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Emerging Challenges:
Previewing the G-8 Summit In Russia

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PROCEEDINGS

MR. TALBOTT: Good morning, everybody. I am Strobe Talbott. I want to welcome you to the Brookings Institution. We have a lot of old and good friends and distinguished visitors. I would particularly like to thank Ambassador Gunnar Lund of Sweden for being with us here this morning.

The topic, of course, is the G-8 Summit coming up next week in St. Petersburg, and I thought to get things started I would offer a few points of background and then ask my colleagues to take over.

We fiddled around a little bit with the order in which we would speak this morning because events over the Sea of Japan in the last couple of days have cast a particularly stark light on the issue of nonproliferation, both of nuclear weapons and of ballistic missiles. So after I offer some opening remarks, my colleague Ken Pollack of the Saban Center is going to talk about an issue that is going to certainly loom very large at the G-8, notably including in the bilateral meeting between President Bush and President Putin, and that is the Iran nuclear challenge.

After Ken keys up a couple of points on that, Carlos Pascual will talk a bit about the G-8 in the context of developments both inside Russia, and also with regard to Russia's neighborhood, and that means particularly the country to which he was accredited as Ambassador, and that is Ukraine. And also he will have a bit to say about Georgia which I think is germane particularly because President Saakashvili is here in Washington today.

Cliff Gaddy, who is an expert on the economy, will talk a bit about that issue, particularly in the dimension of energy security. Then Johannes Linn, who is the Executive Director of our new Wolfensohn Center on Development, will talk a little bit about the future of the G-8 and clouds over the institution itself and whether eight is right number to come after the hyphen and the G.

That is our agenda, and we will try to whip around the panel very quickly, have a little bit of exchange among ourselves, perhaps, but then throw it open to you so that you can take the conversation in any direction that you want.

Perhaps by way of background, I might just recall for everybody how the G-8 came to have the number 8 associated with it. Of course, starting back in the 1970s it became a G-7, but it is worth remembering that the G actually stood not just for one word, "group," but for a number of words, it stood for Group of Major Industrialized Democracies. The decision to bring Russia into the G-8 was not just an exercise in wishful thinking. It was an attempt at what might be called a self-fulfilling prophesy, or as an incident for Russia to continue moving in the direction of being a qualified member of a group of major industrialized democracies.

The responsibility for that decision goes back over at least three administrations. I would say it really starts with the first President Bush and his decision along with his colleagues in the G-7 to invite first Mikhail Gorbachev as the last President of the Soviet Union, and then Boris Yeltsin as the first President of a post-Soviet Russia to G-7 meetings. Then President Clinton, of course, along with Tony Blair, Helmut Kohl and others, decided in 1998 to bring Boris Yeltsin, and, therefore, Russia, into the G-8 as a full member.

There was a high degree of continuity between the Clinton Administration and the current Bush Administration in that regard, and in 2002 at the G-8 Summit in Alberta, the group decided to ratchet up, as it were, Russia's membership as an endorsement of the direction in which President Putin was taking that country by agreeing that President Putin would host in Russia this year's G-8 Summit. I would venture the opinion, but it will certainly not be confirmed by anything that you hear coming out of St. Petersburg, that all seven of President Putin's guests in St. Petersburg have some regret over their decision in Alberta to give Russia the chairmanship of the G-8, and they probably also regret some of the fairly effusive language that they used to compliment President Putin on the direction in which he was taking the country as perceived back then. Carlos will come back to that issue, and I suspect will touch upon it in other contexts as well.

While there have been a number of exhortations, including from prominent members of Congress such as John McCain and Tom Lantos either to boycott the G-8 meeting in St. Petersburg entirely or at least to use the contact that President Bush will have with President Putin in St. Petersburg to push very hard on Western and Japanese concerns about Russia's evolution, my guess is that when President Bush and President Putin sit down together for their bilateral meeting, they will spend a great deal of time on Iran rather than on the internal direction of Russia.

Perhaps with that introduction, Ken, you would share with us your thoughts about the current state of and prospects for the United Nations P-5 proposal and how the Iranians are likely to react to it, and if you have any thoughts about how Kim Jong-Il's

reminder that we need to take him seriously at the same time plays into this, we would like to hear that as well.

MR. POLLACK: Thank you, Strobe. Good morning. It is great to be back here.

I think the best place to start on Iran is to make the point that it is absolutely critical to understand right now that the Iranians are finding themselves in the midst of a dilemma, perhaps a minor dilemma at the moment, but what they recognize is potentially a much greater dilemma coming down the road. That dilemma starts with the Bush Administration, and I think it is important for me to say this because I have sat in this chair in this place for many long months being a constant critic of the Bush Administration's Iran policy, and I think it is very important now to point out that the Bush Administration has been handling Iran over the last 6 or 7 months very well, and it is because the administration has been playing its Iran cards very well that the Iranians now find themselves in a dilemma.

The Russians and the Chinese, contrary to many expectations, and in particular the Europeans, have taken the Iranian nuclear issue far more seriously than I think most people were willing to give them credit for. They have been much more willing to move in lock-step with the United States, and that has placed Iran in the bind that it now finds itself in. They are faced not only with the United States trying very hard to show that it is willing to be reasonable as evidenced by Condi Rice's announcement that the U.S. would be willing to meet the Iranians in face-to-face talks, but also by the fact that as a result of this new American diplomatic effort, we now have the Russians, Chinese, Europeans, and Americans all

collectively presenting the Iranians with a package that I think they recognize would be extremely problematic for them, and this is the bind that they face.

They do not want to say yes to the package that was presented by this G-6 grouping, the U.S., Russia, China, Britain, France, Germany, because saying yes would mean giving up their nuclear program, and I think it is pretty clear that they have not taken the decision to give up their nuclear program. They are still trying to figure out how they can keep that nuclear program.

By the same token, they now understand that they cannot say no flat out to that package, because if they say no, I think the Iranians recognize that they are going to drive the Russians and Chinese into the arms of the Americans and Europeans, and they will be faced with potentially some very serious economic sanctions. I think that has been one of the major revelations over the last few months, the willingness of the Russians and the Chinese to actually join the Americans and Europeans in imposing meaningful sanctions on the Iranians.

You are seeing this in Iranian behavior. The formation of the new Foreign Policy Council, the fact that President Ahmadinejad himself was forced to come forward and say that the new proposal, the new package, had some elements which in my way of thinking was probably as difficult for him to accept as Ayatollah Khomeini back in 1988 agreeing to drink the cup of hemlock and agree to a cease-fire with Iraq. It was that degree of difficulty. And the fact that Ahmadinejad has basically been muzzled by the Supreme Leader, by Khomeini, over the last several months, and the fact that the Iranians have not yet come up

with an answer. All of this speaks to the fact that the Iranians understand that they are in a dilemma and are debating heavily internally over exactly what their response should be.

I think the great question is, first, are they going to come up with a response before the G-8 Summit? I do not know. I think that it is going to depend on just how seriously they think the Europeans, the Russians, and the Chinese are about holding them to that mid-July deadline. If they really believe that missing that mid-July deadline will trigger the sanctions that they are trying to avoid, I think that you will see the Iranians at least give part of an answer, and they will try to give only part of an answer and try to string things out.

