

BAKER INSTITUTE REPORT

NOTES FROM THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY AT RICE UNIVERSITY

SECOND ANNUAL CONFERENCE ON DOMESTIC ISSUES

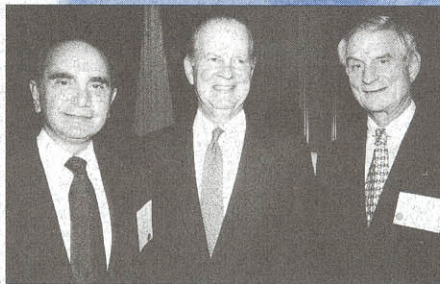
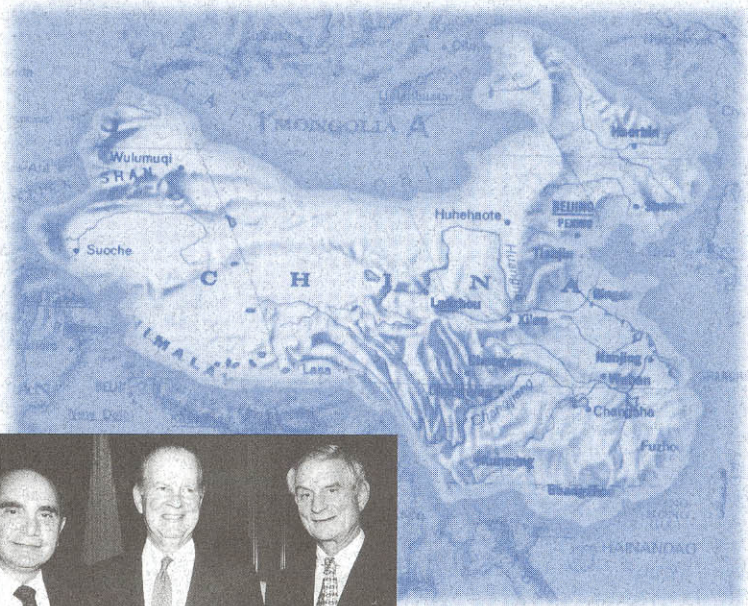
The Baker Institute for Public Policy will hold its second annual conference on November 12 and 13, 1996, on the campus of Rice University. The theme will be domestic challenges confronting the United States at the end of the twentieth century. Three crucial areas will be addressed in detail during the conference: urban crime and violence, tax policy, and devolution of governance. How the United States addresses these issues will decisively affect the lives of all Americans during the balance of this decade and beyond. The Baker Institute hopes to help shape our national debate on each of these areas by bringing together acknowledged experts from around the country in an atmosphere of free and frank debate.

According to the institute's director, Edward P. Djerejian, the upcoming conference represents a logical extension of last November's inaugural conference on foreign policy challenges. "Domestic policy is an important and integral part of the institute's research agenda," said Djerejian, "The conference's topics are in today's headlines. Even more importantly, they will be in the headlines for years to come. Each is the subject of some controversy. We don't intend to shy away from it. After all, addressing differences is what a real policy dialogue is all about. We're convinced that the Baker Institute can make an important contribution to that debate. One reason is the immense domestic policy expertise of the Rice faculty."

Dr. Lee Brown, Baker Institute scholar and professor of sociology, is coordinating the conference's session on urban crime and violence. Dr. Robert Stein, chair of the political science department and dean of social sciences, is organizing the session on devolution. Dr. George Zodrow, chair of the economics department, is coordinating the session on tax issues.

The conference is made possible through the generous support of Gordon and Mary Cain.

INSTITUTE COSPONSORS CONFERENCE ON CHINA WITH THE ASIA SOCIETY



Ed Djerejian, director of the Baker Institute, James A. Baker, III, and Nick Platt, president of the Asia Society, at the conference.

On February 9 and 10, the Baker Institute and the Asia Society cosponsored a conference on "China, the United States and Asia: Challenges for U.S. Policy and Business" in Houston. The conference, attended by hundreds of business professionals, government officials, scholars, and academics, examined the troubled state of U.S.-China relations on the eve of the 1996 U.S. presidential election. The agenda focused on the transformation of China's domestic environment, China's role in Asia, and U.S.-China relations. A full day was dedicated to the evolving trade and investment climate in China, particularly as it affects American business and energy firms.

Speakers included James A. Baker, III, sixty-first secretary of state; Maurice R. Greenberg, chairman and CEO of American International Group, Inc.; Han Sung-Joo, former South Korean minister of foreign affairs; Kay Bailey Hutchison, United States senator; Kenneth L. Lay, chairman and CEO of Enron; Li Daoyu, Chinese ambassador to the United States; Winston Lord, U.S. assistant secretary of state for East Asian and Pacific affairs; Roberto R. Romulo, former foreign affairs secretary of the Philippines; and Sun Zhenyu, Chinese vice minister of foreign trade.

The conference was covered extensively by national and international media. It was made possible through the generosity of a number of business groups and individual corporations.

SECRETARY BAKER ADDRESSES CHINA CONFERENCE ON U.S. POLICY TOWARD ASIA.

