



## Georgia and Russia

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Mr. Chairman, Senator Lugar, members of this Committee, thank you for this opportunity to discuss the Georgia crisis and its implications, particularly for our relationship with Russia, where I served for the last three years as U.S. Ambassador. With your permission, I will submit my written statement for the record, and offer a very brief summary.

The causes of the current crisis are complicated, with mistakes and miscalculations on all sides. Georgia's decision to use force to reassert its sovereignty over South Ossetia -- against our strong and repeated warnings -- was short-sighted and ill-advised. But there was no justification for Russia's disproportionate response, for its provocative behavior in the run-up to the crisis, or for sending its military across international boundaries to attack Georgia and seek to dismember a sovereign country.

With a ceasefire in place, the uncertain beginnings of Russian withdrawal from Georgia underway, and Georgia's own economic recovery moving ahead, this is a moment to take stock and look ahead. A great deal is at stake. Russia's actions in Georgia, particularly its reckless decision to recognize South Ossetia and Abkhazia, are deplorable. Russia's behavior raises serious questions about the future of our relations with a resurgent, nuclear-armed, energy-rich Great Power, which has much potential but more than its share of troubles and complexes -- and whom we do not have the luxury of ignoring.

As we consider the contours of an effective strategy, I'd highlight a few elements:

First, it is essential to continue to make common cause with our European allies. Our cohesiveness and collective determination is the key to affecting Russia's calculus. American actions have far more impact as part of a chorus than as a solo performance, and unity among European countries is also crucial. We have worked closely with President Sarkozy and the EU leadership in recent weeks. We will continue to do so as, standing together, we press Russia to fulfill all its commitments under the August 12 and September 8 agreements. While much is made of Europe's energy dependence on Russia, the wider truth is that Russia needs Europe too, as the market for 75% of its gas exports and a critical bridge to a better economic future.

Second, the United States and Europe must continue to work together urgently to support Georgia's economic revival and territorial integrity. Senator Biden and other members of this committee were absolutely right at the outset of the crisis to highlight the importance of a major American assistance initiative, and Secretary Rice proposed on September 3 a \$1 billion economic package for Georgia, with a first phase of \$570 million this year. In the second phase of funding next year, we hope for strong bipartisan backing for aid that goes beyond immediate humanitarian and reconstruction needs, and includes new resources to strengthen Georgia's independent media, rule of law and civil society.

We look forward to working closely with the Congress in this effort, and also intend to coordinate with our European allies, including at the donors conference planned by the EU later this fall. In the meantime, we will also be assessing Georgia's security assistance needs, again in cooperation with our NATO partners, using the newly-established NATO-Georgia commission. The NATO Secretary General and a delegation of NATO Permanent Representatives were in Tbilisi yesterday to underscore our collective support for Georgia.

Third, we are working to reassure our friends throughout the region of our long-term commitment to their economic modernization, democratic development and well-being. Russia obviously has vital interests throughout its own neighborhood, and a great deal of natural influence to bring to play, but that does not entitle it to a "region of privileged interests" or veto power over the sovereign choices of its neighbors.

We also recognize that out of crises sometimes come opportunities. Turkey, which I visited earlier this month, is showing real leadership in exploring possibilities for easing tensions in the South Caucasus. The leaders of Turkey and Armenia had an unprecedented meeting in Yerevan a week ago, and progress toward normalization between Turkey and Armenia could open up trade and transportation routes for the entire South Caucasus. Moreover, it could help open up new avenues for settling the Nagorno-Karabakh conflict between Armenia and Azerbaijan. This is also an important moment to reassure NATO's newest northern members.

Fourth, the United States needs to redouble our efforts, with our partners in Europe and Eurasia, to diversify energy supplies and transit routes, and avoid a singular reliance on Russian oil and gas imports. Improving energy efficiency is a significant ingredient, as is development of renewable energy sources. The EU's competitiveness and anti-monopoly regulations can also be a valuable tool to promote greater transparency and reliability.

Fifth, it is important to reinforce for Russia the consequences of its actions in Georgia, as a means of ensuring its compliance with its commitments to President Sarkozy. We and our European partners have made clear that there will be no "business as usual" with Russia while those commitments remain unfulfilled. For our part, the Administration has withdrawn the 123 agreement on civil nuclear cooperation with Russia, and suspended U.S.-Russian bilateral military programs. We continue to review other options.