Overall, I think what you are going to see the Iranians do is to try to string things out for as long as they can, they are going to play for time, both in hopes that they come up with some brilliant solution to this dilemma over the course of time.

Secondly, the longer they can play things out, and here is where North Korea is helpful to them, that the world's attention will refocus elsewhere, that the rest of the world will get to a point come August, come September, where we just care less about Iran, where we are more focused on other problems, and, therefore, the Iranians will be able to give more of a "no" answer.

That said, I think the bottom line is, at the end of the day I do not think you are going to see the Iranians say either yes or no to the proposal. I suspect you are going to see the Iranians say either "yes, and," or "yes, but." They will accept most of the package, but not all of it, or they will accept all of it, but with some conditions of their own. In both cases, what they will be looking to do probably is to split the U.S. from the Europeans, Russians, and

Chinese, and attach some kind of conditions to their acceptance of the deal that it effectively scuppers it. Or accept everything, except they demand a pilot enrichment program which maybe the Russians and Chinese, maybe even the Europeans, will buy off on, although, again, I think we need to be very careful about that. All of the evidence that we hear is that the Europeans are absolutely unanimous in saying no pilot enrichment program for the Iranians. But who knows? If the Iranians actually put it on the table and they say that is the only thing standing between you and us and a final agreement, maybe the Europeans come forward. I think that is what you are likely to get.

Proof-If the Iranians feel pressured to give at least part of an answer before the G-8 Summit, my guess is what you will see them do is give part of that answer, and the part they will probably try to give is the positive parts. They will say we are willing to accept it in principle, but we cannot give you a full answer just yet, we need a little bit more time, hoping that that will be enough to buy off the Russians, Chinese, and Europeans, and then they will deliver the bad half of their answer after the G-8 Summit is over.

MR. TALBOTT: You will have a chance, all of you, to come back at Ken on some of the specifics there, but two things that come to mind listening to his comments, are, first, the importance of China, which, while it is not a member of the G-8, would almost certainly be a member of one of several configurations that I am sure Johannes is going to talk about at the end of our discussion, and it is a member of the Permanent Five in the Security Council, and President Hu Jintao will, of course, be himself a visitor in St. Petersburg which will give him a chance to have consultations on bilateral and other bases with some of the

leaders there on both issues. That is to say, on North Korea, which will be on everybody's minds, and on Iran.

The other thing that occurs to me, Carlos, and maybe this is a segue into your observations, is that while I am sure President Putin does not welcome the fact that he has two countries very close to Russia on the brink of becoming nuclear weapons states, that is, Iran and North Korea, he does welcome the fact that these two simultaneous crises with Iran and North Korea will make his guests less likely to want to concentrate on Russia's internal political direction and how it is behaving in its own neighborhood, and deal with the world in kind of classic geopolitical terms. But in your own view, how serious is the drift towards authoritarianism in Russia?

MR. PASCUAL: I think you are absolutely right to put it in that context, that right now the international community is dealing with this incredible dilemma of how to manage their relations with Russia and the internal dynamics of Russia, and how to manage Russia's relationship to the world and a whole range of other problems, Iran, North Korea and nuclear proliferation, Ukraine, Georgia, how to deal with Kosovo, where Russia has to be a key partner. In the end, the question everybody has to ask is, how do we end up somewhere down the road that helps us advance all of those issues, rather than just one individual question, and that brings the question of whether Russia is drifting into authoritarianism into a particularly sensitive light.

If you ask the question of whether Russia is an authoritarian state, I think the answer is no. If you ask the question whether Russia is a mature democracy, the answer is no, and there has indeed been a general sense that the rule of law has been circumspect.

It is important to put this in a perspective of dynamics. The 1990s were a period where the authoritarian state of the Soviet Union had collapsed, and the rules of that authoritarian state had collapsed. Russia was very much in chaos, and it was inching its way to some form of new order with a heavy emphasis on chaos and some elements of democracy that were injected into that process.

If we can look on the past 6 years, I would say that the principal trend has been one of imposing order and sacrificing some level of political freedom in the name of restoring dignity and predictability, and those two words, dignity and predictability, have loomed very high in the Russian consciousness politically and internally within the country.

From that perspective though, in achieving that there have been some real setbacks. There has been a move toward a new type of one-party state, I would argue, where the main parties are either supported by or inspired by the Kremlin. If you look at the legislature, it has been very much neutered. The Lower House of the Parliament has become much more for opposition parties to get in by the rules that are created for thresholds and percentages of votes. The Upper House of the Parliament has gone from an elected body to an appointed body, as have governors.

If one looks at the court system, and in particular the trial of Mikhail Khodorkovsky, increasingly there is the perspective that on issues that really matter to the

Russian state, the Russian state is not afraid to intervene. The broadcast media has been increasingly centralized. With NGOs, there has been a change in the registration requirements for their laws so that in effect it becomes much easier for the state to actually exercise control over whether NGOs can operate legally. Indeed, there has been a conference over the past few days that focused on NGO issues, and there will be another one next week with NGOs and opposition leaders, where the Russian government has in fact actually expressed a real concern about international participation in those sessions, even if it just means that the international community is viewing this to understand how the opposition leaders and NGOs are viewing the political environment.

If you look at the government itself and the issue of governance, what we have seen is that government officials particularly from the security services are now at the head of state companies, not abandoning their positions in government, but serving in government and being at the head of state companies. I think Cliff might go into this further, but it applies to Gazprom, to Rosneft, the principal oil company, to oil pipelines, to shipping, to airlines, to railroads, to diamonds, to telecommunications, to arms, where you have government officials or Kremlin officials heading up as chairmen of those organizations.

That is not unrelated to Russia's foreign policy where, in effect, the state and now the instruments of the state which accrued those corporations have increasingly been used in the exercise of foreign policy. We have seen that in Ukraine particularly with the cut-off of gas that took place last January, and there is potentially another crisis in the looming where the agreement that was reached in January, at least the price agreement, has technically expired.

Russia has indicated that for the time being it will stick with the old prices, but that whole issue between Ukraine's uncertainty about the creation of a new government, and the uncertainty about the agreement, looms in the environment as something which can in fact be a touch-off point for conflict particularly if NATO begins to make a move that indicates that it will make warmer gestures to Ukraine.

The other country which looms very eminently on the horizon, as Strobe has indicated, is Georgia. It is no accident that President Saakashvili is here in town right now and that there is a desire by the Bush Administration to indicate symbolically that it has concerns about reaffirming Georgia's territorial integrity and providing support for Georgia's territorial integrity.

Georgia has been doing in many ways an outstanding job. If one thinks about where Georgia has come in the last 2 years, achieving 12 to 14 percent growth, despite an extraordinarily complex internal environment, is a remarkable accomplishment. If one looks at surveys of corruption internally within the country, Georgia has gone from being perceived as one of the most corrupt countries and Europe and Central Europe, to in fact now over 90 percent of the population indicating that they have not paid bribes or been asked to pay bribes in the past year. This is a remarkable turnaround.

There are questions that still should be kept on the agenda with Georgia on issues of human rights in the opposition, and those are very actively debated questions. But one of the key issues that is extraordinarily important and is key for the Bush Administration to keep high on the agenda is Abkhazia. This issue of frozen conflicts in the former Soviet

Union, but particularly with Georgia, has been one where Russia has been a meddlesome partner, and for the United States and the G-8 to draw a red line and say that around Georgia and Abkhazia what we need to look toward is peacemaking, not additional conflict, is going to be absolutely key.

