA promotes trade and commerce across the region. I don't speak for any of those outfits here today, I speak only for myself.

Your subject is vast and, as you've found, it necessarily includes Russia, because to talk about the security, political, and economic circumstances of eastern Europe and central Asia without talking about Russia is to talk about everything in the room except the elephant. I'll use my few minutes to talk first about the popular narrative of Russia as an aggressive marauder, second about Ukraine on the brink, and third about the plans for a détente of President Trump, and, along the way, about Canada's roles in all this drama.

First, then, the common wisdom isn't wise. I encourage you to take a hard, skeptical look at the prevailing ubiquitous western narrative that Vladimir Putin is a demon, killer, thief, dictator, war criminal, and fixer of U.S. elections—choose your epithet—and that the Russia he's led for 17 years is a malignant, aggressive marauder bent on domination in eastern Europe and far beyond.

Now, Vladimir Putin is no choirboy. No great power leader ever is. The president of Russia, though, is many other things. He's a patriot; he's a patriarch, a "tsar lite", say; formidably intelligent, informed, and articulate; pragmatic above all; a proven leader, tough enough to run the vast Russian federation; ruthless, if need be, in serving its interests; and genuinely popular. Putin is also, proudly, a spy, and deception is an essential tool of espionage. So, of course, those little green men were Russian, but, of course, Moscow won't say so. As Putin explained at a Munich security conference, "We're all adults here."

What's more, beyond its leader, there is much we may not like in Russia's domestic politics or in the unapologetically brutal few-holds-barred way it wages war, but still, I find the current narrative about Russia's role in the world overblown, full of exaggeration about Russia's record, about Russia's motives, and about Russia's capabilities, while blind to Russia's obvious economic, demographic, and security vulnerabilities across its vast southern flank—11 time zones—and its necessarily defensive strategic posture.

That popular narrative is also, notably, ahistorical, ignoring the provocations that have led to what's labelled Russian aggression: the vast expansion of NATO by leaps and bounds—NATO, a congenitally Russophobic nuclear military alliance—the unilateral abrogation of the ABM Treaty, messing with Moscow's perception of its nuclear security; the forward deployment of missile defence in Romania and Poland to counter a threat from Iran, we'd have Moscow believe; and the billions spent stoking anti-Russian sentiment and regime change in Russia's neighbourhoods.

There has been much blood shed since the Maidan picked a fight with Moscow three years ago, a fight it can't win, but the facts remain that Kiev can't make the increasingly distracted and exasperated west care more and can't make the Kremlin care less. We are not going to fight World War III for the Donbass, we've made that clear, and the Kremlin, under any sensate leader, is not going to stop defining the geostrategic orientation of Ukraine, all of Ukraine, as a matter of fundamental national security interest.

● (0900)

Call Russia's reaction "aggression", if you will, but as we grew NATO by leaps and bounds, what did we expect? Three years ago, what were we thinking? That Russia would just roll over in the face of an obvious strategic calamity and meekly agree to rent historic Sevastopol, the Crimean base of its Black Sea fleet, from a member of NATO?

Like them or not, theory aside, major powers' zones of influence are real. We Canadians know that—we live in one. In the real world, Kiev has about as much freedom to undermine Moscow's security as Ottawa has to undermine Washington's.

The second is Ukraine is on the brink. Take a hard look too at the catastrophic circumstances of Ukraine, and at the record and results there of a quarter century of massive, sustained western intervention, including our own. That record must surely lead you to humility about our comprehension of Ukraine and about our ability to mind its business.

In brief, the western colony in Kiev, the vast multi-billion-dollar project there, of which we're a vocal part, is a heartbreak, a corrupt oligarchy, unreformed, highly centralized without even elected regional governors, littered with arms now, full of hard men without jobs, ready recruits for private militias, and dominated by ethnic nationalists bitterly opposed to vital national and regional reconciliation.

More of the same from us will make no sense. If you're in a hole, stop digging. At the very least, do no more harm. Our record proves that we don't know how to solve Ukraine's problems. They'll have to be solved, or not, by Ukrainians.

For President Poroshenko, meanwhile, let us spare a prayer. With a 13% approval rating, the economy in tatters, and U.S. and EU support faltering, Poroshenko knows he has to do a deal with Russia. He has to implement the Minsk peace plan, yet he dare not even say so. The Rada is adamantly opposed. In Kiev these days, federalism and decentralization, which are at the core of the Minsk implementation, are four-letter words.

We should do what we can to help him. We have very little influence in Moscow, and it will be some time before we recover much, but we do have some clout in Kiev. We should use it to counter lethally exclusive ethnic Ukrainian nationalism, to which we should stop pandering. We should use it as well to suggest such proven Canadian solutions as inclusion, accommodation, and federalism.

We should use it to promote essential reconciliation with Russia. No country in the world has more profound interest in good relations with Russia than Ukraine, none with more interest in east-west accord, none with more to gain by an end to this ruinous east-west tug of war, none with more interest in a better fence between Russia and NATO, a "mending wall" in Robert Frost's phrase, and a new deal in which Ukraine, rather than having to make an impossible choice, gets to trade well with both Europe and Russia, while posing a security threat to neither, a deal in which Ukrainians get the space, peace, and quiet they need to reunite, to recover, to reform, and to succeed. By all means, bilateral and multilateral should be our goal.

The third is Donald trumps the world. I haven't checked the headlines for the last few hours, so what I say may be far out of date.

Despite entrenched bipartisan opposition, President Trump has appeared determined to achieve a measure of détente with Russia, to fight ISIS with it, to trade with it, to seek peace in Ukraine with it, generally to lower the temperature and tension, to head off more Cold War.

● (0905)

For the good of all concerned, especially Ukrainians, we should help him do so. Far from sacrificing Ukraine, as critics will claim, détente would permit Ukraine's salvation. We should help Trump deter Russia, too, responding to his demand and that of General Mattis yesterday, forcefully in Brussels, at NATO, his demand that we spend more on defence. In my view, we have to do so anyway, if only to build a navy and Coast Guard fit for the three oceans we have to sail.

As NATO Secretary General Stoltenberg insists, there is no contradiction between détente and deterrence. One day, one may eliminate the other, but we're not there yet. NATO is not going away anytime soon. It will go on balancing and deterring Russian power and ambition. Meantime, as we do our bit for deterrence, we should also do our bit for détente, and we should keep our priorities straight about the two.

As defence minister Sajjan said at last year's NATO summit in Warsaw, even as we agreed to reinforcements on Russia's border, the work "behind the scenes" to re-establish a NATO dialogue with Russia really is the most critical piece. "We need to make sure the tensions are reduced because it doesn't help anybody." Exactly. Détente is a lonely cause these days, and Donald Trump may turn out to be the worst friend it ever had, but the last thing our sorry world needs now is this new cold war we're waging. We have too much else on our plates and we face far greater threats to our security and welfare than any posed by Russia, which faces them too. The Cold War blighted a half of the 20th century. If we can avoid it—and I think we can if we try harder—let's not let cold war blight any more of the 21st.

Thank you for this chance to share my views and offer my advice. I look forward to our discussion.

● (0910)

The Vice-Chair (Mr. Dean Allison): And an interesting discussion I think it will be, so thank you very much.

We're going to start with the opposition. Mr. Kent, you have the floor.