The following address, entitled "The United States and the Other Great Asian Powers: Russia, Japan, and China," was delivered by James A. Baker, III, on Friday, February 10.

At the outset, I would like to offer each and every one of our visitors a very special welcome on behalf of the Baker Institute.

I am especially pleased that so many members of the business community from Houston and elsewhere have found time in their busy schedules to join us here today. From the very inception of planning for this conference, we focused our efforts on developing a program that would be of interest not just to policy-makers and scholars but also to businessmen. Our reason for so doing was simple: it is impossible to speak of China or, indeed, East Asia, without reference to the vast commercial ramifications of economic developments in the world's most dynamic region. Our program and your presence bear witness to this critical fact, and we are grateful for your attendance.

This evening I would like to share my own personal views on American policy toward East Asia. My perspective, not surprisingly, reflects my experience as both secretary of the treasury and secretary of state. But it also is grounded in an appreciation of the importance of East Asia to the United States and of the vast changes that are today sweeping the region.

I would like to address those changes as they relate to America's relations with the other three major Asian powers: Russia, Japan, and China.

By focusing on these three countries, I do not wish to give short shrift to the other nations of the region. Many rank among the world's star economic performers. And they exert great collective influence through regional organizations like ASEAN and APEC. Still, it is clear that relations among the United States, Russia, Japan, and China will decisively shape developments in East Asia.

Russia

Let me begin with Russia, a country we all too often neglect when we speak of developments in East Asia. Despite its domestic difficulties and military decline, Russia remains an important regional force along the Pacific Rim.

I need not tell anyone in this audience that developments in Russia over recent months have been highly unsettling. I refer,

of course, to the Yeltsin government's swing to the right following the strong showing of nationalists and communists in last December's parliamentary polls. The preemptory dismissal of the last remaining liberals in Yeltsin's cabinet, combined with a more aggressive stance toward Chechen insurgents, reflects a distinct and, in some ways, alarming shift in Russian policy—and one that raises the specter of a Russian return to its authoritarian and imperialist past. Nevertheless, it is important for the United States and our allies not to overreact to developments in Russia.

A successful Chechen bid for independence would wreak havoc with the territorial integrity of Russia, a multinational state of twenty-one autonomous regions. In particular, it would strengthen movements within Siberia which seek greater political autonomy, or even outright secession, from Moscow. Needless to say, such a fracture would only increase tensions in East Asia. The disintegration of the Russian Federation is not in our interest nor that of the countries of the Asia-Pacific region.

We should also be wary of drawing too ominous a set of conclusions from the results of the last parliamentary elections. The victories for communists and nationalists clearly indicate a growing dissatisfaction among the Russian public not just with the Yeltsin government but with the economic hardships and social dislocations associated with reform. Recent reports of far-reaching corruption in the privatization of state enterprises has only intensified this dissatisfaction. Still, it is important to recall that the likelihood of a return to a Soviet-style command economy approaches zero.

Liberalization has led to the creation of a vast entrepreneurial class with a strong vested interest in the free market. And, so far at least, Russia continues to go forward with its IMF-sanctioned program of macroeconomic stabilization. Absolutely key to what happens in Russia, and to our response to events there, is the question of whether President Yeltsin will now abandon that specific program and, with it, a broadly reform-centered approach. Whatever their faults, both President Yeltsin and the members of the new Parliament are the freely elected representatives of the Russian people—a circumstance simply unimaginable just a decade ago and one which becomes more entrenched with each election.

One thing is clear: we should be prepared, at a minimum, for several years of occasionally uneasy U.S.-Russian relations

as the latter grapples anxiously with the vast domestic and foreign challenges before it. Economically, as long as Russia continues to pursue macroeconomic stabilization, calls for a cutoff in Western aid are premature. Politically, suggestions that NATO be refashioned into an explicitly anti-Russian alliance are not only foolish but dangerous to the achievement of our overall policy goal of peace and stability in Eurasia. The best way to make an enemy is to look for one.

Japan

Let me now turn to Japan.

Like Russia, if less dramatically, Japan, too, is passing through a period of profound economic and political transition.

The recent economic slump and financial crisis clearly signal the extent to which Japan's traditional approach to growth, grounded in aggressive export promotion and protection of its domestic market, is no longer viable. As I have said before, the mercantilist chickens have come home to roost. A shift to a more balanced economy marked by higher levels of domestic consumption is clearly in order. More and more Japanese—among elites and the common citizenry alike—are recognizing the need for a more balanced approach to economic growth.

Japan is also moving through a period of political transition. The selection of Ryutaro Hashimoto as prime minister reflects, at least in part, a desire for stronger and more innovative political leadership. It is a trend which, I believe, the United States and Japan's other friends should support. The entrenched power of the bureaucracy in Japan has long been a major impediment to reform in both domestic and foreign policy. Only strong political leadership can help move Japan from the policies of the past to policies that can help her achieve a global role, both economically and politically.

Part of this new role is, plainly, the assumption of greater Japanese responsibility for international security. Given the tragic history of the 1930s and '40s, Japan, of course, must be careful about the way in which she assumes this additional responsibility. Any Japanese attempt to become a regional policeman, for instance, would plainly prompt a strong and negative reaction from Beijing and other East Asian capitals. But even within these constraints, Japan can and should take a more assertive role internationally. It can do so best, I believe,

through the United Nations system, where Japanese peace-keepers have already proven their worth in places like Mozambique and Cambodia.