Let me just say one or two final words about the G-8. If one were to ask the question right now of whether Russia should be added to the G-8, you would get a fierce debate. If you ask the question, should Russia be kicked out of the G-8, that I think is a different issue, and I would answer it "no." In the end, what we want to do is to actually achieve successful outcomes on policy, on policy related to Russia's domestic internal environment, to Iran, North Korea and nonproliferation, management of issues in the region, in Georgia and Ukraine, et cetera. There is, unfortunately, a tendency that if Russia is feeling like it is being isolated and is pushed to move in a way where it is operating in its own Russian way bolstered by \$70 a barrel oil, Russia will operate in its own Russian way which is not for the international community, it is not good for the United States, and, ironically, it is probably not good for Russia in the long-term as well.

It is a lot easier to actually identify some of the problems. One of the things that we do know is that pushing Russia to an extreme is going to in fact make Russia have a nationalistic response. There are a number of ideas that have been put on the table. Strobe published a piece in The Financial Times the other day that suggested that perhaps the next G-8 meeting should have an agenda of looking back at previous G-8 commitments on politics, democracy, and economics and reviewing those, and understanding what performance has

been. That might be a way to in fact encourage a close look at the internal behavior of all of the G-8 countries so that it is not just a question of isolating Russia.

The kind of agenda that Ken was talking about earlier with Iran and nonproliferation points out that increasingly are dealing with an environment of transnational threats that one country alone cannot handle, and, hence, it would be logical for the G-8 leaders to step back and say in the changed environment that we have right now, How should we organize the international community to deal with these kinds of transnational threats? Again, an opportunity to have introspection on internal governance and international governance that can be a useful influence on Russia's political dynamic.

What it points to is something that is important for these G-8 meetings, to think of them as successful not if they come up with particular results and outcomes on issues like energy security, because, frankly, I do not think they can come up with a successful outcome on energy security, and it better not to paper over the differences. I think a successful outcome would be to say that we agree that there are major problems in the world, these problems are increasingly transnational, increasingly they require transparency in the way that governments operate and treat their people, in transparency in the way that businesses operate, and we are giving the mandate to the next G-8 meeting to provide great scrutiny on how we can move forward on these tough international problems.

If that can be the outcome of this G-8 session, I think it is much, much preferable than a G-8 session that pretends to succeed on problems that surely cannot be resolved in the complex environment that are dealing with right now.

MR. TALBOTT: Thank you, Carlos. Cliff, I think a couple of things that Carlos has said tee up some questions for you, one with regard to energy. I was struck when I was last in Russia at the prevalence of the phrase, the bumper stickers, the slogan, "Energy Superpower." That is kind of the way they are defining themselves. You and other colleagues have done a lot of work on that issue and have addressed the question of whether Russia's immense natural resources are an unmitigated blessing, or if they have to some extent provided an excuse for not modernizing the economy. Against that backdrop, a lot of Russia's economic performance has been pretty strong. They have been pretty much eliminating debt, the economy has been growing, they have fairly sound macroeconomic and fiscal policies, and that goes to the question of their eligibility for the G-8 as well. Would you like to comment on either of those?

MR. GADDY: This is what I first want to comment on, and with all due respect to the idea of having on the agenda for the next or another G-8 to examine everybody's internal affairs, I just do not think you will be fooling anybody. Of course it will be about Russia. The Russians will recognize that, and in that respect, I agree completely with Carlos that it is counterproductive. I do not think we have a way out of that, and direct criticism or even certain veiled approaches towards Russia leave us with this dilemma.

I do not want to jump the gun on what Johannes has to say. I am very eager to hear what he has to say. I think that the G-8 in its current form is unworkable and it has really outlived its usefulness. As I think we agree, the initial decision to include Russia in retrospect was a mistake. Probably all the participants, all the countries, should informally at least

collectively apologize to themselves and to the rest of the world for having done it. They will not do it formally and should not formally, it should be something like Johannes will present to us about saying we need to move forward as the new world.

By all objective measures, the size of Russia's economy and its performance, I do not think it is completely out of the question that Russia might be in the G-8, and it certainly would be in a somewhat expanded group of leading economies in the world. It is a very large economy, and it has been doing quite well and quite responsibly recently, as Strobe pointed out.

I would like to point out the difference in Russia 6 years ago when Mr. Putin was about to come into power or was in his first tenure as Prime Minister in the second half of 1999, and today in terms of Russia's economic status, and, therefore, the leverage that the outside world might have if it deems it necessary to have leverage over Russia. We just have to remind ourselves of this.

At that time, in the fall of 1999, this was a year after the financial crisis of August 1998, Russia's foreign currency reserves were about \$6.6 billion, the lowest they had been in the 1990s. At the same time, it had debt to the IMF of \$16.8 billion. It was technically bankrupt. Of course, there was massive debt to other lenders, but to the IMF, that is very meaningful. It essentially means with that sort of a balance between your own resources and your debt to the IMF, you are subject to dictates from that institution.

Today Russia has around \$250 billion in foreign currency reserves, and another \$70 billion in its Oil Stabilization Fund. It has absolutely no debt whatsoever to the IMF. In

fact, on January 31, 2005, it paid off all of its IMF debt 3-1/2 years in advance. Russia has over \$300 billion in its assets, the IMF's total lendable resources right now are \$233 billion, so the tables have quite decisively been turned, and that is more than just symbolic.

It has been an obsession with Mr. Putin since he came in to reduce this leverage that the outside world had over Russia, and I think we see a little bit of this going on now. It has both reduced the leverage, and made Russia, given Russia, the essential trappings, if you like, of a real decisive economic power. The announcement recently for the convertibility of the ruble, in other words, make the ruble not a second-class currency, but a fully legitimate currency that could be used as reserves by the rest of the world, as well as paying down the Paris Club debt, these are the kinds of things Russia is doing.

There is very little leverage that the West has over Russia, and that is part of the dilemma. The West seems to want to influence Russia and there is very little we can do about it, and it is not clear that using membership as a leverage in the G-8 would, as I say, be productive.

Let me just briefly talk about this notion of energy, the energy superpower, and energy security. It was Russia itself, Mr. Putin himself, who wanted to put energy security high up on the agenda of the St. Petersburg Summit. This probably is another indication of the unsuitability of the G-8 as the kind of forum or the kind of constellation of states that one would need right now to address such a vital and important issue as energy security. Russia, of course, has a very different approach, naturally, to energy security than the rest of the G-8, who are mainly consumer nations, because Russia is primarily a producer nation. Yet, an energy

security dialogue would presumably include all of the major consumers and the major producers. The G-8 as it now is includes neither. We are lacking some of the major consumers, China and India, and we are also lacking the major producers. Russia is not representative and should not be representing the energy producers in a dialogue of this sort.

Russia, at least as far as oil is concerned, and I think oil is still the predominant energy commodity that we are concerned about globally, does not have market power. OPEC has market power, Russia does not have it. Russia in fact is free-riding on OPEC's market power. And even as a simple producer or supplier of energy, I think Russia's credentials are somewhat questionable. Its production rates right now both for oil and gas are either flat or very near flat, its reserve replacement rates are quite poor, and, of course, its reliability as a supplier has been put in question thanks to its behavior and Ukraine's behavior during the crisis at the beginning of this year. Again, this suggests to me that the G-8 even with respect to such a vitally important issue as energy security is not the place, and it would be well to use this current meeting of the G-8 to talk about what might be a suitable constellation of nations to deal with this and other questions.