Hon. Peter Kent (Thornhill, CPC): Thanks to both of you for appearing before us today. I'd like to start with President Trump's remarks yesterday. They're being analyzed in a variety of ways, whether or not as sincere, that Crimea should be returned to Ukraine and Russia should withdraw, or a compensation for the national security issues that the president has had for the past week.

When the committee travelled last month to Latvia, Ukraine, Poland, and Kazakhstan, there was concern in the first three countries I mentioned about the rumoured or speculated warm relationship between Donald Trump and Vladimir Putin. Yesterday's remarks, and Mr. Putin's response to President Trump, would seem to say that friendship is not likely to flower anytime soon; as did Secretary Mattis' confirmation testimony on what he would have advised had he been advising the president when Crimea was taken and eastern Ukraine was invaded.

This is a hypothetical question. How are both of you reading the Trump-Putin relationship as it may be, or, Mr. Westdal, from your point of view, it has to be?

Mr. Chris Westdal: It's a good question.

In terms of what to make of it, as I said, I think Donald Trump might end up being the worst friend détente ever had. However, when he said yesterday that Crimea should be returned, I would take that as kind of an opening position in what will be a negotiation. The fact is that as the Russians made clear, and as is simply clear to anyone observing the situation, Crimea, short of war, will not be forsaken by Russia, period. That's simply a fact that Ukrainians have to live with and that we have to live with too. Now, the legality of all that might be for decades in dispute, but Crimea will remain with Russia. I think that is also genuinely the view, and was genuinely the view, of the people in Crimea. It was taken without a shot. It was low-hanging fruit. Kiev had lost the allegiance of Crimeans.

As to the relationship between Trump and Putin, I think that's been a kind of figment of the imagination and fevered journalism. There are all these references to a bromance. They've never met. Putin said that he thought Trump was "colourful", or "bright"—that word was mistranslated to be "brilliant", but Donald Trump is colourful—and that he hoped he could deal with him. Trump has returned the compliment, but there's no bromance there.

It's now quite clear that there has been incoherence in the Trump administration's comments about Russia, most recently comments about Crimea. The new American ambassador to the United Nations appeared to contradict the president. Mattis's testimony was quite at odds with what the president was saying. I do think, though, that Trump will defy all of the enemies of détente. Just bear them in mind. It's a vast array that goes right from all the angry Democrats....

I do worry that east-west relations are now entangled in a very bitter partisan fight in Washington. That's very dangerous. But all the foes of détente include the Clinton Democrats, all of the neo-cons who abandoned the Republicans and joined Hillary Clinton, such as McCain and Graham, and the entire large, powerful military industrial complex that we all know exerts enormous influence. There's a huge range of opposition to what Trump would try to do with Russia, but I think he's defied a huge range of consensus before and will try to do so again. I hope he succeeds.

● (0915)

Hon. Peter Kent: Professor.

Prof. Piotr Dutkiewicz: I would agree with all that Ambassador Westdal said. I have a few comments.

First, at this moment Russia-U.S. relations are at the very, very low end. I had the chance to personally ask President Putin about this in October, and he said that this is the lowest level of trust between Russia and U.S. since the collapse of the Soviet Union. My first point is that it could only be better, not worse, because worse is not feasible at this moment.

Second, President Obama's policy towards Russia was a new version of the policy of containment: let's contain Russia, surround her, impose sanctions, and demand a change in behaviour. It did not happen. So the policy of containment is not an option for the Trump administration. That's the second point.

My third point is that I believe that people around Trump see Russia as a rather big player, with certain weaknesses in economics and in the region. Its military capacity, however, is formidable at the moment, and so is its diplomatic capacity, cyber-war capacity, and other elements. All this brings Russia to the level of a potential partner in certain issues that only big countries can discuss. Among these are nuclear non-proliferation, terrorism, maintaining strategic balance, and preventing the spread of weapons of mass destruction. Obviously, there are also actions in the area of anti-terrorism. These will be probably the areas that are going to be discussed.

My fourth point is that when Trump became president, many Russians cheered, including Russian politicians. In recent days, however, I see something very interesting: withdrawal from being so cheerful. They started to realize that there is a lot of unpredictability coming from the White House—zigzag, sometimes contradictory, messages. Also, if there are not contradictory messages, the messages that are clear are not very pleasing to Russia. There is a danger of putting a wedge between Russia and Europe, Russia and China, and the Russians will not sacrifice their relations with Iran or relations with China because of the current policies of the U.S. administration. This is a potential impediment to the successful conversation that will take place probably in May this year.

The Vice-Chair (Mr. Dean Allison): Thank you, Mr. Kent and Mr. Dutkiewicz.

We're going to move over to the government side.

Mr. McKay, we're going to start with you, sir.

● (0920)

Hon. John McKay (Scarborough—Guildwood, Lib.): My thanks to you both for your testimony.

Professor Dutkiewicz, the first question I have is with respect to your analysis—what Russia needs, who needs Russia, what Russia wants from the EU, and what are Russia's alternatives. What seems to be left out of your analysis is the sphere of influence nations want. It seems to me to be abundantly clear that Finland, Estonia, Latvia, Lithuania, and Poland want is a close relationship with NATO and a close relationship with the EU. While that may be a disappointment to Russia, it is something that, in western thought at least, needs to have a paramountcy above an empire that might wish to expand itself.

I'd be interested in your comments. There's not going to be a war started over Crimea, I agree with that, but that's what's driving the fears on the eastern side of Europe.

Mr. Piotr Dutkiewicz: You're absolutely right. You're talking about Finland, Latvia, Lithuania, and Poland. With the exception of Finland, all of them are former members of the Bloc. They have fears. They have challenges, but also their fears are grossly exaggerated.

They are exaggerated. If you ask them what the security challenges are for their country, they will all answer that the biggest challenge is Russia. That is the common answer. But they have different challenges, and the animosity towards Russia is rooted in something else.

The animosity towards Russia is rooted not in Russia itself. It's rooted in at least four reasons for why they feel vulnerable. They feel vulnerable and they would like to have the EU, and in particular NATO, be present there to help them. To me, they are displacing a lot of their fears, because the challenges are in their domestic policies.

First of all, in all of those countries there has been significant social disappointment in the last 20 years with regard to how the transition has been handled. This disappointment provides support for xenophobia, populism, and political cynicism and to a certain extent anti-Russian views.

Second is distrust of the system. Many people in those countries don't trust the system to deliver what it is promising. Instead of dealing with this, they replace this challenge with the Russian threat.

Third is fear of unpredictability. All those countries that you mentioned, except maybe Finland, are facing a lot of economic unpredictability and political unpredictability.

Hon. John McKay: Let's say for argument's sake that you're right.

Mr. Piotr Dutkiewicz: For them NATO is the solution. We want to have NATO because NATO will save us from Russia. Be realistic: there are a couple of hundred NATO soldiers. There is no way that the soldiers are a counterweight to the Russian weight, but in the Polish or the Lithuanian mentality it's a very significant step and probably they should be there if only for the sake of peace of mind.

Hon. John McKay: Let's take your argument at its face value. There has been some disappointment with joining the EU and the economies have not performed, but that doesn't mean there's a huge rush to embrace Russia in any way, shape, or form.

In fact, if I were a leader in any one of those countries, I would be a little bit nervous about Russian military exercises up and down my border. That would get me concerned. I realize that standing up battle groups in Latvia, Lithuania, and Estonia is a glorified speed bump to any incursion. The Russians could take them in half an hour, but they couldn't hold them. They can't hold them.