Moreover, Japan must be careful to avoid efforts to exclude the United States economically from East Asia. Talk of a regional trading bloc led by Tokyo retains a certain fascination in Japan and elsewhere in the region. But such a step would surely be devastating not just to the U.S.—Japanese partnership but to stability in the entire Pacific region. We saw a line drawn down the middle of the Pacific once before in this century—with disastrous results. And suggestions by Malaysia that there should be an East Asian “caucus” without Caucasians is a particularly wrong-headed idea.

So, how should the United States approach the emergence of Japan as a global power?

Clearly, the maintenance of the U.S.—Japan security relationship is a top priority. So, too, is a general lowering of the rhetoric on trade issues, where patient negotiation, I regret to say, has all too often been replaced by public posturing during recent years. Above all, the United States should work to ensure that regional economic integration occurs through fora, like APEC, which assure a continued major American role.

China

Now let me turn to China, which is the emerging great power in the world today.

China’s rise has been most dramatic, obviously, in the economic realm. Beijing’s efforts to liberalize the Chinese economy have clearly catapulted the country into the front ranks of the world economy. However, the stupendous growth of the last few years has created both domestic and foreign imbalances.

The latter have already begun to strain U.S.—Chinese relations as our trade deficit with China begins to show signs of becoming as intractable and contentious as our imbalance with Japan. But the decisive factor in the future of U.S.—Chinese relations will, I submit, be the course of Chinese internal politics. China’s transition in the post-Deng era will have vast ramifications not just for China itself, but the region as a whole.

Beijing’s two-tracked approach of economic liberalization combined with political authoritarianism has yielded remarkable short-term economic results. It remains to be seen, however, whether such an approach is sustainable in the long run. To be blunt, history suggests that it is not. Experience, not just in the West but in East Asian countries like Korea and Taiwan, clearly indicates that the creation of an educated en-

trepreneurial class inevitably leads to demands for protection of human rights and political participation.

So what are the possible scenarios for China’s short- to medium-term political future?

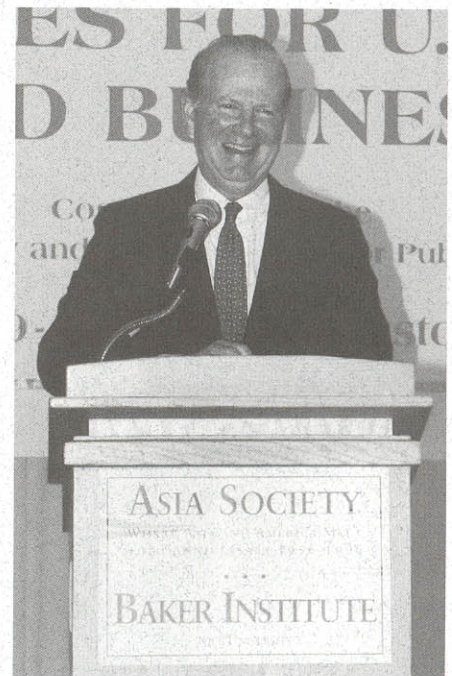
The first scenario is that the much-awaited transition has, in fact, already occurred and that the current leadership, whoever its nominal head, will continue to preside over a stable, if authoritarian, China for the foreseeable future. I consider this scenario unlikely, not just because of the age of many of the figures involved but because of what will certainly be continued pressure within China for a more open political system.

The second and most likely scenario is a period of calm, lasting perhaps six months to two years, as the leading figures of the younger generation share power with members of the current leadership. Then the inevitable internal jockeying will begin—and, in time, we will see a peaceful, if initially only partial, transition to a more participatory political system.

A third scenario, which I think possible but unlikely, is the emergence of a military dictatorship prepared to suppress internal discontent even at the cost of international opprobrium and foreign investment. Such a regime might resort to foreign adventurism to rally domestic support, a dangerous course made attractive by China’s decisive military advantage over most of her neighbors.

Finally, there is a fourth, if also unlikely, scenario: that a power vacuum in Beijing would lead to a repeat of the tragic civil wars of the 1920s. Economic liberalization has already led to degrees of regional autonomy unheard of in recent Chinese history, a development that is, in itself, in no way alarming and, perhaps, even welcome. But, absent a strong central government, this trend could accelerate dangerously into outright and, perhaps, violent conflict between competing centers of authority.

The ultimate path China takes, of course, is of intense interest to the United States and China’s Asian neighbors. Several of the scenarios I have sketched would contribute materially to regional and, indeed, global instability. China, we should never forget, is East Asia’s preeminent military power, with some three million individuals under arms and with a significant nuclear weapons capability. Given these facts, it is vital that the United States and its allies maintain a military posture that would permit us to counter a possible Chinese bid for regional hegemony, however unlikely that might be. Only one of China’s neighbors by itself possesses the combination of population, technological capacity, and economic might to check any such bid. That country, of course, is Ja-



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pan. Yet for powerful reasons that I have already discussed, Japan today can simply not play such a role.