MR. TALBOTT: Thank you. Johannes, I think you have at least the whole panel that has teed you up here. If the G-8 has either outlived its usefulness or is based on an mistaken premise, what should take its place?

MR. LINN: Thanks, Strobe. You and the panel have given me a good tee-up here, as you said.

Let me step back and start where you started which is a bit of history, very briefly. The G-7 and the origin of the G-8 was in the Cold War period where you had a club of industrial democracies, as you called it, getting together and trying to deal with initially actually a lot of issues, internal imbalances that they tried to address in meeting with each other, but also, importantly, the external challenge, in particular, of course, the Soviet Union.

What has changed since the end of the Cold War is that you do not have any more of the simple East-West divide, and in a sense, the external challenge has transformed into a much more complex, maybe not less dangerous, or more dangerous, situation. We do not have certainly the East-West divide in the narrow sense anymore.

As we have heard, it is not clear that it is still a club of democracies, and you can argue about the democratic aspects of Russia one way or another, but certainly if you have Russia in there, why not also some other countries that are not clearly democracies? As we have heard, in a sense, the incentive mechanism that originally was thought to be of interest here, namely, bringing Russia in to help it along the way towards increased and deepened democracy, from what we have heard has not worked.

Finally, and from my perspective most importantly, the world has dramatically changed. The G-7/G-8 was never preponderant in terms of population, it only has about a fifth of the world's population, but increasingly of course in economic terms it is now being diminished in relative terms because you have the rapidly growing emerging market economies, China, India, Brazil, Mexico, and so on, which means that in 20, 30 or maybe 40 years on the out side from now even the U.S. is not likely to be the largest economy in the

world anymore. While 40 years may seem a long time, it is actually if you look back for a moment not all that long into the future. Even today, China on purchasing power parity measures already the second-largest economy in the world and is the fifth largest in current currency terms, and, of course, rapidly catching up.

And very importantly, and we have heard already the first example for this very clearly and convincingly from my predecessor speaker, it simply is not any more a forum where major global issues can be addressed. The problem in a sense for the G-8 is that it has set itself up as a quasi-steering group for the world, but it cannot effectively and cannot legitimately deal with many of the key issues.

We have already heard about the energy security issue, and all the arguments that I would have made were already made by Cliff. If you add the current big issues that we have already heard a bit about, Iran and North Korea in terms of nonproliferation, again, how far can you go in resolving or addressing this issue without China at the table? So the discussions in St. Petersburg in the closed and decisive forums of the G-8 is, for all practices, not going to be able to address this particular set of issues seriously.

Similarly, another issue that is on the agenda for St. Petersburg, are epidemic threats, to extend Avian flu, HIV/AIDS, are to be addressed. It would have to include China, it would have to include, of course, African representation, and it would have to include India. Again, you cannot deal with many of these issues that are on the table already effectively.

Then, of course, there are important issues that are not on the table reflecting in part, one might argue, the irrelevance of the G-8 to key issues. Financial imbalances are not

being discussed for all we know, at least not in a serious way, and could not be. Interestingly, the IMF's Managing Director recently set up what I might call a G-5 which excludes Russia, and which includes the U.S., Japan, the Euro Zone, Saudi Arabia, and China, to try and get together regularly and discuss the international financial and fiscal imbalances.

With the WTO we are facing a huge crisis. Of course, it is not on the agenda, again, because the key players who are actually behind in a way the crisis, or at least some of the key players, are not at the table. India is not there, China is not there, and many of the developing countries are not there.

Finally, long-term environmental issues are not effectively addressed. There is a G-8 Plus Five Forum in which environmental issues can and are being addressed, but the G-8 narrowly defined obviously excluding countries like India and China cannot be the forum to address, let alone resolve, those issues.

What are the options looking forward? From my perspective, the worst of options would be to continue on the current trend which I see as a growing irrelevance, ineffectiveness, and lack of legitimacy of the G-8 as it is currently constituted.

What are the options in terms of alternatives? One option would be, and was maybe a bit on the table in what we heard, let's go back to the original idea, a club of democracies. Let's perhaps exclude Russia, as sometimes on the Hill is being addressed. In that case, if it is to be a club of democracies, make that the main focus, but do not then hope that you can address a number of the other very important global issues that we have talked about, whether it is energy security, epidemic threats, or financial imbalances, because you do

not have the right people at the table. Maybe you can address how you can spread democracy to the rest of the world, but you certainly will not address some of these key global issues.

From my perspective, it is the other way you need to go, that you need to be more inclusive, you need to amplify. To some extent that is already being done because you actually have what is called the Outreach Program which the G-8 has engaged in, and it has invited, for example, China, India, and South Africa to regularly attend as sort of participants, but as the Russian Sherpa made very clear when he was asked recently, but they are not in the room when it matters, they are not part of formulating any of the final decisions, they are shown, it was made very clear, that they are not really at the table. And it was very obvious to all the participants that these other nonmember countries, so to speak, or nonmembers of the G-8, are not really serious players at the discussions.

From my perspective, the need would be to amplify or to bring in some of them at least, and then there are many options. You can go for the smaller group, including China, India and Brazil. It leaves out Africa, it leaves out the Middle East, it leaves out major oil producers, and, of course, energy producers, so that probably is not going to be good enough. You could include Brazil, Mexico and South Africa which would add a bit. We have recommended this and looked at this in some detail, you could in fact go to what we call the G-20. This is a group that already meets regularly at the level of Finance Minister and actually has been quite successful, and you could just bump this one up. You would actually capture 90 percent of the world economy, you would capture about two-thirds of the world's population, and you would actually catch just about all the issues and the major players that matter.

Getting together in a group of 20, which is large but not unmanageably large, I believe, might actually be the route forward.

Will something happen quickly? Probably not. I think the resistance among the key players in the G-8 is such, and we have seen this very clearly when we have discussed this issue with the Russians, they simply did not want to even consider amplifying the current framework. And it is true for others. I do not have much hope, frankly, for the Germans wanting to open up, and I certainly under this Administration do not have much hope that this Administration will bite seriously into this bullet of amplifying the G-8.

However, 5 years from now I cannot possibly see how a G-8 would still be relevant, still be reasonably effective, in addressing some of the issues that obviously we have to deal with. So I am to some extent I am at least hopeful that realism will prevail and that within the next 3 to 5 years there will be a serious adjustment in the membership, and I would say increasing whether up to 20 or whether keeping it at 11 or somewhere remains to be seen, but that to me is where the future lies. Thank you.

MR. TALBOTT: Thank you. Let's go the group, and please raise your hand and somebody will bring you a microphone. Here comes one. If you would be kind enough to identify yourself, and if you want to specify one of the panelists, by all means do so.

MR. CONDON: George Condon with Copley News Service. Two questions about President Bush's participation in the summit. First, the word you have not mentioned, Iraq. How does the continuing Iraq war affect the President's position at the summit, his leadership?

