

Russia's Challenges as Chair of the G-8

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On January 1, Russia became the chair of the Group of Eight (G-8), the exclusive group of the biggest industrial democracies. This chairmanship raises many eyebrows. Russia was originally included in the G-8 to help lock in its democratic reforms,¹ but Russia is no longer even semidemocratic. Last year, US senators John McCain and Joseph Lieberman sponsored a resolution urging President Bush to work for the suspension of Russia's membership until the Russian government accepted and adhered to "the norms and standards of free, democratic societies as generally practiced by every other member nation of the Group of 8 nations." Jeffrey Garten (*Financial Times*, June 28, 2005) has called Russia's chairmanship "farcical," saying, "Two trends are changing the world for the better—freer markets and democratization. . . . But, alone among the summit members,

¹ Another reason for inviting Russia to the G-7 was to compensate it for its acceptance of the enlargement of NATO to Poland, the Czech Republic, and Hungary in 1997. For the same reason, the NATO-Russia Council was formed. Russia's status as a major nuclear power was also a factor.

Russia is moving in the opposite direction. . . . Moscow's leadership of the G-8 reduces the credibility and the relevance of the group to zero."

Does Russia possess sufficient economic strength and political freedom to qualify? What does President Vladimir Putin want? Can the G-8 summit, to be held in St. Petersburg on July 15–17, be fruitful, or will it be an embarrassment for all involved? This policy brief aims to clarify the challenges and suggest how they can be handled, if Russia's chairmanship is to make sense.

IS RUSSIA QUALIFIED TO CHAIR THE G-8?

Russia's integration into the G-7 has been gradual. Soviet President Mikhail Gorbachev was first to meet with the G-7 leaders, on the sidelines of their summit in London in 1991. Russian President Boris Yeltsin participated in 1992 and 1993. In Naples in 1994, Russia's attendance was extended to half the summit, and the label G-8 was first used. In Denver in 1997, President Bill Clinton invited President Yeltsin to attend the whole summit, which he called G-8. Only in Evian, France, in 2003 did Russia also take part in the preparation of all the documents to be adopted by the G-8. Yet Russia's participation is still not full-fledged. The G-7 ministers of finance and central bank governors meet separately, with their Russian colleagues attending only part of some meetings.

Russia's chairmanship of this group, the most prestigious in the world, provokes many queries. The first is whether Russia is economically qualified. Until recently, Russia's GDP measured in current dollars was smaller than the Netherlands'. In real terms, Russia's GDP growth was almost 7 percent a year, but because of a sharp real appreciation of the ruble, GDP measured in current dollars has surged from barely \$200 billion in 1999 to \$772 billion in 2005, rising by 25 percent a year or almost quadrupling in six years. As a result, in 2005 Russia was the 12th largest economy in the world after the old G-7, China, Spain, Korea, and Brazil, and just ahead of Mexico and India. Korea, Brazil, Russia, Mexico, and India are in a virtual tie (table 1). The International Monetary Fund (IMF) forecasts that Russia will be the 10th biggest economy in 2006. If GDP instead is measured in purchasing power parities, Russia becomes number 9, greatly

Table 1 Income, population, trade, and political freedom of existing G-8 and main contenders for membership, by GDP in 2005