This means that America's special defense relationships with Japan and South Korea must remain linchpins of Asian security. So, too, must our close military cooperation with the countries of ASEAN.

Let me stress one point: I am not proposing an American-led alliance against China. Nothing could be more counterproductive. I am not suggesting that our policy of "engagement" with China become one of "containment" of China. As I said in regard to NATO and Russia, the best way to make an enemy is to look for one.

On the contrary, the growing economic links between China and the outside world—particularly the foreign investment that has driven much of China's recent expansion—represent by far the best guarantee that China will be a force for stability in the region. And these links also give China's main economic partners limited but real leverage on such issues as human rights.

But maintaining a credible American military presence in the Pacific can also play a role, as it has in the past, in promoting security in East Asia. This is particularly true with respect to the continuing risk of conflict on the Korean peninsula, where Pyongyang's game of nuclear cat and mouse with the international community appears to have paid off.

In sum, the United States and its allies in East Asia plainly have a powerful interest in China's long-term stability. And that stability is best served by an approach that balances support for greater political freedom in China with continued efforts to deepen Beijing's economic links with the outside world. Striking such a balance, of course, is not easy. But it is precisely such balance that will be required if those with an interest in China's future are to help shape it. And this balance in turn requires more discipline and consistency in American foreign policy toward China.

Over the last few years, such discipline and consistency have often been sorely missing. The about face on MFN was one example. A worse one was the decision to grant a visa to President Lee of Taiwan after the State Department advised Beijing that it would not be issued. I believe that the decision to grant the visa was a correct one. We should make it clear to China that the United States reserves the right to grant such visas for private unofficial visits. But the frankly amateurish way we went about doing it was inexcusable.

So, what should be the key elements of

American foreign policy toward China?

First, we must maintain a policy of constructive engagement with Beijing based on mutual respect and understanding.

Second, we must continue to use the three communique and the Taiwan Relations Act as the basis of American foreign policy—specifically, that there is only one China, that Taiwan is part of it, that the United States will support any peaceful resolution of the differences between the People's Republic and the people of Taiwan, and that we will have broad, unofficial relations with Taiwan. It is important to note that this includes assisting Taiwan to have an adequate defense through arms sales as well as unspecified actions in the event of an attack on Taiwan. Even more importantly, we should continue to remember and remind others that one of the chief purposes of the Taiwan Relations Act was "to make clear that the U.S. decision to establish diplomatic relations with the PRC rests upon the expectation that the future of Taiwan will be determined by peaceful means."

Third, we need to sustain a serious high-level political dialogue with China in an attempt to reconcile differences over trade, human rights, and proliferation of weapons of mass destruction. Above all, we need to avoid the sort of angry public confrontations that can destroy that dialogue.

Fourth, the administration needs to reach a bipartisan accord with Congress, as we did in 1989 on Central America, to remove China policy from our domestic political debate. It is absolutely vital, given the sensitivities involved, to ensure that the American government speaks with one voice in our dealings with Beijing.

Fifth, we need to encourage the leadership in Beijing and Taipei to concentrate on substance, not symbols. We should encourage direct contact between them. The focus should be on areas of mutual advantage, such as cross-straits investment, rather than on areas of intractable difference. A *de jure* solution is probably not in the cards in the near term. In my view, the problem will ultimately resolve itself as a *de facto* matter, provided substance is allowed to prevail over symbols.

Sixth, we need to avoid the false choices that suggest American foreign policy must be entirely based either on high principle or material advantage—in short, exclusively on either "idealism" or "realism." The real world of foreign policy lies somewhere in between, and this is nowhere truer than when it comes to China—where we need to balance, for instance, our clear interest in improving human rights with our no-less-

compelling interest in commercial engagement.

Conclusion

In conclusion, let me say that the policy suggestions that I have outlined here this evening, I hope, reflect both the complexity of the issues at hand and the importance of the stakes for the United States, as East Asia moves toward what is already being called the "Pacific Century." There are, indeed, clear limits to American influence in Moscow, Tokyo, and Beijing. But there are also practical measures by which we can advance American interests through maximizing opportunities and minimizing risks during a period of profound change for Russia, Japan, and China.

Finally, let us also bear in mind that the United States, too, is passing through an important historic transition. The end of the cold war and a pressing domestic agenda have tended to put foreign policy on the backburner of our national political debate. The uncertainties of the new global economy have given a new saliency and, in some cases, rancor to trade issues. And, not least, a truly bipartisan approach to foreign policy has been undermined by the stark political divisions in Washington which, in turn, are caused in large part by the fact that for all but six of the last twenty-eight years, we have had divided government (i.e., an executive branch controlled by one party and a legislative branch controlled by the other).

All of these developments have added strains to our relations with all three of the great Asian powers I have mentioned. Above all, they have tended to erode the sort of American leadership abroad that I believe vital to international stability in general and stability in East Asia in specific.

But American leadership abroad is impossible without leadership here at home. And that leadership cannot stop with our elected officials. Businesspeople, academics, civic leaders, and informed citizens must all be part of our national foreign policy debate—on China, East Asia, the broader international arena.