Secondly, if I could ask anybody to elaborate on Strobe's comment earlier that the Korea and Iraq situations being welcomed by President Putin. We are told that the President no longer sees a democrat when he looks at President Putin's soul and wanted to push him at this summit on some of the internal developments. Can we not do that now because he needs his help on Korea or Iran?

MR. TALBOTT: I think one reason Ken was delighted to participate this morning is because he thought maybe Iraq would not be mentioned, but since he is living and breathing that subject, perhaps he will take a crack at that and then one of the others will take a crack at the other.

MR. POLLACK: I would say that I do not think that President Bush is in any weaker position today because of Iraq than he has been for the past 2 years, which may actually be good news for the Bush Administration.

The administration is in a weak position overall because of Iraq. It is in a weak position strategically, it is in a weak position domestically politically because of Iraq. But I think to a certain extent there has been a certain amount of discounting going on. He has been in that position for at least the last 2 years and I think that people now recognize it. I do not think that there is an expectation going into this summit on anyone's part that he is going to noticeably be weakened or strengthened on Iraq over the course of the next year, although as an Iraq expert, I would actually disagree with that. I think that he probably will be either weakened or strengthened over the course of the next year on Iraq. I think that we are going to see something decisive happen in Iraq. We are either going to start things around, or we are

going to see things really start to slide very quickly in Iraq over the course of the next 6 to 12 months. But my sense internationally is that everyone now realizes that the United States is in this weakened position, accepts it and sees it as part of the current if only temporary political landscape, and they are certainly taking that into account. But, again, I do not think that there are necessarily expectations internationally that I as an Iraq expert share which is that something is going to radically change in the near-term future, and, therefore, they are going to treat the President differently because of that.

MR. TALBOTT: You might just stay with this for one second, though, and tie it to Iran in the following respect, Ken. A number of us who have been to Russia recently have heard authoritative Russians say that Iraq looms large in their own thinking not just about Iraq where their basic message to the United States is we told you so, but it relates also to their concerns about how to handle Iran and North Korea. I suspect that when President Bush and others push President Putin with a combination of carrots and sticks to deal with both Iran and with North Korea, there will be heightened skepticism on the part of the Russians, and, I might add, perhaps the Chinese as well, about whether it is not the sticks that we the United States are really interested in. They see history repeating itself still, and they are not totally convinced that the United States has made a clean break, as it were, between the way it approached Iraq and the way it intends to approach Iran and North Korea in the future. Do you have anything on that?

MR. POLLACK: I would agree with that. I think it is an important point to make in terms of we did have this colossal intelligence on Iraq and weapons of mass

destruction. We also had a colossal diplomatic failure in the run-up to the war in Iraq, and I think a lot of people in the immediate aftermath of the war were debating what the impact of that was going to be, with some people saying this is terrible and it is going to hurt us forever, and other people saying, no, really it is not that big a deal. I actually think that this is one of the instances where we are seeing the negative impact of Iraq, of both the intelligence failure where you do have people saying why should we believe you on Iran, given how wrong you were on Iraq? Again, we do not have time for it, but I think a case can be made that it is fundamentally different between Iraq and Iran, but superficially it looks the same.

In addition, the diplomatic failure which is really what you are getting at, Strobe, I think is really looming large here, that there is a predisposition to assume that the Bush Administration is not sincere when it says that it is looking for a diplomatic solution to the crisis of Iran, and, therefore, the administration is having to go much further to prove to the rest of the world that it really is sincere and take additional action to reassure President Putin, I think to reassure the Chinese, to reassure a number of other countries, that we are not just looking to replicate what we did in Iraq which is go through the Security Council in a snap, dismiss that, say we tried diplomacy and that did not work, and now let's get on to the war.

MR. TALBOTT: Carlos, on the Bush-Putin relationship?

MR. PASCUAL: I think it is important to think about how much and how far President Bush can push and how he pushes in the context of thinking about checks and balances internally and externally within Russia. Part of the difficulty has been those checks

and balances that you would normally want to see internally within a country and externally have been pretty eliminated.

I discussed earlier how President Putin has very much systematically dismantled many of the internal checks and balances with political parties, the Parliament, the courts, the way the economy is managed. Externally what has happened has been a tragedy of policy in the U.S. and in Europe. With the United States, it was essentially after 9/11 a competition to get Russia and President Putin on our side in the fight against terrorism. So while all of these things were in the process of happening, while all these negative internal developments were happening, we were not raising them in any significant and credible way.

With Europe, there was very much a competition on the part of France and Germany to get President Putin on their side to stand against the United States on Iraq. So what traditionally had been the international balancing factors on Russia externally between the United States and Europe, simply we were silent during the period where most of these negative developments were actually taking place.

If you put it in that context then and you add Cliff's analysis of \$70 a barrel oil, the fact that much of the external financial leverage has been removed, and you ask the question can President Bush push on President Putin on internal domestic issues, the answer is, yes, he can push, but is he going to have an impact? Probably not. And what does it tell you also about how to do that?

I think one of the things it suggests is that the more that it is done in a broad public forum, the more negative it is going to be because it simply offers an opportunity for

grandstanding on both sides and a nationalistic Russian response which could actually be more negative.

I do personally believe that President Bush has to be very clear about the issues that we are concerned about and that we care about, such as Georgia, Ukraine, energy security, and, in fact, be very clear about issues that concern us such as Russia's behavior in the frozen conflicts in Abkhazia, but these things need to be done very much in private discussions.

The other thing that I would add is that it adds to the importance of the other bilateral meetings that will take place, because if it is only the United States that is raising these issues and concerns about Russia's democracy, about its behavior in its neighborhood, the Russian reaction will be it is really just the U.S. and President Bush who is concerned about this, it is an American problem, it is not really an international problem.

Hence, I would add one footnote to this question of the G-8. I completely agree that the G-8 has reached a point where it needs to evolve to something else. I think that it will be difficult to get consensus on what that something else is. We would be worse off to abandon the G-8 and the fact that we have these leaders meet at least once a year, and, frankly, that we are having a debate like this and we are having a discussion about what should be raised, and we are having a discussion about what should happen in the bilateral meetings, because I think all of those sessions are important in maintaining some semblance of checks and balances on how the international community is operating.

The final point I would make is that the international media and its coverage of these issues is especially key, because the media does have an opportunity to point out the

faults, the shortcomings, and that is an important contribution. We should not gloss over them, and, in fact in these cases, identifying the faults and the shortcomings I think is a real contribution to the development of international politics.

MR. LINN: May I add just briefly one point to this? I think the U.S. and Mr. Bush also face a problem now in St. Petersburg because, of course, Mr. Nazerbayev will be there as a special guest also, and having recently had the Vice President on one hand chide the Russians for lack of democracy and then immediately after was going and praising in effect the Kazakhs is, of course, a bit of a difficulty here. I think it will play out and it will be interesting to see what the press will ask Mr. Bush how he has in fact confronted these two players in terms of their democratic credentials.

MR. TALBOTT: This lady right over here.

MS. WINDSOR: Jennifer Windsor from Freedom House. I am going to perhaps take us on a slightly more hard-edged discussion in terms of democracy. With all due respect to Carlos, I do not think that Russia is a democracy. It has an elected government, that is for sure. It has more freedoms than it did in the Soviet Union. But when I think you are talking about security agencies dominating the economy and the political life, there are very clear restrictions when you move to certain political topics in terms of the media, in terms of coverage of Chechnya or any of the other critical issues facing Russia, the legal system, we talked about predictability. The predictability is when Putin and the powers within Russia believe that somebody has crossed the political line in terms of their activities, then the legal system will get into gear.