Country	Total GDP, 2006		PPP-adjusted GDP, 2005		Population (millions, 2004)	Exports of goods and services, 2003		Freedom House 2006 rating (average of political rights and civil liberties)
	Total GDP (billions of current dollars, 2005)	Rank	Billions of current dollars	Rank		Billions of current dollars	Rank	
United States	12,452	(1)	13,124	(1)	294	(1)	1,021	1
Japan	4,672	(2)	4,652	(3)	128	(3)	508	1.5
Germany	2,800	(3)	2,770	(5)	83	(2)	864	1
United Kingdom	2,197	(4)	2,212	(6)	59	(6)	451	1
France	2,113	(6)	2,124	(7)	60	(5)	454	1
China	1,910	(5)	2,172	(2)	1,297	(4)	485	6.5
Italy	1,719	(7)	1,723	(8)	58	(7)	373	1
Spain	1,124	(9)	1,165	(14)	41	(10)	234	1
Canada	1,106	(8)	1,181	(11)	32	(8)	329	1
Korea, Republic of	800	(12)	853	(12)	48	(11)	231	1.5
Brazil	789	(11)	883	(10)	179	(15)	83	2
Russian Federation	772	(10)	921	(9)	143	(13)	151	5.5
Mexico	758	(13)	824	(13)	104	(12)	178	2
India	746	(14)	809	(4)	1,080	(14)	91	2.5
Netherlands	623	(15)	626	(15)	16	(9)	317	1

Sources: World Bank, *World Development Indicators 2005* [www.worldbank.org/data/onlinedatabases/onlinedatabases.html]; Freedom House, *Freedom in the World 2006*; International Monetary Fund, *World Economic Outlook Database 2005*.

superseded by China and India. Despite the oil boom, Russia's exports remain smaller than Holland's, rendering it number 13 in 2003. In macroeconomic terms, Russia is very strong, with a trade surplus exceeding \$120 billion, international reserves of over \$185 billion, and a budget surplus of 7.5 percent of GDP in 2005 (World Bank 2005, BOFIT 2006, UBS Brunswick 2006). No G-7 country can compete with Russia in fiscal responsibility. Yet China beats Russia on all aggregate major economic indicators, though not in per capita income.

Russia's status as a market economy can hardly be disputed any longer. Both the United States and the European Union have recognized Russia as a market economy. During his first four-year term, President Putin undertook substantial market reforms, notably a radical tax reform introducing a flat income tax of 13 percent, and a major judicial reform (Åslund 2004). The arrest of Russia's richest man, Mikhail Khodorkovsky, in October 2003 and the ensuing confiscation of his oil company, Yukos, signaled an end to market reform and a certain back-

sliding. At present, swift nationalization is taking place, as state-controlled enterprises purchase successful private enterprises on a wide scale. The European Bank for Reconstruction and Development (2005) assesses that the private share in Russia's GDP shrank from 70 percent in 2004 to 65 percent in 2005. The state-dominated natural gas monopoly Gazprom has suddenly become the world's seventh biggest corporation in terms of market capitalization, and optimists predict that it will soon overtake ExxonMobil as the world's most valuable company. Still, most of the economy is in private hands, and a market economy persists.

The decline of Russia's democracy raises more serious queries. Under President Yeltsin, Russia made significant steps toward democratic reform, although it never became a full-fledged democracy, leaving it classified as "partly free" by Freedom House, a nongovernmental organization (NGO) that monitors political rights. Today it is evident that the G-7 has failed in its objective to secure Russian democracy. After

five years in power, Putin's record is no longer in doubt. He has systematically dismantled Russia's nascent democracy, although his authoritarian rule remains more benign than that of the bad old Soviet days.² Consequently, Freedom House has declared Russia "not free," making it the only country to deteriorate thus during President George Bush's term. China, however, is even more unfree (Freedom House 2006; see table 1).

Russia's role as the chair of the G-8 is also being questioned because of institutional shortfalls. The G-7 has always sought to focus on the great macroeconomic and trade issues of the day, but Russia has little to say on these issues and lacks authority in both regards. Although Russia applied for membership in the General Agreement on Tariffs and Trade, or GATT (now transformed into the World Trade Organization, or WTO) in 1993, it has not acceded as yet, and it is not part of the world trade debate. Russia has been a member of the IMF and the World Bank since 1992, but it has not been permitted to participate fully in the G-7 meetings of ministers of finance and chairmen of central banks. Usually, the Russians have been invited to a dinner or some side event, while the original G-7 members have kept Russia out of the main meetings. Now Russia is chairing these meetings.