The history of those countries is simply a pathway to exploitation and oppression. So their history, their economic circumstances, and their realistic assessment have led them to what I'm hearing you say is an irrational fear. I'm not sure that it is actually irrational.

● (0925)

Mr. Piotr Dutkiewicz: Russian troops will not be in Warsaw or in Lithuania. That is nonsense, but I agree that there is a fear and this fear somehow has to be contained. We don’t like to have allies that are fearful and, therefore, unpredictable.

Most recently, the chair of one of the Polish dominant parties, PiS, asked for a nuclear Europe and he was rebuked immediately, within five minutes, but this is a level of fear that can lead to certain actions that we might pay dearly for.

Hon. John McKay: Ambassador.

Mr. Chris Westdal: I wanted to add that I think you've put your finger on it. It's not the taking. It's the keeping. I think one should take a look at not only what Russia has done, but what Russia hasn't done over the last decade.

Briefly, if you start in Georgia, Russia could have taken Tbilisi. It was ready to do so. The tanks were there, but it parked its tanks 30 kilometres away for a few days just to make the point and then it drove them home.

Similarly, in eastern Ukraine, Russia could occupy the Donbass in four hours. We won't speak of Crimea. It's worth noting that the separatists in eastern Ukraine were asking Moscow for the same annexation that Crimea had had and Putin turned them down.

Similarly, it was Putin who said that we could take Kiev in two weeks, and I think that's probably true, and it's no secret. You mentioned the speed bump; despite our troops there the Russians could overwhelm the Baltic states very quickly, but they don't because the taking is relatively easy. It's the keeping. It's the cost. It's the consequences. They're obviously enormous.

It was a Lithuanian president not too long ago who said that it wasn't a question of whether we take article 5 of NATO's Washington treaty seriously. It's a question of whether Putin takes article 5 seriously, and he does, and he'd be a madman not to.

The Vice-Chair (Mr. Dean Allison): Thank you very much.

We move back over to the opposition now. Madame Laverdière, it's your turn.

[*Translation*]

Ms. Hélène Laverdière (Laurier—Sainte-Marie, NDP): Thank you, Mr. Chair.

I thank both of you for your very interesting presentations, which are absolutely essential to our reflection on this. We have to put ourselves in the other shoes and also look at the interests and constraints on the Russian side.

We have seen that there is a certain risk of escalation with NATO missions. Every time NATO increases things by 10%, there is a 10% or 15% increase by Russia.

Tuesday, we heard a witness here who had things to say that were quite similar to your statements. He spoke of the need to establish a new security relationship with Russia and he said that Canada needed to be an active part of that, particularly given the uncertainty surrounding White House policies.

Would you have any comments to make on that?

[*English*]

Mr. Chris Westdal: I think you're quite right. There is a risk of escalation. I think, as I mentioned in my remarks, we need a better fence between Russia and NATO. The fence that has existed is highly problematic. How to search for that new deal that I spoke about, from Canada's point of view particularly, it's going to be done multilaterally. Our contribution is going to be that if you're NATO... or through the OSCE. I do hope that our delegations at NATO and at the OSCE are much more active and imaginative than they were for a decade.

It's at the OSCE where you find the most relevant mandate to try to explore a security arrangement that includes all of Eurasia. That's where I think we should put our effort.

As Professor Dutkiewicz was pointing out, Russia is a vast and complex subject, and one needs to try to comprehend it; and that requires an investment, an investment in understanding, an investment in more links with Russia than we now have. Our links are very meagre.

I hope that you have talked to Russians. I don't know whether you were free to visit Russia. I think you probably were, but as I said you can't understand what's going on in that region without understanding Russia. It is the elephant in the room. It is the major power. It is by far a more important capital than any of the others in the region, and yet we have imagined that we would isolate Russia.

One of the costs we pay for that is that we don't have any influence, and the other is that we really don't have any understanding. I don't see how we can possibly have a vision, some vision of Eurasian security, which it is our duty to bring to NATO and the OSCE, if we deprive ourselves of any understanding of Russia.

To try to understand Russia is not to approve of Russia; it is to try to understand what you're talking about.

● (0930)

Mr. Piotr Dutkiewicz: I agree. The threat of escalation is definitely there. Russia will be responding to anything they perceive as a threat. They perceive a lot of friendship things as threats these days. It is becoming an unpredictable spiral that may end up with a much worse situation than we are in at the moment.

I would second Ambassador Westdal's statement that we don't know enough about Russia. We've cut our ties with Russia since 2010. Even before the Crimean war we cut our co-operation with Russia, our technical co-operation with Russia by 2008, I believe. We don't have any serious leverage in Russia at the moment, but we had and we spoiled this all in a beautiful way with destruction.

Until 2008 the Canadian ambassador travelled to all the Russian regions, and it was welcomed. There was a feast of goodwill for Canadians. Now there is none.

How can we rebuild this? What can be done in a reasonable way? I'm not saying we should all love Russia, not at all. I'm saying build reasonable, reciprocal ties that will make Canadian interests more visible and help Russia, not isolate it and ignore it. That would probably be what we should do, knowing all the differences, the deep differences between us and Russia.

Also, we should help Canadian companies. There are Canadian companies that lost a lot during the sanctions. Our economic turnover is $1.3 billion, that's $300 million. In one year we have less economic activity than in one day between Canada and the U.S. This is how it looks at the moment.

The Vice-Chair (Mr. Dean Allison): Thank you.

That's all the time we have. We're going to move to Mr. Saini for his round.

Mr. Raj Saini (Kitchener Centre, Lib.): Thank you to both of you for coming here.

I have some questions for both of you, but after listening to your opening preamble I have more questions than I thought. Let's start with *realpolitiks*, because I think that both of you are practitioners, and you understand the reality on the ground. Let me start with you, ambassador.

Having travelled to Ukraine, I feel Crimea is effectively lost. Even if you look at Minsk I or Minsk II, there is no mention of Crimea.

I use the historic example of Kashmir, because in Kashmir you have a line of control that now has become the de facto border. If you look at Ukraine, at their line of control in the Donbass that is now temporarily holding, it seems to me that this area of the Donbass that has been taken over by Russia is now effectively being controlled by Russia. Aid has been given there. Structures have been set up because now Ukrainians don't have the ability to go there and set up simple things, whether a health care institution or an educational institution, so Russians are ultimately providing that service. So without firing a single shot, effectively they've taken over Ukraine.

As a counterweight to that, to me you raise a very interesting point that they could have gone into Tbilisi but they didn't. So effectively, if you look at the region, they've heightened the tension there and kept everybody on high alert, which you know is not sustainable. You can't keep up the spending on NATO where it's 2%, and going back to the professor's point, domestic politics plays a great role, but these countries can't sustain that kind of spending. They don't have the economy, and we were there.

Effectively, Russia's game is not necessarily to take over by firing shots. On top of that, there's the presence of the Russian media in those areas, because some of these countries still have a high ethnic Russian population, so if you look at Russia today and the other media—effectively in these countries that's the only media they have—not only do they have a military presence, but they also have a media presence. How are you going to resolve this going forward?