I think the predictability related to the economy has also been eroded, and that has, of course, affected a number of foreign investors within the country, so I think you have really seen Russia actually moving. I don't think it's Uzbekistan, and I don't think it's North Korean, but let's be clear that it is really not a type of democracy anymore unless you just say elections where you have basically eliminated the opposition meet the democratic criteria, and none of us in the democracy business believe that.

I think it is a relatively liberal authoritarian regime that has allowed certain freedoms to exist. Having just come back from Russia myself, we went to try to discuss with people in the Kremlin, the civil society/human rights groups, political parties, what the state of democracy is, what their sense of our own assessment of Russian democracy is, we did not hear a lot of disagreement on our evaluations. What we heard disagreement from was whether it was actually important that Russia had slid. That in fact I think shows how extensive the Kremlin public relations effort is, and it is quite amazing. But I still think that there are Russians that if you talk about rule of law, about corruption, about the basic foundations of democracy, you would find some support.

I think that it would be a very, very bad decision for the Bush Administration not to go to the other Russia Conference, or to be scared off from doing so, and I would certainly hope that other European countries would send representatives to meet with civil society and democratic opposition. This country during the first Bush Administration, the Clinton Administration, and this administration has systematically reached its hand out to civil society and peaceful political opposition. If we decide we are going to now shun them because

the Kremlin says that we cannot, then we have to think about really our moral responsibility which I think is really real for those people. They are facing real setbacks right now.

In terms of the fate of the G-8, let's just drop the democratic criteria then. That is what they should do now. It is not a club of democracies; it is not pretending to be, so let's just drop the democratic criteria. That would be an important signal I think that this is really not about having internal political conditions.

But I might also add that this administration agreed that Russia should not be dropped from the Community of Democracies which supposed to be that club of democracies. So even in a relatively supposedly pure democratic community, we still do not have the guts to kick Russia out. Thank you.

MR. TALBOTT: I think I am going to give Carlos the right of first reply because you invoked his name, but I might have a thought or two of my own to add after Carlos speaks.

MR. PASCUAL: I agree with a great deal of what you said, and I hope that nobody took my comment that I was saying that Russia is a democracy. I said that it is not an authoritarian state; I said that it is not a mature democracy. I think it is somewhere in between. I do not have a good label. Whether liberal authoritarian is a meaningful term, I do not know. It is certainly something in between, and Russia has given itself a label, a managed democracy. I think most people who have looked at that term have focused on the word "managed" as opposed to democracy, but it does not give us a very good label for what it is.

I think that there definitely has been a backsliding, and what concerns me about Russia and the dilemma that you get is if you compare the absolutes of where Russia is today versus where it may have been in the 1990s, or where it was in the 1980s, there are certainly aspects of that society that are a lot better, and for the United States and for the international community, today's Russia is better than it was.

Is it going in the right direction? The answer is, no. Should that concern the international community? I think the answer should be, yes. In fact, the message that is being sent is that you develop your political and economic system in a way that is controlled from the center, that is not a particularly helpful example and one which I think over time will demonstrate that it will produce results that are not good for Russia and not good for the international community.

Cliff can speak to this a lot better than I can, but certainly what we have seen is that state-managed economies, particularly in key sectors that are operating on the basis of political interests and not economic interests in the long-term, are not a strong foundation for in fact actually supporting political and economic growth.

The dilemma that arises is that in the end, Russia is going to do what Russians decide they want to with Russia. They are going to define this from the inside. In that sense, I completely agree with your point on the other Russia Conference that is going to take place next week. We have seen statements from the Kremlin and others indicating that they will consider it a sign of agreement almost if other countries from the international community participate in that session. I think that is absolutely wrong, because it starts to indicate and it

reinforces the paranoia that Russia has about the development of a civil society that is in fact trying to voice its concerns about how the country and the society should be governed. That is something that simply has to be reversed over time if Russia is going to develop as a modern state because what we have seen around the world is only in those circumstances when people are given an opportunity to influence their governance and influence their communities can in fact you have meaningful development both economically and politically.

So I would strong encourage as well that the international community send representatives to that conference. I would also strongly encourage that the principal voices come from Russians, that the role of the international community should be to listen, to watch, to indicate that we have a concern, and that we recognize and affirm that it is up Russians to define the course of their country.

MR. TALBOTT: If you don't mind, I would like to add a thought here, and I am going to start off in a slightly melancholy key. We should, of course, listen to Russian voices, but we are not often going to like what we hear from Russian voices.

Part of the dilemma that you alluded to and that Carlos just referred to is that Putinism is popular. I am going to make an assertion now that is kind a counterfactual or a hypothetical, but even if Putin were to have permitted the kind of much more open political debate and truly contested elections and open media and that kind of thing, he probably still would be President of Russia. So there is an issue of political culture here, and I think Carlos's use of the word "mature," while it could have a patronizing ring to some people, is accurate,

that it needs to mature a lot more before Russia is going to have a political culture that we recognize as truly pluralistic.

I think you are very right to have put an emphasis in this conversation that was not—

(tape interruption)

MR. TALBOTT: (In progress) — on rule of law. One of my concerns about what has happened in the last couple of years is what could be called either the KGBization of corruption or the corruption of the KGB. The KGB as such does not exist anymore, but believe me, it exists, and that is a new and disturbing I think in the equation. It goes to the rule-of-law issue as an international norm, and part of the purpose of the G-8 is to convince Russian leaders that it is in their interests as they try to develop their country to integrate into an international community which has rules and norms. Self-isolation is not an option for them any more than our isolating them is an option for us. They are going to be out there in the world, and if these highly corrupt, very powerful people had to worry about whether they could get marina berths for their big yachts in the Mediterranean and whether they could ski in Gstaad without having to worry about Swiss tax police arresting them at their lift lines, that might begin to get the message through to them.

The last point has to do with my strong endorsement of your view that officially and unofficially, track one and track two, we should do everything we can to support these civil society groups and NGO groups. I am not as prepared as some of my colleagues to declare the G-8 dead or deserving of death because it does have another year with Chancellor

Merkel in the chair, and Chancellor Merkel knows Russia and she knows the Soviet Union and she knows the communist system. She grew up with all of those, and when she made her first trip to Russia as Chancellor, she made a point over President Putin's objections of going to the German Ambassador's residence and meeting with genuine reformers and democrats and NGO leaders, setting a very good example for other leaders, and I think we should give her a chance to see what she can do with the G-8 next year when she is the host in Heiligendamm and controls the agenda, and I just hope that the German political establishment, her coalition partners and German business interests who are primarily concerned about Russian oil and gas, and particularly gas, give her the political room to use the influence that I think she will have in the chair next year.

MR. CRUTSINGER: Marty Crutsinger with the Associated Press. On the political issues of North Korea, Iran, the Israeli-Palestinian conflict, do any of you expect to see anything out of this G-8 on those issues? Also, on the other issues, especially the energy issue, in that communiqué is there anything that we should look for? Will be any significant development along the lines of energy or health or any of those things that we should be looking for?