That, at a fundamental level, is what this conference is all about. And it is why I, for one, am so proud that the Baker Institute and the Asia Society could help make it possible.

SUBSTANTIVE RESULTS OF THE CONFERENCE

The following remarks summarizing the results of the conference were delivered by Edward P. Djerejian, director of the Baker Institute, on February 10.

This has been an extraordinary conference, bringing together leading government officials, businessmen, scholars, and experts from China, the United States, Asia, and Europe. This forum could not have been more timely, given the headlines and media attention on United States-Chinese relations and the future course of that crucial relationship. In my remarks at the outset of this conference, I referred to the Chinese ideograph which depicts the notion of "crisis." It contains two symbols—danger and opportunity—which characterize much of the dialogue and debate over the last two days on China as the emerging great power in the world and the relations between our two countries. Former foreign minister Roberto Romulo of the Philippines referred, aptly, to China as "the expression of both hope and anxiety in the world today." Another panelist characterized the period ahead as one of dynamism and tension under great economic and political change.

There was consensus in our deliberations that China's economic reforms and growth have made China a major player in the world economy today. This is exemplified by China's 16 percent growth per annum in foreign trade since 1978. This perception is shared by the American public. In a Gallup organization poll which was released at our conference, 57 percent of the respondents consider China, in addition to Japan, as "most important" in economic terms to the United States in the years ahead. Fifty-four percent think that China will continue to implement free-market reforms.

There was consensus that engagement, and not containment, should be the major thrust of United States policy as China has opened up to the world. Vice Minister of Foreign Trade Sun Zhenyu stated that this opening has vitalized China during this period of historic transition. Dr. Kenneth Lieberthal of the University of Michigan thought that an open division among Chinese leaders during this transition could pose dangerous issues for the United States. How the United States copes with and influences change in China is a key challenge. The United States needs to elaborate a strategic vision to build constructive ties to China.

In order to construct a viable policy toward China, we need to understand the nature of change in China. According to Dr.

Wang Jianwei of the University of Wisconsin, economic change has spurred some political change in China. The relationship between the center and the provinces has changed, and there was discussion of "the coast versus the interior," with 90 percent of investments going to the coastal regions and only 10 percent to the interior regions. The relationship between the state and society is changing. Chinese ministries are beginning to restructure themselves in order to separate government operations from private sector operations. Seventy percent of all urban labor in China work in state-owned enterprises. The future status of these enterprises and how they are restructured or privatized raises major political, economic, and social issues, especially in terms of potentially massive urban unemployment.

The critical role of the overseas Chinese in China's privatization programs and economic growth was emphasized during the discussions, including the large investment flows from Taiwan. In addition, the information revolution and the introduction of the Internet is expanding China's exposure to the outside world.

In sum, all these factors are producing incremental governmental change in China which is creating its own dynamic.

Our various panels focused on the major issues which affect the bilateral United States-Chinese relationship and China's relations with the regional and international community. Taiwan was described as the most dangerous issue because of the possibility of military conflict and the implications thereof. Assistant secretary of state for East Asian and Pacific affairs Winston Lord stated the administration's view that both China and Taiwan perceive it to be in their interest to avoid a military confrontation but that all the parties know that China has not ruled out the use of force if Taiwan declares

independence or if there is outside interference on behalf of Taiwan. Hong Kong is another major issue. As China's second-largest trading partner after Japan, how China treats Hong Kong after 1997 will have major implications, both politically and economically, on a regional and international scale. There was a general view expressed that China has a vested interest in seeing Hong Kong succeed economically. But the key question is: will China be able to leave politics out of the equation? Other major issues that were identified and discussed in detail were China's membership in the World Trade Organization, the trade deficit with the United States, weapons proliferation, human rights, and the environment.

One of the more important contributions of this conference was the panel discussions

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on the different United States and Chinese perceptions of the bilateral relationship which underscored the need for more effective dialogue and contact at all levels. Professor Wang Jianwei described the historic evolution of Chinese perceptions of the United States as a rival system, a hegemonic power, and now a necessary and preferable world leader. This latest perception is not universally held in China and will be affected by the course of political, economic, and social transition in China. The United States's perception of China as an emerging global power with which we need to engage somewhere in between policies of idealism and all-out pragmatism is a central issue.

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Sixty-first Secretary of State James A. Baker, III, in his keynote address to the conference suggested succinctly that the United States needs "to avoid false choices that suggest American foreign policy must be entirely based either on high principle or material advantage—in short, exclusively on either 'idealism' or 'realism.' The real world of foreign policy lies somewhere in between and this is nowhere truer than when it comes to China—where we need to balance, for instance, our clear interest in improving human rights with our no-less-compelling interest in commercial engagement."

The political consensus exemplified by Deng Xiao-Peng survives on the importance of the United States-China relationship. But the participants agreed that this is not a constant and that this consensus is not immune to strong domestic pressures. Yuan Ming, the director of the Institute of International Relations at Beijing University, stated that the United States and China are now at a crossroads. The next two years are particularly delicate, even dangerous, with domestic political considerations ascendant given the American presidential elections in 1996 and the Chinese Communist Party Congress in 1997.