● (0935)

Mr. Chris Westdal: Reconciliation.... As I mentioned in my remarks, it was noteworthy that the separatists asked Moscow to annex the Donbass, and Putin said no, that he believes in the territorial integrity of Ukraine, minus Crimea. But there was a point there. Russia didn't get invaded, twice, massively, through the Black Sea and Crimea; it got invaded across the plains of Ukraine. Russia's security interest extends to all of Ukraine, not just the Donbass and Crimea. That's one factor.

The other factor is that the Ukrainians are adamant about territorial integrity. Now, that may or may not, in their minds, include Crimea—and in many of their minds it does—but even if it doesn't, the insistence on territorial integrity would mean that Kiev has to come to terms with those separatists, and that is going to have to involve a measure of devolution of power. As I was saying, we should be encouraging that devolution of power.

Ukraine may have to face a very difficult choice. It would have been much easier for Ukrainians if they had inherited a more purely Ukrainian ethnic state, but they didn't. They inherited a state that required Kiev to appeal across not only the Ukrainian ethnic group but the Russian ethnic group, which was, and remains, a very significant part of their population.

If there is to be territorial integrity, it's going to have to involve devolution. I don't think Vladimir Putin thinks that it's in Russia's interest to break up Ukraine, precisely for the reason I spoke of. Russia's security interest has always extended to all of Ukraine.

Mr. Raj Saini: Professor, you raised something very interesting. You talked about Russia trying to seek markets, and you also mentioned the One Belt, One Road and central Asia. We know that the One Belt, One Road goes through three central Asian cities. You talked about rapprochement with Hungary, and I would say that even the Visegrad nations are now tilting in that direction. Let's talk about *realpolitik* and bring it down to the economic point.

The GDP of Russia right now is equivalent to that of New York. You talked about trade and partnering, and you talked about central Asia and other countries. But the trade and partnering they're doing is not with rich countries, not with stable countries. To some extent, these countries may not have the ability to pay for and buy Russian goods, whether it be oil or gas.

If we take a step back and go back 15 years, do you not believe that it was a miscalculation on Russia's part, because Russia feared NATO more than the insurgents of the European Union, that they didn't really think,"Well, okay, let these countries become part of the European Union. That's not important for us, the economic argument. The more important thing is the military argument"?

Now, as you mentioned, it's a revisionist history. Now they're going back and suggesting to hold on for a second. Now they're part of the European Union, and a lot of these Baltic states, from what I understand, are tilting their purchasing power and their economy towards Europe, whether it be electricity, natural gas, or oil. I don't know how Russia is going to survive, when the Baltics and other countries—the satellite states, or whatever you want to call them—are now titling their focus because either they are fearful and want to join the European Union, or they want to improve their own economies. How does Russia maintain that, when its own economy is not that stable?

● (0940)

The Vice-Chair (Mr. Dean Allison): That's all the time, Mr. Saini, but if you have a response, Mr. Dutkiewicz, that would be great.

Mr. Piotr Dutkiewicz: I should start by saying that this year the Russian economy suffered a sharp decline, 3.7% of the GDP. That's a lot. This year, 2017, by western and Russian predictions, the Russian economy will be back to about 1% of economic growth. It's not much, but still, it's an improvement.

The Russian budget is based on $40 per barrel of oil. The oil is now hovering around $45, $46, up to $50. It means there will be some surplus. This is still mostly natural resource-based because about 60% of trade is in this area.

At the same time, with regard to agriculture, Russia is becoming one of the biggest exporters of grain. It competes with Canada very successfully in this area. Also, it will soon become the exporter of meat. It competes with Canada in this area.

I could continue. First, the Russian economy is not as bad as we believe it to be. Second, it's not compatible with other emerging economies, but still, the volume of trade will be sustainable for some time to come. Obviously, for Russia, it's important to import high-level technologies, and those come from Europe and also China.

This gives you a picture of the economy in certain trouble, but the trouble is not big enough to say that Russia is not the biggest partner in the region with China. They can simply divide the turf in such a way that it will accommodate both the Chinese and the Russian interests in the region, as far as the economic sphere is concerned. That's how they are working toward this.

The Eurasian Economic Union is the vehicle for this advancement of Russia into the region—not political advancement, but economic advancement. I feel that this partnership with China will stabilize, to a certain extent, the Russian economy. The Chinese are going to invest very heavily in Russia's and Siberia's natural resources and land.

Where does this leave Europe? Technologies. Russia needs European technologies, if they don't come from other sources, and to sell gas to Europe.

This is the answer to your question. It's a concern, but the bottom of the crisis of the Russian economy, to me and to other experts, has already passed, at the end of 2016.

The Vice-Chair (Mr. Dean Allison): Thank you, Mr. Saini.

That's all the time we have.

I want to thank Mr. Dutkiewicz and Mr. Westdal for coming in and providing the other side of the argument. You've given us some interesting things to think about. There was some good dialogue today. Thank you very much.

We're going to suspend for a couple of minutes because we have to set up for a video conference for our next hour.

● (0940)

(Pause)

● (0945)

The Vice-Chair (Mr. Dean Allison): If I could have all the members back at the table, we'll get started.

Sam, can you hear us? Someone wants to say hi to you very quickly.

Dr. Samuel Charap (Senior Fellow for Russia and Eurasia, The International Institute for Strategic Studies - Washington, DC, As an Individual): I can hear you.

Prof. Piotr Dutkiewicz: Sam, Piotr Dutkiewicz here.

Be a nice guy today.

Dr. Samuel Charap: I'll try my best.

The Vice-Chair (Mr. Dean Allison): Welcome back.

Here we are in our second hour of discussion on the situation in eastern Europe and central Asia.

I want to welcome our two guests, who are joining us by video conference. Anders Aslund is a senior fellow with the Atlantic Council.

Welcome, sir. We're glad to have you here.

Also joining us is Samuel Charap, who is a senior fellow for Russia and Eurasia at the International Institute for Strategic Studies in Washington, DC.

He is joining us from New York today. Welcome.

Let's get started. We're going to have both gentlemen give us their testimonies. Then we'll go back and forth among the members for questions over the remaining 55 minutes.

I'm going to start with you, Mr. Charap. The floor is yours, sir.

● (0950)

Mr. Samuel Charap: I wanted to address one of the questions you put to us today, specifically the question about the way in which the relations between Russia and the west impact development in the region we're talking about. This is partly adapted from a recent book I co-authored with Timothy Colton of Harvard University called *Everyone Loses: The Ukraine Crisis and the Ruinous Contest for Post-Soviet Eurasia*. The concluding chapter of the book looks at the impact of the regional contest on all the countries we call the in-between countries, namely, Ukraine, Belarus, Moldova, Georgia, Armenia, and Azerbaijan. We argue in the book that across the region a similar dynamic is playing out. Neither the west nor Russia can prevail in their regional contest, but the contest itself is doing damage to the in-between countries.

Most directly, of course, that damage has come in the form of these conflicts, some of which are frozen, some of which are not. In the book we get into some of the ways in which the stepped-up contest between Russia and the west has hamstrung the transition from Communist rule and political and economic reform in these countries.

These states all suffer to varying degrees from a similar set of post-Soviet pathologies: dysfunctional institutions of modern governance, partially reformed economies that lack functioning markets, weak or absent rule of law, patronal politics based on personal connections and dependence rather than ideology or coherent programs, pervasive corruption, and a close link between political power and control of major financial and industrial assets.