Russia holds the chair in 2006 because Germany postponed its turn to Russia's benefit. This postponement was a favor Chancellor Helmut Kohl gave President Yeltsin. The German role has become more spurious. German Chancellor Gerhard Schröder decided to build the controversial Baltic Sea gas pipeline from St. Petersburg to Germany only 10 days before the German parliamentary elections last September. Just after Schröder was ousted as chancellor, Gazprom appointed him chairman of the supervisory board of the pipeline consortium. Although the exact nature of his remuneration remains a secret, nobody doubts it is substantial.

RUSSIA'S AGENDA: BROAD BUT VAGUE

At the G-8 summit in Gleneagles in Scotland in July 2005, Putin presented the Russian agenda as chair. His dominant theme was energy security: "Russia proposes making world energy policy the key issue for the next summit. . . . It is only natural that Russia, the world leader on the energy market, should focus precisely on energy policy." Putin's comments were remarkably detailed, with the main thrust being increased Russian deliveries of oil and gas to both West and East.

With the current high energy prices, energy security is indeed a crucial topic for the whole world. With one-ninth

of world crude oil output and one-fifth of natural gas production, Russia is a key energy power. Few countries have as great a potential to expand energy production as Russia. But will it? For five years, from 1999 to 2004, Russia's private oil companies boosted the country's oil production by an impressive annual average of 8.5 percent. Alas, because of disarray after the confiscation of most of Russian oil company Yukos, Russia's production of crude increased by only 2.7 percent last year. Private oil companies engineered the whole revival of the Russian oil production, but the industry is undergoing a swift nationalization. Output from the old fields is tapering off, while inefficient state companies control new fields. The nationalization drive has reduced investment in both private and state companies. This growth deceleration might turn to outright decline, posing a downside risk to world energy supplies.

Although Russia talks broadly about energy security, little conceptualization is apparent. Russia seems preoccupied with a few major energy investments. The most important is the

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conclusion of a major liquefied natural gas (LNG) project at the Shtokman field in the Barents Sea north of Murmansk. It is aimed at the production of LNG for the United States and possibly also for France. A few foreign companies will be invited to form a consortium with Gazprom. The current shortlist contains five companies: Chevron Corporation and ConocoPhillips from the United States, Total from France, and Statoil as well as Norsk Hydro from Norway. Costs of \$25 billion to \$30 billion have been discussed, but the price could double, rendering it one of the world's largest energy investments. Putin appears intent on reaching an agreement on the Shtokman project just before the G-8 summit so that it will be the leading headline news. Another important project is the Russian-German gas pipeline through the Baltic Sea, which is projected to cost \$5 billion. Several other big energy investments involving the Western oil majors are under way outside of Sakhalin in the Far East.

As an extension of energy security, Russia wants to again raise the subject of global warming, which is regularly mentioned in G-8 resolutions. A new solution is needed, combining the promotion of new energy-efficient technologies, taxation of pollution, and environmental regulations. Russia typically uses the specter of global warming as an argument for the renewed expansion of peaceful nuclear energy.

² This reverse of democracy has been eminently documented by Fish (2005), McFaul, Petrov, and Ryabov (2004), and Freedom House (2006).

Besides energy security, Putin focuses on two topics: infectious diseases and education. The Russians have singled out the threat of avian bird flu. It would aim at an improved international reporting system, an international agreement on the swift production of a vaccine, and an agreement on the stockpiling of antiviral drugs. The World Health Organization should do this in any case, but this significant threat deserves G-8 attention.

It is possible that Russia could usefully include education as a G-8 theme. The European Union is undertaking the standardization of higher education degrees through its so-called Bologna process, which involves four of the G-8 nations. Russia should join this process and promote it in Eurasia. An enhancement of international exchanges in education is long overdue, too. So far, however, the Russian rhetoric on education has been exceedingly vague, failing to justify its inclusion on the G-8 agenda.