MR. : The Israeli-Palestinian is the easiest, and I do not think you will see anything. You will see a general statement hoping that someone will do something to make the situation better. But I think the Bush Administration would obviously block anything that would be condemnatory of Israel, and I think that others there would block anything that would be condemnatory of the Palestinians.

The honest answer is that since none of them wants to take on the issue and make it their own, none of them really has a basis to do much criticizing. It is a mess there, it is a mess on both sides, and it would require someone to actually be willing to do something constructive before anyone would be willing to listen to criticism. So I think you are going to see a nod to the fact that this is terrible and it would be wonderful if someone did something about it.

On Iran, again, I think it will depend on whether or not you have any kind of an Iranian response prior to the G-8. You may get some kind of a preliminary statement from the G-8 in terms of if the Iranians give only a partial answer, or a warning that they really better come up with a good final answer, but even there it is going to be hard. As Strobe was making the point, China is not there, and the proper venue for dealing with Iran right now has been in the P-5 Plus One. The P-5 Plus One is not the G-8, and I think that the G-8, again, may give some hinting because Hu Jintao will be there. You may see some hinting of where they are going to go, but I think that that is about the best you are going to get from the G-8 on Iran other than general blandishments that Iran needs to take the views of the international community seriously, that nonproliferation is a major issue, and that they are determined to see that the norms of nonproliferation are respected.

MR. CRUTSINGER: And North Korea?

MR. TALBOTT: I would expect a similarly virtuous and anodyne statement with regard to North Korea, nothing that hints at actual concrete measures. There is already in the papers today evidence of disagreement.

MR. LINN: On energy and health and education and all the other agenda items, I was asked in St. Petersburg in January what I thought about the outcome, and I had to be to the shock of my hosts negative about it, and I still am negative, unfortunately, today. I do not think much if anything will be pointing towards serious decisions.

MR. TALBOTT: Partly because on the energy security, the Russians have not yet accepted a kind of win-win concept of security. They still tend to think of their security as something that is going to—to some extent—come at the expense of others, and this particularly is with regard to their neighbors who are former republics of the USSR. As long as that is there as a kind of conceptual stumbling block and the meaning of the very word itself, it is going to be very hard to define security in general, or energy security in particular, in a way that everybody can sign on to.

MS. NORTON: My name is Amy Norton, I am with the Woodrow Wilson Center, and I am a student at—University. This is more about U.S.-Russia relations than it is about the G-8 as it relates to North Korea.

I was reading this morning that Russia and China as Permanent Security Council members seem pretty unlikely to get behind a resolution that invokes sanctions on North Korea for its missile testing. As such, is that even going to be alluded to at the summit? If not then, how do you think the U.S. and Russia are going to fight that out as far as what to do with North Korea? I just want any of your perspectives on that.

MR. PASCUAL: One of the things that Russia has always responded against is the conduct of its foreign policy in the way that it acts at the United Nations against the

administration of sanctions. In part, it is has been an issue for Russia because it sets a precedent of what can occur if a country is seen as violating certain international norms.

It has been an issue of particular sensitivity on issues that have come up even where Russia has agreed, such as the new norm of the responsibility to protect individuals who have been in conflict zones and areas because of how something that like might be applied to Chechnya, for example. So Russia's general reaction is simply going to be that sanctions are not somewhere we want to go, and China has had a similar response.

That it is why it is so significant that in the management of policy on Iran, that in fact all of the countries have begun to indicate that if a legitimate offer is made to Iran to provide them with an opportunity for peaceful nuclear and Iran rejects that, that they are willing to now begin going down that road to sanctions. Whether that creates a precedent on North Korea or not is still unclear. There are different sets of circumstances and issues that apply. There is another key party that has to be brought into this as well which is Israel, and they are going to play similarly in this equation.

You will have to get all the parties to hold hands and agree to jump forward together, because the incentive is that if one other party is not going to go on, if you have an economic incentive, you do not want to be held back because somebody else is in fact not going to honor those sanctions.

So I think that the issue that you will see played out in North Korea in the context of the G-8 is to have some statement, anodyne as it might be, that does not exclude the possibility of sanctions that keeps open the door to a tougher line, building on what has already

been achieved on Iran, but by no means is there going to be enough time between now and the time of the actual statements to actually get consensus on what those statements would be. The objective is going to be to try to say something that puts out a position that says go back to the Six-Party Talks, stop your meddling in a way that is threatening the international community with the launch of missiles, and leave the door open then for further work in the context of those key five countries involved in the Six-Party Talks to come up with a more robust set of options that they can put on the table.

MR. MITCHELL: Gary Mitchell from The Mitchell Report. I want to try to frame a question that is arguably not right on point for this panel but which this discussion really generates from my perspective, and it has to do with the discussion this morning about whether there is a role for the G-8 and whether it ought to exist or whether it ought to go out of business. To do that, I want to introduce two terms that are used quite often in the corporate realm, the not-for-profit corporate realm, the for-profit corporate realm, the first of which is a value proposition, and the second is gap analysis.

The first question is whether it is possible to define first for the G-8 what its value proposition is. Second, and this is the part that arguably is not part of today's discussion, but as we look at a range of multilateral organizations, whether it is NATO or G-8 or the U.N. or whoever you want to put in that realm, it would be interesting to look at how one would describe the value propositions of those organizations, what is the value that they bring to the equation, what is lost if they are not there.

That brings me to the second of the two terms, from value proposition to move to gap analysis, which is, if you took a look at those ranges of multilateral institutions and their value propositions, in the ideal world you might say where are the gaps? What aren't we covering? What multilateral or multinational kind of organization ought to come into existence to cover the gap or gaps that exist today? So if you will permit that long and turgid question.

MR. TALBOTT: I think that goes to the heart of what you and your colleagues are working on, Johannes.

MR. LINN: It is a big question, and a long answer could be given, but let me very brief. First of all, we did have a 2-day conference that broadly covered a number of the international organizations on May 4 and 5, and you may want to go onto the website and take a look at the transcript because there was quite a lively discussion around some of the issues you raise.

But just focusing on the value and the gap, if you wish, for the G-8 at the summit level, from our perspective, from my perspective and my co-author's perspective Colin Bradford, the gap is sort of at the apex. You do not have an apex forum or institution, and the two are to some extent different in their function, but you do not have a forum and an institution that actually can effectively provide guidance in a credible and legitimate way to the many other international global organizations that are around.

Should we have one? Immediately there is the question of should we have global government and so on, and some people might object to that, but the point is, in the absence of some apex that at least can debate and review and in some areas where agreement

can be reached, can send clear signals to some of the other organizations that are actually charged with implementing and financing interventions, you would not get an orderly process. And this is where I currently see the gap, you will not have the key players at the table discuss key issues that are confronting us daily now as we just discussed this morning.

That is where the gap is, and the value added is to actually provide a forum where the key players can exchange views, influence each other, and hopefully gradually either through a decision or at least through increased understanding move the agenda forward.

MR. HARA: Toshio Hara from the Asahi Shimbun Japanese newspaper with two questions.

One is, could you comment on the internal dynamics within the Bush Administration, and do you see sort of shift of emphasis, shall I say, between Vice President Cheney's speech back in May, and a couple of developments in the past few weeks, for example, President Bush's drop of his itinerary on Ukrainian—and not referring to the democratization in the former Soviet republic in his speech in Budapest?