Viewed in comparison with the post-Communist countries that joined the EU in 2004— Poland, the Czech Republic, Hungary, Slovakia, Estonia, Latvia, Lithuania, and Slovenia—which I'll refer to as the EU8, the in-between countries' disappointing performance since 1991 comes into vivid relief.

I've provided static measurements of governance in these six countries and a composite index of the eight countries that joined the EU in 2004. Across a range of indicators—voice and accountability, government effectiveness, rule of law, political stability, regulatory quality, control of corruption—the difference is pretty stark. This is borne out in Transparency International's corruption perception index.

Using Freedom House's political rights scores and civil liberties scores as well as the European Bank for Reconstruction and Development's competition policy scores, all of which have been kept since 1990, you can see the way in which the eight countries that joined the EU in 2004 took off and the six I'm referring to lagged behind. The gap begins quite small in the early 1990s and then grows dramatically over time.

Finally, a comparison of Poland—the other EU8 didn't keep statistics going back all the way to 1991—with the in-between countries in GDP per capita, using 2011 international dollars on the basis of purchasing power parity, reveals a stark contrast. In terms of GDP per capita, only Belarus, thanks to Russian subsidies, and oil-rich Azerbaijan are slightly better off than they were in the final years of the Soviet Union. Moldova and Ukraine are poorer today than they were when the transition began. When compared with Poland, Ukraine's underperformance is particularly striking. In GDP per capita, Ukraine has gone from a higher figure than Poland to a figure one third less.

Of course, many factors have contributed to this disparity between the EU8 and the six in-between countries I'm talking about. The contest between Russia and the west was not the only factor, but it did feed regional dysfunction in important ways.

● (0955)

First, it's helped to sustain what has been called a partial reform equilibrium in many of these countries. In other words, these are economies that concentrated gains among a small group of winners at a high cost to society as a whole. Those winners owed their wealth to distortions and rents spawned by partial reform, and they use their economic power to block further advances in reform that would correct the distortions upon which their wealth was based.

Russian and western willingness to subsidize political loyalty have contributed to this phenomenon. For example, Russia pours money into Belarus through waivers of oil export tariffs and below market gas prices. It was willing demonstrate similar largesse to Ukraine under Yanukovych.

The west has also played this game, often in breach of our own policy of linking assistance to meaningful reform. Ukraine's current IMF program is its 10th since independence. All previous ones have failed in the sense that the fund has suspended lending because Kiev did not implement the required reforms.

The notoriously corrupt Moldovan government would surely have gone bankrupt more than once without its EU lifeline. In another example, following the August war between Russia and Georgia in 2008, Washington committed $1 billion in assistance to Georgia, a country of fewer than five million people. These financial infusions, which have been clearly spurred on by the regional contest, make it much easier for governing elites to postpone structural reform indefinitely.

A second way in which the contest has contributed to the dysfunction is that it has exacerbated pre-existing political and ethnic cleavages in several of the in-between states. In Ukraine, the confrontation has mapped onto and intensified internal divisions over identity. Although those divisions were much starker before the war, and the balance has shifted somewhat since then, regional schisms regarding membership in NATO and the EU, for example, still remain. The same is true in Moldova, although in a different way. Transnistria residents, for example, as survey research has consistently revealed, would prefer to become part of Russia than to reunify with Moldova. Even on the government-controlled territory on the right bank of the Dniester River, Moldovans are divided. As of October, 2015, 45% favour joining the Eurasian Economic Union over 38% who favour the European Union.

Caught up in the contest between Russia and the west, weakened social cohesion sharpens these these ethnic and political divides, which have of course dented fragile democratic institutions. The same to a certain extent is true in Georgia as well.

The regional contest that permeates these countries has also warped party politics and in some cases supplanted democratic discourse with demagoguery. In Moldova and Ukraine, for example, parties and leaders have declared themselves pro-western to capitalize on the popular desire for good government, which many people associate with the west, but, when in power, they have all too often proven to be just as corrupt and incompetent as their so-called pro-Russian opponents.

Additionally, the contest for influence between Russia and the west has hobbled western efforts to support reform in the region. This is partly a function of practicalities, as I discovered when I was in government. When these kinds of geopolitical issues are at the top of the agenda, other problems like reform or democracy sort of fall by the wayside. At times when the contest is particularly intense, there have been examples when policy-makers have deliberately downplayed human rights and democracy-related problems for fear of pushing these countries into Russia's embrace. One example is the EU backpedalling on conditionality with Yanukovych in the run-up to the Vilnius summit of the Eastern Partnership in November 2013.

Since the Ukraine crisis, this problem has actually become more acute. The bargaining power of some of these states has sort of increased vis-à-vis the west, but their compliance with the rules and norms that have been promoted by the west has not meaningfully changed and, in some cases, even decreased.

Belarus is a case in point. In February, 2016, the EU rolled back sanctions on President Lukashenko and his inner circle as well as several state-controlled firms. EU officials have admitted that in doing so they ignored Minsk's non-compliance with Brussels' requirements regarding human rights on the reasoning that Belarus had become “a battleground of powers”.

● (1000)

The U.S. also joined this effort in re-establishing defence links with Belarus in March 2016. This might be justified on the merits, but it does sap the ability to push regional governments to reform, because when you soft-pedal criticism of rulers who are, for the moment, pledging fealty, it feeds a widespread belief in the region that public censure regarding human rights, democracy, or reform is merely an instrument to punish disloyalty. When western governments are inconsistent in airing those kinds of critiques across countries or over time in particular countries, it undercuts those officials who do speak out about abuses or push their interlocutors to reform.

It's easier for regional leads to brush off such concerns if they receive mixed messages or can point to double standards. By treating these countries as spoils to be won, we give sometimes the regions' elites a foil against almost any expression of disapproval: the threat of turning to Moscow. In the case of Ukraine post-2014, where that threat is no longer credible, western states have been reluctant to withhold public statements of support and financial assistance on the logic that the country cannot be allowed to fail.

So, basically, in trying to prevail over each other, we have a situation in which neither Russia nor the west is succeeding in that contest between them, and the battle itself is causing a lot of collateral damage that has set back these countries that find themselves stuck in between.

I'll leave it there. Thank you very much.

The Vice-Chair (Mr. Dean Allison): Thank you very much, Mr. Charap.

We're going to move over to Mr. Aslund now.

We'll have your opening statement and then we'll go right to questions.

Mr. Anders Aslund (Senior Fellow, Atlantic Council, As an Individual): Mr. Chairman, members of the standing committee, thank you for inviting me to talk to you today about this very important topic. I will focus on your questions as they have been posed. I will focus on Russia's intentions, and also on what we can see so far from the Trump administration.

The key thing about Russia's foreign policy today is that Russia has a strong sense of domestic insecurity. Russia has become an authoritarian state. Its authoritarianism is not very severe, as counted in the number of political prisoners, but it's quite efficient in terms of a very strong surveillance of citizens that is just about unprecedented.

President Vladimir Putin maintains a personal authoritarian rule. In his first two terms, he based his legitimacy on political stability and fast economic growth. Since 2008, however, Russia's economy has stagnated. With the fall in the price of oil, Russia's GDP has fallen, in U.S. dollar terms, from $2.1 trillion to currently $1.2 trillion. That is, Russia's economy today, in current U.S. dollars, is the 14th biggest economy in the world. At the same time, exports and imports from 2013 to 2016 approximately halved.