In many ways, the most damaging consequences thusfar for Russia have been self-inflicted economic and political wounds. Since August 7, investor confidence has plummeted. At least in part because of the Georgia crisis, Russian financial markets have lost nearly a third of their value, with losses in market capitalization of hundreds of billions of dollars. Capital is fleeing Russia, with \$7 billion leaving the country on August 8 alone, according to Russian Finance Minister Kudrin. The ruble has depreciated by nearly 10% since the Georgia crisis began. The Russian Central Bank has spent billions of dollars of its reserves to try to halt the slide of the ruble. The opportunity costs for Russia are even greater, the most important of which may be the country's ambitious plans to diversify the economy and rebuild infrastructure. At a moment of crucial economic choices, at a moment when Russia can innovate, diversify beyond hydrocarbons, and develop to the full its greatest resource -- its enormously talented people -- it is in danger of missing an historic chance and stagnating amidst mounting corruption, cronyism and demographic ills.

Russia's diplomatic isolation was vividly exposed at the recent Shanghai Cooperation Organization summit, when not one of its partners joined it in recognizing Abkhazia and South Ossetia. Nicaragua's solitary support for recognition of those two breakaway regions is hardly a diplomatic triumph. In a rare step, the G-7 foreign ministers also issued a statement sharply criticizing the behavior of the remaining member of the G-8.

Finally, our long-term strategy toward Russia needs to be based on a sober assessment of our own interests and priorities, and of what's driving Russia today. Flush with petro-dollars and reborn pride, the Russia we see before us is a muddle of conflicting impulses -- of angry chauvinism and accumulated grievances, alongside some very 21st century connections to the global market, and new attachments to a world in which foreign travel and private property are what animate much of the next generation and the emerging middle class.

On the one hand, some Russian strategists clearly see opportunities in American difficulties, and see taking us down a notch as the best way to assert their own prerogatives and expand their role. Another aspect of that inclination was on full and ugly display in the Georgia crisis, the very 19th century notion that intimidating small neighbors is what makes Great Powers great. Those impulses are fed by the increasingly authoritarian bent in Russian politics over recent years. They are beguiling and cathartic for a country that a decade ago was about as far down on its luck as a Great Power can go -- but they are not the same thing as a positive agenda for realizing Russia's potential in the decades ahead.

On the other hand, there is the Russia about which President Medvedev spoke eloquently during his election campaign, a Russia that aspires to become a modern, rules-based, 21st century Great Power, with a diversified, integrated economy and a political system that gradually opens itself to the rule of law. That vision of Russia has

hardly been on display in recent weeks -- indeed, it has very nearly receded from view -- but the realities of Russia's circumstances may yet force it back to the surface.

It's hard to predict which set of impulses will prove strongest in the years ahead, or whether the costs and consequences already evident in the Georgia crisis will sink in. The truth is we are likely to have a relationship with Russia for some time to come which mixes competition and political conflict with cooperation.

On some critically important issues, like combatting nuclear terrorism and non-proliferation, we have a hard-headed interest in working with Russia, as we will be doing when my Russian counterpart joins the rest of our P5+1 colleagues in another round of discussions on Iran the day after tomorrow in Washington. Nowhere is our cooperation and our leadership more important than on the whole complex of nuclear challenges -- from setting a good example for the rest of the world in managing and reducing our own nuclear arsenals, to ensuring the safety and security of nuclear materials, on the basis of the visionary programs which Senator Lugar has done so much to promote. On other issues, like Georgia, we and our partners will need to push back hard and systematically against Russian behavior.

Dealing with Russia in the years ahead will require equal parts firmness, steadiness and patience. It will require us to put sustained effort into a common strategy with our European partners. It will require us to keep a clear sense of priorities. It will require us to keep the door open to long-term, mutually-respectful partnership with Russia -- if Russia chooses to make that possible, and if it chooses to become a responsible stakeholder in the international system -- but to defend our interests resolutely in the meantime. It will require us to keep a sense of strategic confidence and initiative, as well as a sense of the internal weaknesses and growing interdependence with which Russian leaders must ultimately contend. And it will require us to continue to focus energy and attention on a relationship with Russia that may often prove frustrating, and sometimes even dangerous, but that matters enormously not only to our interests, but to the future of global order.

Thank you very much.

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