The second question is about expansion. Don't you think you would face the similar difficulty you are facing with the U.N. Security Council's expansion because of each member's interests? For example, for the Japanese, the G-8 is the only sort of remaining set open without China's presence, and I would see a disinclination to include China for the G-8 so that it is sort of a rebirth of the U.N. Security Council expansion vetoes by China. Could you comment on those two?

MR. TALBOTT: As the person most recently in the Bush Administration, Carlos, do you want to say anything about the internal dynamics? Several of us probably have views.

MR. PASCUAL: I always used to say I am a Foreign Service officer; I am not part of any administration.

(Laughter.)

MR. PASCUAL: On Vice President Cheney's speech, I think it has now been pretty well documented in a lot of the press and a lot of us have heard this from friends and contacts and so forth, I do not think it was a huge surprise that it was specifically intended to in effect inoculate the President to put out a tough line on the part of the Bush Administration that they are concerned about Russia's democracy and its treatment of its neighbors.

It has been a controversial speech for a number of reasons. Number one was where he went right afterwards and whether or not there was credibility in the statement. Number two was whether or not it achieved anything effective in Russia. And number three, whether it did anything useful for President Bush and Russia, because, if in fact the Vice President is saying that there is a major setback on the part of Russia's democracy and President Bush then does not address it and recognize it, then that in fact actually highlights the gap even further.

My sense is that it was a speech that was calculated for a particular purpose and with a strategy in mind. I think it was not an effective strategy and one that probably has backfired on the administration.

I would not give particular meaning to President Bush not going to Ukraine. I think that it is explained in one simple thing which is Ukraine has not been able to form a government. It is extraordinarily difficult for the president to go there and visit when a government has not been formed.

On Georgia, there was a specific effort to bring President Saakashvili here now and to have this visit before the G-8 Summit. That was not done simply because it happened to be a convenient time on the calendar; it was done for explicit political purposes to make a positive affirmative statement of support for Georgia as an independent state and for its territorial integrity.

The statement that I think President Bush, or the way he answered a question yesterday vis-à-vis Georgia about the United States having a very open view toward welcoming Georgia into NATO and keep open the prospect of Georgia's membership in NATO if in fact Georgia reaches the point that it could move toward accession I think is an extraordinarily powerful and profound statement concerning the independence of Georgia and other surrounding states, and I would not look to contrast that with the Budapest speech. I think that the statements that have been made by the administration particularly in the context of Georgia have been extraordinarily powerful and strong.

MR. TALBOTT: Maybe I could say just a word about your question about I think quite deftly connecting the issue of the G-8 and its possible modification and the U.N. Security Council. I think it is very important that Japan is part of the G-8. As you of course know, the United States has long supported bringing Japan into the United Nations Security

Council as a member. There is no international consensus, and there is certainly not a consensus within the P-5 for that.

I did not spend as much time in government as Carlos by a long shot, but I spent just enough time in government including on those whole issue to be tempted to run screaming from the room whenever anybody talks about U.N. Security Council reform, and particularly U.N. Security Council expansion. It is just a mug's game as an issue. And when the Secretary General himself set up a distinguished panel to make a recommendation, I believe they ended up being able just barely form a consensus behind two different proposals that were not compatible, and we have seen the difficulties associated with the issue of what to do about the Security Council just in the past year.

The logical thing to do for anybody who does not happen to live in Berlin or in Germany is to have the European Union have one seat on a truly reformed Security Council rather than having the E.U. represented by two permanent members now, and it would be three if Germany were able to succeed in coming on. But lots of luck in making that argument in Paris or London, not to mention in Berlin where you basically say two or three of you have to give up the idea of a national seat in order to have an E.U. seat. So I just think it is going to be a very, very long time before that issue gets resolved.

What we have to do, and I do not mean this to be a trivializing comment, is to have as many different groups of this kind with different configurations and different sizes operating to see which ones can be more effective and to find ways of stitching them together in some fashion.

I must say that I do disagree with you that if you drop the "D" word from the G-8 and it no longer has democracy as a common denominator, then it truly should go out of business, and the only rationale for keeping the G-8 in existence is to maintain whatever leverage it gives a strong chairman of it next year to get Russia moving back in the direction of becoming a mature democracy.

MS. NOWZOVSKY: Siba Nowzovsky (?), Voice of America. I have a question for Mr. Gaddy. During his 6 years in office, it seems that Mr. Putin has successfully achieved two things. One, he has brought the state, the country, very close, near the authoritarian regime. Second, he has tremendously increased the economy of the country. Don't you think that these two things together can create in Russia and elsewhere in the world a very dangerous myth that the way to economic success is an authoritarian regime?

MR. TALBOTT: A strong last question, and I am sure it will elicit a strong last answer.

MR. GADDY: Yes, that would be very unfortunate, and there is a myth involved. Mr. Putin has not strengthened the Russian economy. He has strengthened the central coffers of the treasury. The economic success of Russia is fundamentally based on the receipt of rents from the sale of oil and gas or the value of the oil and gas produced by Russia, not just that which is exported. That is primarily due to the high prices on the world market beyond Russia's control. Russia does not have market power, and it is not a price setter.

Mr. Putin's economic success then fundamentally is due to five people he ought to thank, the Chinese because of their increased demand pretty much out of nowhere, and

OPEC for its market power, its not allowing foreign investment to expand production of the lowest-cost energy producers in the world. He should thank Mr. Brezhnev because he built up what is today the Russian oil industry and did it mostly for political reasons and not economic reasons. He used it as an instrument of soft power to maintain the Soviet empire far beyond what would have been possible with pure military means.

He would probably thank Mr. Gorbachev who inadvertently presided over a period in which the Russian oil that was in the ground potentially available thanks to Mr. Brezhnev was left in the ground, and because of ruinous practices, Mr. Gorbachev was very eager to get as much short-term production as possible, otherwise his fate was pretty much sealed, as it turned out to be anyway. And ruinous practices were used to get a short-term boost in production but destroyed some of these wells for the long-term. Mr. Yeltsin, he merely presided over the continued period in which this oil was left in the ground, but he did one thing, he empowered Mr. Khodorkovsky who in turn did lift that Soviet-era oil that insiders probably thought was lost. There are a lot of people Mr. Putin ought to thank for the fact that Russia was there ready and available as an oil producer that could take advantage of these market prices.

What he deserves credit for is collecting in all of this and as much as possible as I indicated in the foreign currency reserves, the treasury receipts, and the Oil Stabilization Fund, in a way that is not automatic. That did not have to happen, he did that, and that, yes, it is partly connected to the authoritarianism.

The lesson is that if you are a big oil and gas producer and you have inherited from the past a big buildup of your industry which for a period of time was not being used, if you are in that kind of a situation and you take power, you probably should use some quasi-authoritarian methods to collect in as much of that wealth as possible and you will be successful. But there is no other country that fits that description, it is a unique thing for Russia, so I do not think the lesson if people understand what has actually happened in Russia will be very much applicable to any other country in the world.

MR. TALBOTT: We will all listen very carefully to see if Mr. Putin uses the occasion next week to thank all those people, including Mr. Khodorkovsky, who made the list.

(Laughter.)

MR. TALBOTT: Thanks to all of you for being here. It has been a terrific discussion.

(Applause.)

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