The Russian economy is not very big. The striking thing is what President Putin talks about when it comes to the economy—stability, not growth. He counts stability as having large reserves, a small budget deficit, minimal public debt, a large current account surplus, low inflation, and low unemployment. These are the measures he's concerned about. That the standard of living, counted as retail trade or real income, in the last two years has fallen by 15% does not concern him at all. It's stability that is important, not economic growth. Therefore, in its foreign policy, Russia does not have any strong economic objectives, which is rather difficult to understand for people coming from democracies and market economies.

Instead, President Putin has turned to an old Russian strategy to gain legitimacy, through “small, victorious wars”. The term comes from 1904, before the Russo-Japanese War. We've seen in the last decade Russia's war with Georgia in 2008, five days, small and victorious; the annexation of Crimea in 2014, a small and victorious war that was approved by 88% of Russians; and the war in Syria, which has also been small and so far victorious. The problem was the war in eastern Ukraine, which was neither small nor victorious.

What we should expect from this perspective is that President Putin will “poke” more instability in the region. The question is not if he will do it but where and when he will find an opportunity for what he considers to be a small and victorious war. This means it's mainly the countries in his region that are in trouble. He favours destabilization, as we can see in the unresolved military conflicts in Moldova, Georgia, between Armenia and Azerbaijan, and now in Ukraine. We are to expect more such minor wars. The two countries in case right now are actually his closest allies, Belarus and Kazakhstan.

● (1005)

As my late old friend Boris Nemtsov, who was murdered two years ago, used to say, Putin respects article 5 in the NATO statutes. The NATO countries have so far not been touched and it's vital that situation continue.

How would I describe Russia's main priorities and interest in eastern Europe and central Asia? They can be described in three terms: political dominoes, domestic political control through authoritarian rulers, and corruption. Again here there are no particular national economic goals involved. Russia's main export is oil. The oil is quite unpolitical. Gas is a much less important export, and that is highly political and involves a lot of corruption.

In what way do broader relations between Russia and the west impact development in these regions? Russia wants to separate and isolate countries in the region from the west. Russia's interests are not primarily economic but are focused on geopolitical dominance, promoting corrupt and authoritarian regimes.

Turning back to Trump's administration, what are we to expect about its policy towards countries in the region? So far, the Trump administration has said extremely little about it. The main statements have come in the last few days. On February 14, President Trump's press spokesman, Sean Spicer, stated, "President Trump has made it very clear that he expects the Russian government to de-escalate violence in the Ukraine and return Crimea. At the same time, he fully expects to and wants to get along with Russia", unlike previous administrations.

This was followed by a tweet by the president, "Crimea was taken by Russia during the Obama administration. Was Obama too soft on Russia?" This is of course in reaction to all the criticism. President Trump has criticized virtually all significant countries in the world, but there's not been a negative word about Russia or President Putin before. He has just about mentioned Ukraine on a couple of occasions.

What are the implications of this for Canada? I think that for Canada it's an interest in standing up for the common western values in the region, and for standing up for multilateral organizations. That amounts to standing up for NATO, to maintain NATO as such, and given that the threat from the Arctic is increasing, Canada has all the greater interest in strengthening NATO whereas the U.S. attitude towards NATO is uncertain. The second point is that the European Union stands for the same human values and democratic values that Canada stands for. It's important for Canada to get closer to the European Union. CETA is an excellent step in this direction.

Finally, when it comes to western values such as human rights and democracy, Canada has all the great reasons to engage with or support other countries that share these values, and of course the European Union stands out as the main region that shares those values. From what Samuel Charap said here before, of course Ukraine is the tipping point. There's no country in the world that is at the same time so corrupt and so open and transparent as Ukraine. This is not a stable situation.

● (1010)

Either Ukraine becomes a western democracy and maintains its openness and defeats corruption, or it goes the way of most of those Soviet countries, into a mixture of authoritarianism and corruption. Corruption is no accident. It is a choice of authoritarian leaders who prefer to enrich themselves at the cost of their population. I think that leads to a massive focus on Ukraine.

Thank you.

The Vice-Chair (Mr. Dean Allison): Thank you, Mr. Aslund.

We're going to start with the opposition.

Mr. Kmiec.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thanks to both of you for appearing before the committee.

I'll start with you, Mr. Charap. You talked about the stalemate of "post-Soviet pathologies". I want to ask you some questions about what you mean by the stalemate.

We're studying these last 25 years after the Cold War in eastern Europe and central Asia, and I feel that sometimes we lose focus, in that there's a deep history that goes far beyond the last 25 years. There are historical grievances and economic ties, but also some historical ties between countries, and a certain affinity that some populations have towards either being recognized as more western.... I have a bias here. I'm Polish. I was born in Poland. My family fled here in 1985, so I obviously have a bias, but the Poland I remember is a footnote in history. Many people who come to Canada from that area of eastern Europe don't identify the same way that I do in what I believe is the historical context of today.

Can you talk more about these stalemates? What do you mean by stalemates and these post-Soviet pathologies? I have a pathology, obviously, and it is more, I'll say, anti-Soviet Union, but it has a deep influence on what's going on today, so I want to know more about which countries you are speaking of and what systems. Are they economic, social, or cultural? Are these organizations that were created right after the Soviet Union's collapse that were meant to integrate economies better into the west and are not working today? Could you expand on that?

Mr. Samuel Charap: It's a shame that the chart's not in front of you. I was making a comparison between what we call in the book the six "in-between" countries—Ukraine, Belarus, Moldova, Georgia, Armenia, and Azerbaijan, those six states, or what the EU calls the "Eastern Partnership" countries—on the one hand, and on the other hand, the eight countries, including Poland, that joined the EU in 2004. The divergence in terms of reform, democracy, and quality of economic governance is extreme between these two groups. Poland is in a separate category in my analysis, because of its relative reform success in the post-Communist period.

What I meant by the "post-Soviet pathologies" that affect the six is that there's a similar pattern of governance failures, reform setbacks, and democratic deficits that is present throughout those six countries to varying degrees. In the chart, you'll see that it's not all uniform, but that there are a number of commonalities and common problems among those six countries. Your question is really about why they suffer from them.

A lot of it does have to do with the fact that they were fully integrated into the Soviet system for 75 years and emerged from it in much worse shape in terms of social capital and the potential for democratic transformation than a country such as Poland, but there is a range of reasons. The argument I was trying to make is that one of the reasons that these pathologies have continued in those six countries is that there is this stalemate between external actors, namely Russia and the west, in trying to compete for influence in these countries, and that neither Russia nor the west can prevail over the other, but the contest between them is feeding into these pre-existing pathologies and, in some cases, making them worse.

● (1015)

Mr. Tom Kmiec: My next question is for Mr. Aslund.

I want to talk about this bargaining power. For the past 25 years, a lot of these states, their politicians, and the civic institutions—civic society—have been bargaining between and pitting the west or Europe versus Russia: which country should they be more aligned with and who can give them the better deal? It's a very broad concept. We've seen that Moldova and Bulgaria have elected pro-Russian governments that are more interested now in seeing their future align with Russia, more so than with Europe, or with the United States, or with Canada, for that matter.

We've talked about this fear of states falling into the orbit of Russia. Does that mean inevitably that we have to continue being subject to this bargaining of politicians for domestic reasons, for their own local politics, or is there a way out of it for countries such as Canada?