Putin has touched upon many other themes, such as poverty, debt relief, global economic integration, nonproliferation of weapons of mass destruction, and the fight against terrorism, but only in passing. Strangely, Russia has so far downplayed the many security policy issues for which a Russian role is essential, including international terrorism, nonproliferation (especially in Iran and North Korea), and four frozen conflicts in the former Soviet Union (Transnistria, Abkhazia, South Ossetia, and Nagorno-Karabakh).

Traditional G-8 topics, such as macroeconomic imbalances, exchange rates, and trade, are conspicuously absent, which is unfortunate at a time when great imbalances in current accounts have aroused demands for a strategic realignment of exchange rates, notably a major depreciation of the US dollar in relation to the East Asian currencies. Another important G-8 topic is the Doha Round on trade liberalization, which needs all the attention it can get.

Russia will invite the now traditional additional guests: China, India, Brazil, and South Africa. Their ministers will also participate in half a dozen preparatory meetings. Other outsiders, however, are likely to play less of a role than in recent summits. Putin has declared that, as the newest member of the club, Russia will not push for further enlargement, and he clearly wants to indulge in Russia's exclusiveness.

REASONS FOR CONCERN

There are many reasons to be concerned about the Russian chairmanship of the G-8. A real danger exists that it will embarrass not only Russia but all the G-8 leaders. Cynics would object that because many G-8 summits have been insubstantial, none can be truly embarrassing through lack

of substance (Bergsten and Henning 1996). True, the issue is mainly politics. Putin insists on the G-8 chair for reasons of personal and national prestige. He wants to show that under his impressive leadership Russia has returned as a great power. He is a master of pompous ceremonies, as he proved during the 300-year anniversary of St. Petersburg in June 2003 and the 60th anniversary of the Soviet victory in World War II in Moscow on May 9, 2005.

More ominous is that Putin wants to celebrate his new authoritarian rule, which should not be acceptable to the West. The G-8 could discredit itself monumentally if it lent itself to the celebration of Putin's authoritarian power. The *Washington Post* (November 17, 2005, p. A30) editorialized, "Mr. Bush

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can look forward to toasting the unprecedented accession of a Russian president to leadership of what was once an exclusive club for democracies. . . . Is Mr. Bush really prepared to accept such a leader?" In early 2006 Russia adopted a law drastically reducing the rights of Russian NGOs, and Russian authorities are even harassing the British Council, the British government's education service. As Putin tightens the political screws on his population, international opinion will increasingly make itself heard. During the last few years, G-8 summits have been magnets for international protests. Will protesters be given visas, and how will Western leaders react if thousands of representatives of civil society are refused visas? For Russia's democrats, the G-8 summit in St. Petersburg might be one of the last chances to voice their concerns.

Putin's authoritarian drive has also led to extraordinary overcentralization, causing organizational problems. The dates for the summit in St. Petersburg, July 15–17, were finalized only in December 2005. Russia has established a traditional Web site for the G-8 summit in St. Petersburg (<http://en.g8russia.ru>), but it contains a minimum of information. The Russian sherpa, Igor Shuvalov, is a senior Kremlin official with a reputation for bureaucratic efficacy, but he has been overly cautious, presumably because of a minimal mandate. Strangely, Shuvalov, who speaks English well, has not yet paid a visit to Washington to prepare for the summit. Putin seems not to have decided what he wants, and without instructions Kremlin officials cannot pursue meaningful negotiations with

their G-8 counterparts. The numerous meetings that are now being hastily planned can hardly be properly prepared.

As one of the four BRICs (including also Brazil, India, and China), Russia could naturally have played a prominent role beside India and China at this year's meeting of economic leaders in Davos, Switzerland. But the Russian government was almost invisible, represented only by Minister of Economy German Gref. Minister of Finance Alexei Kudrin had planned to attend as well, having scheduled meetings with his French and Italian peers, but for no better reason than apparent bureaucratic infighting, Prime Minister Mikhail Fradkov prohibited Kudrin from participating. Dictatorships have certain comic qualities.