In this overall context, Ni Shixiong of the Center of American Studies at Fudan University commented that China is a regional power with global interests, and the United States is a global power with regional interests. Accordingly, both American and Chinese panelists agreed on the pressing need for both sides to determine a viable strategic basis for the conduct of the relationship. It was noted that economic and commercial ties can help provide new ground for cooperation.

In this latter context, it was interesting that the panel on business and energy was the forum which placed the most emphasis on the importance of understanding the culture and history of China in order to build effective relationships. Jon Huntsman Jr. spoke of the importance of understanding China's history and suggested that our economic tools may not be that relevant in Asia. He also addressed the issue of language deficiency on the part of Americans, which causes problems in communication and understanding. He concluded that the bilateral business and commercial ties are the most positive and consistently stable part of the relationship which constitute a powerful force for dialogue. Wayne Booker of the Ford Corporation drew attention to the harmonious culture upon which China is based and our need as Americans to understand better this context in our dealings with China. He proposed three guidelines

for doing business in China: physical presence, participation, and patience. Success depends on obtaining consensus among diverse decision makers. The Chinese are not just interested in the end product but need to maintain order and continuity. Finally, linking politics to business is a most disruptive approach. Robert Kapp, the president of the United States-China Business Council, reiterated that linking Most Favored Nation status to other issues was a self-defeating approach and that MFN does not constitute special treatment in China's favor.

An important subject of discussion was China's current and future energy demand and the impact it will have on Asia and the rest of the world. Dr. Kenneth Lay, chairman and CEO of Enron, discussed Asia's vast potential for future growth and its enormous energy consumption needs in the twenty-first century when Asia will consume more oil than North America and Europe combined and its demand for natural gas will double in the next ten years. Asia's electricity needs over the next fifteen years will reach between 650 and 750 gigawatts, roughly equivalent to all the installed electrical capacity in the United States today. In China alone, 45 percent of all energy comes from coal. By the twenty-first century, China will consume one-third of the world's coal. This will be a major cause of pollution, global warming, and health problems, with 25 percent of the world's increase in CO₂ coming from China and 20 percent from the United States. Dr. Lay believes there will be an increased role for natural gas and strong pressure globally to shift away from fossil fuels to alternative sources of energy.

Masahisa Naitoh of the Institute of Energy Economics in Japan gave the Japanese perspective of the future trend in Chinese energy demand. He predicted that China will continue to increase its energy demand by 4.9 percent per annum until the year 2000 and by 4.4 percent between 2000 and 2010. As for the structure of the energy demand ratio, coal, while still making up the largest share at 78 percent, will continue to decrease. However, toward the year 2010, the use of both nuclear energy and natural gas will increase, and the ratio will be slightly more than 2 percent and 3 percent of the total demand, respectively. Hydro-power and petroleum are predicted to increase slightly. For the year 2000, Chinese petroleum imports are predicted to be one million barrels per day and by 2010, three million barrels per day. To address the various concerns these trends pose, Mr. Naitoh suggested, *inter alia*, the establishment of various energy-related guidelines and construction of energy development schemes that utilize East Asian cooperative fora, such as APEC and ASEAN, building close economic ties to Middle Eastern oil-producing countries, from which it is estimated 95 per-

cent of East Asia's imported oil will come by the year 2000, and building an international pipeline.

There was general agreement that the United States needs to engage China on both a multilateral basis and at different levels bilaterally—politically, economically, militarily, and culturally. Japanese, Korean, and Filipino participants underscored the necessity of getting China to engage and participate in multilateral fora. This engagement should not exclude the United States but complement the critical triangular relationship of the United States, Japan, and China. There was strong emphasis placed on the need for the United States to support the emerging multilateralism in Asia. The United States must demonstrate leadership in its role in Asia. Without an American presence, only Japan and China will be left to assume the leadership role in politico-military terms. Asian participants pointed out that Asian countries strongly prefer a multipolar situation in the region.

There was much discussion of human rights in China and United States policy regarding the issue. Professor Jerome Cohen of the New York University Law School pointed out the differing Chinese and American views and perceptions on human rights. In the American view, priority is given to basic freedoms, such as that of the vote, assembly, information, and freedom from arbitrary punishment. In the Chinese view, economic rights—such as food, shelter, and health care—have a higher priority. This is especially the case at this stage of China's political evolution, where political democracy is extremely limited. In any case, it needs to be noted that progress on human rights is aided by improvement of the economic-social situation; therefore, it is well argued that we not link MFN to human rights though, at the same time, we should speak out assertively on human rights issues.

Further, in our approach to human rights issues in China, we need to be realistic in terms of timeframe. China is in an historic process of economic and social change, and time is an important factor. It is equally important that human rights must not be just an East-West issue and should be "multilateralized."