I should also state that Canada is not a peer to Russia, and I know that previous witnesses who've appeared before this committee seemed to indicate that Canada is almost like a peer country. Economically speaking, we're far more successful than they are, but militarily and in terms of influence, far less. What is it that Canada can do in order to not be used, to not be abused with this bargaining chip, so that our money, our time, our effort, and our diplomatic resources will not be used for those domestic political purposes?

Mr. Anders Aslund: To begin with, I think that all the EU countries, including Bulgaria and Romania, are safe. In fact, according to Transparency International, Bulgaria and Romania are not more corrupt than the old EU countries of Greece and Italy. So we should not really worry about Bulgaria. It's more about what is down in the Balkans, but we can leave that aside for now.

In the former Soviet Union, I think that it's a clear division, but Armenia and Belarus are so far fully in the Russian sphere. Azerbaijan is massively authoritarian and there's very little any outside power can do there until we see a serious regime collapse. That leaves us with three countries that are of interest: Georgia, Ukraine, and Moldova. I would say that they will all go the way that Ukraine goes. Ukraine is the pivotal country for many reasons. I mention here that it has the greatest contrast. It is an open society with extraordinary transparency, far greater transparency than the United States has, for example. It is really at the level of Nordic countries, and at the same time, it's massively corrupt. There's a big fight going on against corruption; and the forces against corruption are civil society, part of the parliament, and the western powers.

Canada is greatly involved in Ukraine and plays a very positive role. Thanks to the open debate in Ukraine, there is a big consensus among civil society and western donors; and all the western donors have the same view. The issue in Ukraine is not socialism versus liberalism, it is corruption versus reform. The Ukrainians stand up for reform, and in order to get reform turning around in the right direction, we need to have a sufficient amount of money so that Ukraine can really move forward. At the end of 2013, the public debt of Ukraine in terms of U.S. dollars was $73 billion. Right now it is $71 billion. Ukraine has had far too little money from the west while they have carried out very big economic reforms.

I don't see this really as a bargaining process with governments against the west, although there is such an element also. As I see it, is the west there when there is real reform happening? That has been the case now in Ukraine for three years. The question is, will western aid to Ukraine be sufficient so that the good forces inside Ukraine can win.

● (1020)

The Vice-Chair (Mr. Dean Allison): Thank you. That's all the time we have.

We're now going to move over to Mr. Sidhu.

Mr. Jati Sidhu (Mission—Matsqui—Fraser Canyon, Lib.): Thank you for your testimony this morning. It's really interesting.

Since the landscape has changed in America, there's a new statement almost every day from Mr. Trump's administration. Russia is flexing its muscles into eastern Europe, and Mr. Trump's administration is saying that they need to work closely with Mr. Putin. There's the way his personality is. The Trump administration is showing some sort of interest in using Russia to combat ISIS in that area. What's your take on that? The way I see it, Mr. Putin is very smart, very cunning, very powerful. With the impression of combatting ISIS, maybe he wants to go into neighbouring countries to have his influence, because he wants to keep his natural resources very close and accessible, marketable, to the neighbouring countries.

What's your take on that? Either one or both of you can take the question.

Mr. Anders Aslund: My response is that the kind of financial links Mr. Trump has with Russia are a really big question. We know at least 10 major dubious people from the former Soviet Union have bought apartments in Trump Towers in Miami Beach or in New York. This has all been publicized.

President Trump has not published anything about his personal or company finances. There's a major question about what financial links there are between the Trump organization and the Russian economic interests. On the face of it, it does not make any sense that Russia would help against ISIS.

It's very striking that President Trump did not refer to democracy, human rights, liberty, the Constitution, or Congress in his inaugural speech. These were among the many words that were missing that are normally present in an inaugural speech. It's a question of what values the current White House stands for, where the senior adviser, Stephen Bannon, stands out with a rather curious list of values. In the authorities' view all the links between Russian intelligence and the Trump campaign have also been extensively publicized.

The Senate intelligence committee is clearly going to carry out an investigation. I talked to an aide to the Senate intelligence committee last night, and he said that the Republican senators were incensed that the White House had not informed them about this information coming from the intelligence agencies.

We are just at the beginning of this, and your question is very much to the point. As I suggested, we can only see there are lines in this.

● (1025)

Mr. Jati Sidhu: What's your take on the question, Dr. Charap?

Mr. Samuel Charap: We don't really know what the new administration's policy is on anything so far. It's important to emphasize that. Not only do we not have clear statements of policy, but we don't even have key personnel in positions who would be able to either formulate or implement it. That is a little unusual a month into a new presidency, but nonetheless it is a fact.

I think if you look at some of the statements that were made during the campaign by Trump and some of the more ideological people around him, such as Bannon, as Anders mentioned, you get this sense of the world that is dominated by two major threats. One is China, from an economic perspective, somehow. The merits of that assessment are beside the point. I'm just giving my observations about what they seem to think. The other is what they call “radical Islamist/Iran”, the merits of which and the nomenclature are beside the point. I'm just saying what I think they think.

I think if you look at the world in those kinds of terms, and you don't have a particular background dealing with Russia, you think that Russia might be helpful on both of these issues. I think when you look at the details it gets far more complicated, as Anders suggested. I don't expect them to have a reverse Kissinger, where somehow we're aligning with Russia against China because I don't think Russia would go for that.

I do think they came into office with this initial intent to improve relations to see if Russia could be useful for them on their two big priorities in the world, particularly on the second one, on counter-terrorism, as it used to be called.

I think you've already seen that the events, particularly of the last 48 hours, and the political pressure they have generated, affect their ability and interest in pursuing that initial intention of improving the relationship. If you look at the press secretary's statements made a couple of days ago where suddenly—Trump has always been tough on Russia—we immediately demand the return of Crimea, I think that's more by way of damage control, but suggests that there's already been a course correction at least because of the politics surrounding this issue, which is very intense right now in the U.S.

The Vice-Chair (Mr. Dean Allison): Thank you very much.

We're going to move over to Madame Laverdière for her round.

[*Translation*]

Ms. Hélène Laverdière: Thank you very much, Mr. Chair.

I thank the witnesses for their presentations.

[*English*]

I'll leave the 30,000-foot altitude and come down to about 10 or 15 feet, just to better understand something in your chart.

There's a last line that is a composite index, which is always above zero, close to one, usually. What's the composite index? Sorry, it's the former sociologist in me who wants to understand.

Mr. Samuel Charap: Absolutely. It's the average of the eight post-Communist countries that joined the EU in 2004, so their scores are average.

Ms. Hélène Laverdière: Okay, thank you.

One thing that also is striking in those charts is Georgia, which really stands out. Would you like to comment on that?

Mr. Samuel Charap: Yes, I think Georgia does represent a partial exception to the region's governance pathologies, and to a certain extent, that is a credit to the early years of the Saakashvili government when a lot of the functions of the state were dramatically improved. You see that in the regulatory quality, control of corruption, and government effectiveness.

What I would say is that on other measures here, like political stability, rule of law, and voice and accountability, Georgia does fall back to at least the top of the pack, but more in line with the rest of the region. I think what you've seen in Georgia is that there's been an improvement in governance, but that democratic institutions remain fragile. Nonetheless, it does demonstrate that, with the right combination of contingent factors, these things can change.