More disturbingly, Russia's regained authoritarianism is also reflected in its foreign policy. On the very first day of its chairmanship of the G-8, which it proclaimed to be devoted in large measure to energy security, Russia cut its gas deliveries to Ukraine. To some extent, the brusque Russian action appeared as revenge against Ukraine for the Orange Revolution, marking the contrast between now democratic Ukraine and authoritarian Russia. Russia has thereby undermined its credibility as an advocate of energy security, violating a legally binding five-year agreement, rashly reducing supplies in the midst of winter, and causing collateral damage to multiple third countries in Europe. Russia has harmed its long-nurtured reputation as a reliable gas supplier, a reputation further tarnished by repeated cuts caused by Russia's stagnant gas production in the midst of severe cold.

Russia's international role is often appraised as an important reason for US cooperation with it, in particular in countering terrorism and radical Islam but also stopping nuclear proliferation in states such as Iran and North Korea (Zoellick 2006). Alas, Russian statements and actions over the last year cast doubt on the wisdom of this premise, as Russia almost invariably opposes the West within the former Soviet Union. It objected to democratic elections in Ukraine. Putin condoned the Uzbek massacre in Andijan in April 2005. Russia supported the Uzbek sacking of the US air base in Uzbekistan, and it encourages Kyrgyzstan to evict the US military from the US air base on its soil.

And Russia is likely to provoke more trouble. In January Putin (2006a) stated: "If someone thinks that Kosovo can be granted full independence as a state, then why should the Abkhaz or the South Ossetian peoples not also have the right to statehood?" Tensions between Russia and the West are likely to rise this spring. In March, Belarus will reelect President Aleksandr Lukashenko in sham elections with Russian approval. Meanwhile, Ukraine will hold greatly contested parliamentary elections, with Western but likely not Russian approval.

Nor is Putin's Russia all that helpful outside the former Soviet Union. In his book *The Russia Hand*, Strobe Talbott (2003) pointed to Iranian nuclear proliferation as the greatest US failure in its policy on Russia in the 1990s. Admittedly, Russia has recently voted to refer the Iranian nuclear issue to the UN Security Council, and Russia is trying to persuade Iran's government to allow Russia to enrich their nuclear fuel, but it is by no means obvious that Russia does this in response to friendly US policy overtures. Instead, it could be argued that the more demanding the Western attitude toward Russia, the greater Putin's incentive to show that Russians are good world citizens when it comes to security issues.³ Recently, Putin even invited Hamas leaders to Moscow, while the West condemned them as terrorists. If anything, Russia's brutal war on Chechnya has aroused terrorism. Thus, Russia's stance in world affairs is ever more disturbing, and the regime is becoming increasingly hostile to the United States outside the former Soviet Union as well. In fact, the only occasions when the West has had any positive impact on Russia in recent years have been when Western countries have put their feet down in unison, notably on democratic presidential elections in Ukraine in 2004 and on the Russian-Ukrainian gas war. The West therefore has no reason to be soft on Russia because then Russia is actually less likely to comply with its wishes.

The standard saying in the G-7 capitals is, "Nobody is looking forward to St. Petersburg." Yet Western leaders must prepare for the likely denial of visas to thousands of NGO representatives, while Russian civil society is stifled in the wake of clashes with the West over democracy in Belarus and Ukraine.

WHAT CAN BE DONE?

The only annual meeting of the leaders of the world's greatest powers is too important an event to be wasted. Much can still be done. The options are boycott, acceptance, taking energy security seriously, focusing on issues of specific Russian competence, or subcontracting traditional G-7 issues to others.

The most radical option would be a full or partial boycott. To avoid that option becoming a serious demand from the US Congress, Russia needs to stay clear of three political traps. First, Russia must avoid open conflict with its Western partners over the elections in Belarus and Ukraine in March. Several policy advisers in Moscow want to use these two events to teach Western countries a "lesson" for their support of the Orange Revolution (Åslund and McFaul 2006). Second, not only journalists but also representatives of Western civil society should be permitted to travel to St. Petersburg in their

³ I owe this point to Stephen Sestanovich.

thousands for the summit. Finally, Russian civil society needs to be allowed a reasonable degree of freedom, which is the ultimate litmus test of whether Russia is sufficiently democratic to defend its inclusion in the G-8.