The implications of China's evolution and policies for United States policy was a major focus of the conference's deliberations. Assistant Secretary of State Winston Lord stated that dealing with China today is, perhaps, more difficult than ever before. As China rapidly emerges as a global power, we are faced with the issues of nationalism, a deep sense of sovereignty, and the perceived threat of containment. David Lampton, the president of the National Committee on United States-China relations, posed a number of important questions. What is the strategic rationale for

United States–China relations? How do we prioritize our interests? Can we depend on presidential leadership? Is the policy of strategic ambiguity on Taiwan feasible or effective? Kurt Campbell, the United States deputy assistant secretary of defense for East Asian and Pacific affairs, underscored the importance of engaging the Chinese military in the bilateral dialogue as China emerges into great power status. We need to avoid miscalculations and to obtain more transparency in military matters. On Taiwan, he and Winston Lord presented the administration's position on the need for the peaceful resolution of this dispute and for the maintenance of peace and security in the Taiwan straits. The defensive capabilities of Taiwan must be assured. Both posited the administration's view that an armed conflict between China and Taiwan is not imminent, despite current concerns and difficulties.

Former ambassador to China and Defense Department official Jim Lilley, who now directs the Asian Studies Program at the American Enterprise Institute, put down a clear foreign policy marker and red flag: namely, that China should not try to impose its authoritarian system anywhere outside of China. This could lead to conflict and instability in Asia.

Several of the Chinese panelists urged the United States to understand the importance of time and patience as China proceeds through this period of historic transition. Maurice Greenberg, chairman and CEO of American International Group, Inc., and chairman of the Asia Society board of trustees, said that no leader of China today is going to act or appear to act weak in this period of transition; therefore, the United States would be well advised not to force issues at this stage. In this context and in light of Sixty-first Secretary of State James A. Baker, III's keynote address on United States policy toward China, Dr. Han Sung-Joo, the former foreign minister of the Republic of Korea, put forward six points as guidelines toward dealing with China: 1) a pragmatic approach is needed; 2) there must be a balance between rigidity and flexibility while remaining firm on issues of principle; 3) policy should be based on interests, not goodwill; 4) recognition that domestic politics will prevail in influencing China policy; 5) formulas must be found to provide a framework for the relationship with China; and 6) there is a crying need for leadership and statesmanship in an age characterized by mediocrity. As for the reunification of Korea, China is not, in theory, opposed. But China is concerned over the possible disruptive process of reunification (refugee flows, instability, and conflict). Also, China would be opposed to a reunified Korea which is part of a policy of containment of China.

Li Daoyu, the ambassador of the People's

Republic of China to the United States, reiterated that the United States and China share extensive interests despite their political and ideological differences. In terms of geopolitical interests, he referred to:

- World peace and security as exemplified in the responsibilities of the two countries in the UNSC and bilateral cooperation in this forum during the Persian Gulf crisis.
- The key roles of both countries in maintaining peace and security in Asia (Korea, Cambodia, Southeast Asia, and Afghanistan).
- Cooperation with regional economic organizations, such as APEC.
- Prevention of the proliferation of weapons of mass destruction and adherence to the NPT and the creation of nuclear free zones.
- Transnational issues, such as crime, drugs, and the environment.
- Extensive mutual economic and commercial interests, with China being the sixth-largest trading partner of the United States.

Ambassador Li emphasized that the United States should not try to force its value system on China. He stated that China does not want to export its ideology.

In his keynote address to the conference, Sixty-first Secretary of State James A. Baker, III outlined policy suggestions that reflected both the complexity of the issues at hand and the importance of the stakes for the

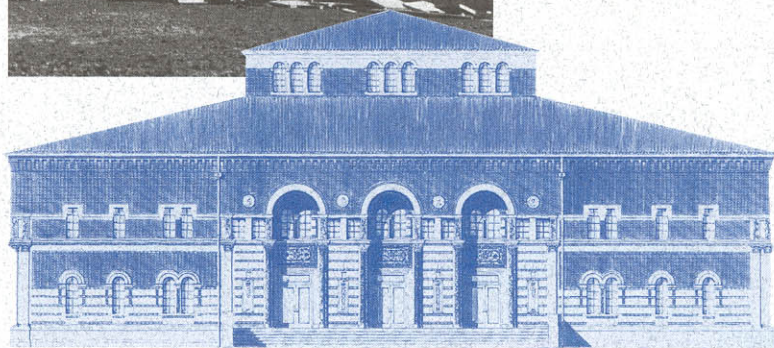
United States as East Asia moves toward what is already being called the "Pacific century." He urged that the United States encourage the leadership in both Beijing and Taipei to concentrate on substance, and not symbols, to engage in direct contact between them, and to focus on areas of mutual advantage, such as cross-straits investment, rather than on areas of intractable difference. He urged that the administration reach a bipartisan accord with Congress as the Bush administration did in 1989 on Central America in order to remove China policy from our domestic political debate. Finally, he stated that American leadership abroad is impossible without leadership at home and that leadership cannot stop with our elected officials—"businesspeople, academics, civic leaders, and informed citizens must all be part of our national foreign policy debate—on China, East Asia, the broader international arena. That, at a fundamental level, is what this conference is all about. And it is why I, for one, am so proud that the Baker Institute and the Asia Society could help make it possible."

In sum, and in light of all the deliberations, discussions, and debates at this conference, there is one phrase which evolves as a guideline for United States policy toward China during this historic period of transition, and that is "principled pragmatism." The United States has a major responsibility in assuming a leadership role to carry out this policy. The question is whether there is the necessary political will and leadership to do so.