● (1030)

Ms. Hélène Laverdière: I just want to underline that I started in French by thanking you both for your presentations, so here it is in English so that you can hear it.

It's very interesting. We had a witness in the first hour who said that Canada, in particular, has been quite invested in Ukraine, but said, essentially—and I don't want to destroy his words too much—that everything done by the international community hadn't led to good results because of the remaining level of corruption and everything.

Do both of you have any ideas as to the way forward with respect to Ukraine and to international support for Ukraine? What should we be aiming at?

Mr. Anders Aslund: I would be happy to talk on this. I have been deeply involved in the Ukrainian reforms. I've written two books and edited another two about Ukrainian economic reforms throughout the years.

What I would say is that the current reform wave has been enormously impressive. Ukraine achieved macroeconomic stabilization in 1994-95. In 2000, there was sufficient structural reform with deregulation and privatization to get economic growth of 7.5% a year for eight years. What we are seeing now is a massive anti-corruption and stabilization effort.

Let me give you just a few points. First, energy prices have increased for households 11 times. This means that three-quarters of the money from energy subsidies of 8% of GDP was previously given to a few oligarchs. This is gone.

The budget had a lot of money that was straightforward theft. As minister of finance, Natalie Jaresko cut the budget deficit by 8% of GDP in 2015 alone. That was essentially by doing away with corrupt expenditures.

Thirdly, as head of the central bank, Valeria Gontareva has closed almost half of the 180 banks in three years. The banks were, to a considerable extent, corruption machines. They were taking money from depositors and the central bank and giving it to the owners.

Ukraine has now introduced electronic open public procurement on a big scale, which hopefully can save 2% of GDP by more efficient and less corrupt public procurement. In the energy sphere, we have also seen a very substantial improvement of corporate governance, so that a number of top people can no longer divert the money from the state energy companies to their own pockets.

These are just some of the major reforms that have been carried out. Ukraine has done far more to fight corruption than previously. What is missing is judicial reform. The courts are now about to be reformed. We should see a new Supreme Court being formed at the end of March. That would be the start of a judicial reform.

The prosecutor's office has improved, but only somewhat. The police leave much to be desired. Canada is deeply involved in this, so I do not agree at all that this has been a waste. I do, however, think that the investment of western money has been far too small, therefore the western impact has not been sufficient to tip the balance when it comes to judicial reform.

● (1035)

The Vice-Chair (Mr. Dean Allison): Thank you.

We're going to have to move on to the next round.

Mr. Robillard, welcome, and the floor is yours, sir.

Mr. Yves Robillard (Marc-Aurèle-Fortin, Lib.): Thank you.

My question will be for Mr. Aslund.

[*Translation*]

Our very first witness today spoke about a renewal of Hungarian and Slovakian openness toward Russia.

Could you comment on that statement? How could this be beneficial to Russia?

[*English*]

Mr. Anders Aslund: Yes, with regard to Hungary, of course Viktor Orban, the Hungarian prime minister, has very much turned to Mr. Putin. We're seeing that he has changed the constitution in a not very democratic fashion, getting strong party control over all kinds of state institutions, including the media and supreme court. Democracy is in danger in Hungary.

With regard to economic links with Russia, the main thing here is a major nuclear power station that Russian state-owned Rosatom is supposed to build in Hungary with major Russian credit in the order of 10 billion euros. This is quite serious. I would not be so concerned about Slovakia. As evidence of the contrary, Ukraine now imports almost all of its gas from Slovakia, which is contrary to the interest of Gazprom. The current government is basically described as slightly left wing, slightly populist, but I don't see that democracy is in any danger in Slovakia, nor that there are any strong links to Russia.

Mr. Yves Robillard: Thank you.

I will share my time with Mr. Saini.

Mr. Raj Saini: Thank you very much, gentlemen.

I'll get right to the point. I love charts and graphs. Mr. Aslund, you created a graph in last month's *Journal of Democracy* magazine. To me, it seems a bit of a contradiction. I know, Mr. Chair, you also spoke about this. In that graph, you have nine countries; their transparency and freedom is greater than the rest. Within those nine countries, four of them are Visegrad countries, which are tilting towards Russia; and you have the Baltic states and Bulgaria and Romania that also have a pro-Russia tilt. Can you explain to me what the contradiction is? Why are the countries in that whole group that have the greatest freedom, the greatest prosperity, tilting backwards? And I'm not talking in general but as compared to others. Can you explain that graph to me?

Mr. Anders Aslund: Yes, happily so. Basically, this is where they start from. What Viktor Orban has done since 2010 has not been fully reflected there. I would only put Orban as pro-Russian. I would not agree that the other three Visegrad countries are pro-Russian in any regard. In the Czech Republic, you have the president, Milos Zeman, who is clearly pro-Putin, but he has very limited power. The parliament and the government are not tilting to Russia. I've already discussed Slovakia; I don't see that as pro-Russia. In Poland we have currently some tendencies to follow Viktor Orban, and at the same time we have massive popular resistence, so I'm not concerned about that. In Romania, the problem is not pro-Russia. Romania has all along, by tradition, been strongly anti-Russia. Part of it is that Romania is of Latin language origin, and part of it is that under Nicolae Ceausescu, the Russian secret police, the KGB, could not really operate in Romania while the KGB was overwhelmingly inside Bulgaria. In Bulgaria, we have a certain problem. The president is clearly pro-Russia, but he does not have all that much power.

● (1040)

Mr. Raj Saini: You also wrote something else. You wrote, I think, last week or a couple of weeks ago that Russia has now achieved a certain semblance of economic stability. Can you elaborate on that point? For me, with the price of oil down to less than $50 a barrel, and in terms of the ties from the European Union loosening, if you look at even their oil price, the only big deal they've signed recently is with China to provide oil over I don't know how many years at $400 million U.S. How are they going to elevate their economy when the European Union and the Baltics are shifting away? The deals they're making with this Eurasian union are with countries that are also not as strong economically. They may have reached rock bottom or a point where they're not bleeding as much, but how are they going to elevate their economy?

Mr. Anders Aslund: That's an excellent question, and thanks for reading me so carefully. You have it just right.

The point is somewhat surprising, that Putin does not intend to raise the economy; he intends to get his political legitimacy from other sources. All these authoritarian rulers do not really care about economic growth. They care about two things: their own wealth and that they maintain political control.

That's what makes Putin's foreign policy so dangerous: that he wants to extract legitimacy for his rule through small, victorious wars. The Crimean annexation brought forth the ideal policy from the Putin point of view. Did it cost economically? Yes, but not very much. He could afford it.

He's very anxious to repeat low unemployment. Unemployment in Russia, as we speak, is 5.2%, according to credible statistics. He's anxious to get inflation down. It has fallen from 16% to apparently 5.4% in the last two years. These are things that he cares about. He also wants to have big international reserves. They are at $385 billion, one-third of GDP, which is very impressive.

Putin hopes to keep his people quiet not through a higher standard of living, but through just tagging along. It's a very undemocratic attitude, and therefore for us it's rather difficult to understand that he actually tries to operate like that, but the point is that so far he's successful.

Mr. Raj Saini: Thank you.

The Vice-Chair (Mr. Dean Allison): Thank you.

That's all the time we have today.

To our two witnesses, Mr. Charap and Mr. Aslund, thank you very much for being here today.

That's all the order of business we have for today.

The meeting is adjourned.