Putin should be aware that these three issues could blow up in his face, rendering it politically impossible for one or several of the G-7 leaders to participate in the St. Petersburg summit. Ultimately, it is up to him to prove that his country belongs in the G-8. The world is not convinced as yet, a fact made evident by the spate of Western newspaper articles hostile to Russia in the wake of the Russian-Ukrainian gas

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war. While a Western boycott could achieve little of value, concerns about democracy and foreign policy might grow so palpable that one or several leaders would feel that they cannot go. After all, President Bush skipped half of the Evian summit in 2003 for much lesser reasons. However, it is too late and not very productive to think of boycott. The US boycott of the Moscow Olympic Games in 1980 was a protest against the far more outrageous Soviet invasion of Afghanistan, but it was hardly very effective, and it divided the West. This time, no such strong cause for action is apparent.

A second option would be to accept the meeting as is: a photo opportunity and a beautiful celebration of Russia's newfound greatness and Putin's power. This would be the worst alternative. As one prominent Russian put it, the G-8 summit in St. Petersburg could be for the West something between the Olympic Games in Berlin in 1936 and the Munich agreement over Czechoslovakia in 1938.

The third and main option is to take Russia's focus on energy security at face value. As the only major energy supplier in the G-8, Russia has much to bring to the table. President Putin (2006b) has stated: "We consider that the G-8 will be able to develop a coordinated strategy in this sphere, a strategy that allows us to ensure that the world's population and global economy have access to energy resources at affordable prices and with minimal damage to the environment. . . . Forming a favorable investment climate and stable transparent rules in the global energy sector has a serious role to play in energy security." Indeed, an organized dialogue between producers

and consumers, with better information exchange and greater transparency of energy reserves, is needed, as is the promotion of international investment in oil and gas exploration and exploitation, the securing of property rights of private energy producers, and greater access of third parties to gas and oil pipelines and other transportation systems.

In the early 1990s the European Union negotiated an all-European Energy Charter with all European countries, the United States, and Canada, which aimed at these energy security objectives. On December 17, 1991, 49 countries signed this charter. Only the United States and Canada did not sign. Three years later, the same countries signed the legally binding Energy Charter Treaty. It entered into force in 1998 after 13 signatories ratified it, but two major energy producers, Norway and Russia, refused to ratify the treaty. The charter provides a broad multilateral legal framework for energy cooperation consistent with WTO rules. It is in line with the liberalization of the EU internal market. It sets liberal rules for investment in, trade with, and transportation of energy. Unfortunately, these rules appear to have been tilted too much in favor of consumer interests, alienating all four major energy producers in the region. The EU members of the G-7, especially France and President of the European Commission José Manuel Barroso, have turned new attention to the Energy Charter. The G-8 could initiate a renegotiation of the charter to render it more acceptable.

A fourth option is to focus on important topics on which Russia has evident competence. In a presidential debate before the US election in 2004, both candidates agreed that loose nukes in Russia were the foremost threat to world security. This is also an old G-8 subject, and its relevance has risen with the increasing sophistication of international terrorism. Russia's competence on this topic is second to none, while it lacks, or is unwilling to devote, sufficient resources to pursuing it. It could be a key theme of the summit (Gottemoeller 2005).

A fifth option is to subcontract traditional G-7 issues to other parties. Long-time Minister of Finance Alexei Kudrin is respected among the G-7 ministers of finance, and he has started intense consultations with his G-8 colleagues, treating the macroeconomic themes in a collegial manner. Russia could also benefit from advice on exchange rate realignment and balance of payments adjustment (Truman 2005). At most a few dozen Russians are sufficiently informed about international trade issues and the Doha Round to be able to contribute to discussion of them. The most sensible approach would be to solicit external advice (Bergsten 2005). Yet considering the limited host country engagement in these issues, it is difficult to imagine much more than a few substantial paragraphs in the final communiqué.

RECOMMENDATIONS FOR US POLICY

The United States cannot treat the G-8 summit in St. Petersburg as a run-of-the-mill meeting. It requires concrete policy actions. To accomplish the most, the United States needs to act jointly with the other members of the old G-7, and in this case the G-7 members should have little difficulty. They should take the following actions:

1. The leaders of the seven democratic members of the G-8 should convene a mini-summit in a Baltic country—Vilnius, for instance—on their way to St. Petersburg to express their support for democracy in Russia and for the sovereignty of the former Soviet republics and to address traditional G-7 topics in which Russia has no competence, especially the Doha Round in the WTO, which needs a strong political push from the summit that cannot be expected from Russia, as it is not yet even a member of the WTO. The G-7 needs to balance the G-8 agenda with concern about democracy and sovereignty of the other former Soviet states. The United States in particular should not accept the G-8 summit as a celebration of authoritarian power. On his way to the arguably less controversial Russian World War II victory celebrations in Moscow in May 2005, President Bush wisely stopped in Riga to make a speech on the perils facing Russian democracy, and on the way back he stopped in Tbilisi to mark US support of Georgia's and other former Soviet states' independence from Russia. Similarly, a G-7 deputy finance ministers meeting in London preceded the G-8 ministers of finance meeting in Moscow on February 10–11. All the G-7 states share similar concerns, but they cannot cater to these concerns in Russia, where Russian security will control their public appearances.

The G-7 also needs to address the Doha Round. All these countries are committed to a successful completion of this round, and throughout the G-7's 30-year history its members have consistently emphasized the need for freer world trade. This emphasis is particularly important now, as the Doha Round risks failure. The G-7 could make an important statement, or even reach an agreement, on the reduction of protectionism in agriculture, which is the key concession the rich countries need to offer the developing world. Alas, Russia does not venture into this topic because of its lack of competence. Therefore, the G-7 needs to gather to resolve WTO issues without Russia.

2. The United States and Canada should join the four European members in their attempts to revive the Energy Charter, together with Russia. To stimulate energy production

and the rational use of energy, as well as to avoid future disruption of Russia's gas deliveries to Europe, a number of principles need to be agreed jointly. The only truly important topic on which some headway is plausible in St. Petersburg is energy security. In particular, Eurasian energy transportation systems, both pipelines and grids, should be opened to independent producers, foreign trade, and international transit, as Russian liberals argue. Principles for the pricing of energy transportation should be agreed, and domestic energy prices for industrial users should be subject to deregulation. Private investment in the exploration and exploitation of oil and gas need to be stimulated through the reinforcement of investors' property rights and predictable, transparent taxation. Violations of these rules should be subject to binding international arbitration. At the same time, new international agreements need to be concluded both on the construction of new pipelines and of LNG facilities.

3. Russia's chairmanship of the G-8 makes more compelling the case for inviting China, India, Brazil, and South Africa to become full members of the G-8. The G-8 could thus be transformed into a much more representative G-12. Russia's chairmanship makes evident the fact that democracy is no longer a prerequisite for G-8 membership. Hence, undemocratic China, a bigger and more dynamic economy, should be invited, too. If China is invited, so should India be. Given the practice to include China, India, Brazil, and South Africa in some of the G-8 discussions, all four could usefully be made full members.

4. At the same time as the G-8 is expanded, it would be natural to beef up the International Energy Agency (IEA), the club of Western energy consumers, by inviting in the biggest emerging energy consumers, primarily China and India. Considering the current importance of an improved energy dialogue between consumers and producers, it would be desirable to thus expand the IEA. Then the IEA and OPEC could become more relevant counterparts in a global energy dialogue. Putin (2006c) himself has argued for broadening energy cooperation to the developing world.

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