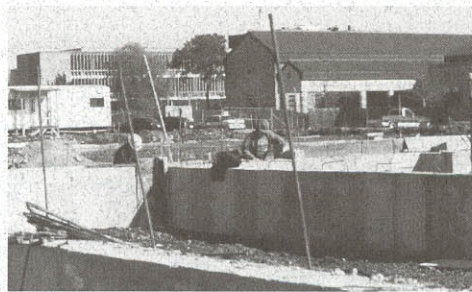


Businessman Roy Huffington, Indian consul general S. Singh and Sun Zhenyu, China's vice minister of foreign trade, share a light moment during the conference's concluding reception.

PROGRESS ON NEW INSTITUTE BUILDING CONTINUES



Work continues on the construction of the new Baker Institute building, with a completion date of Spring 1997.



COUNCIL ON FOREIGN RELATIONS

Study Group Wraps up 14-Month Study on the National Interest

Baker Institute Director Edward Djerejian chaired the Southwest Regional Group of the Council on Foreign Relations Study of the National Interest. The group met five times beginning in January 1995 to listen to speakers and engage in discussion on the national interest of the United States in the post-Cold War era. Speakers who addressed the group during the meetings were: Richard J. Stoll, associate director of the Baker Institute, on public and elite opinion on foreign policy; Charles Duncan, former secretary of energy, on energy issues; William Ruckelshaus, former EPA administrator, on environmental issues; John Shattuck, assistant secretary of state, on human rights; and Admiral Bobby Inman, former director of the National Security Agency, on national security issues. Djerejian, Alfred Boulos of Boulos International, and Lee Cullum of the *Dallas Morning News* represented the Southwest group at a meeting involving all of the regional groups engaged in the study. This meeting took place at the Wye Plantation in Queenstown, Maryland, in December. Input from the Southwest group was critical to the inclusion of guaranteed access to energy supplies and encouraging the economic prosperity and political integrity of Mexico and Canada on the list of vital U.S. national interests.

TAX REFORM STUDY IN PROGRESS

Under the aegis of the Baker Institute, professors George Zodrow and Peter Mieszkowski of Rice's Department of Economics have been awarded a grant from the National Tax Research Council to investigate "The Economic Effects of Replacing the Income Tax with a National Retail Sales Tax." The research project has three components: the construction of an economic simulation model that will analyze the effects of replacing the current income tax with various types of retail sales taxes, the construction of a data set based on information obtained from individual and corporate tax returns and other sources to analyze the distributional ef-

fects of such a reform, and an analysis of the administrative feasibility of a national retail sales tax. Zodrow and Mieszkowski will be assisted in this effort by Professor Matthew Murray of the University of Tennessee at Knoxville and Professor Michael Palumbo of the University of Houston. This research project is part of a larger effort that will investigate a wide variety of aspects of a national sales tax reform. Other institutes involved in the effort are Harvard University, MIT, the NBER, and the CATO Institute.

SECRETARY BAKER GIVES PERSONAL PERSPECTIVE ON THE COLLAPSE OF THE SOVIET UNION

The following remarks were delivered by James A. Baker, III, on Saturday, March 29, at the opening of a conference on the end of the Cold War cosponsored by the Baker Institute and Princeton's Woodrow Wilson School:

I am very pleased to be here today at this event cosponsored by two institutions which are dear to my heart—Princeton University and the Baker Institute. And I'm honored that we have such distinguished participants. I hope that our reflections here today will serve to bridge the gap between the worlds of scholars and practitioners—a key tenet of the Baker Institute for Public Policy. For they are worlds which have much to offer each other.

Now, I do not claim that what I outline here in the next few minutes will be either complete or unanimously accepted. Indeed, I encourage you to take issue with my impressions and conclusions when you differ with them. After all, a vigorous debate is a necessary antecedent to an informed approach to public policy—which, of course, is the ultimate goal of this type of conference. In any event, I hope that my comments will offer a starting point from which we can proceed; a road map, if you will, for further discussion.

We meet today to discuss perhaps the most important event of this century—the “peaceful” end of a half-century of confrontation that had the potential of annihilating mankind.

Let me begin with a simple premise: there is no single explanation for the peaceful end of the Cold War. All of us here today were fortunate to be (if you'll pardon the expression) “present at the expiration.” But that expiration was the result of a multiplicity of factors. The issues presented by this revolutionary change were enormously complicated and offered no shortage of challenge to those of us who had to deal with them.

With the benefit of four years of hindsight, however, some distinct patterns are recognizable. I believe we can generally trace the end of the Cold War and the dissolution of the Soviet empire to a confluence of economic, political, and strategic forces that began to emerge about ten years ago.

First and foremost, among these factors was growing economic stagnation in the Soviet Union—a stagnation that prompted Mikhail Gorbachev to move away from the central planning that had long defined the organization of the Soviet economy. By the mid-1980s, it had become painfully obvi-

ous—not just to the Soviet leadership but to the average citizen—that the Soviet Union could no longer postpone the choice between guns and butter. That is to say, the Soviet Union could no longer pursue an approach of increasing defense spending while also placating consumers through an extensive social support network. In trying to satisfy these two conflicting and increasingly urgent demands, investment in infrastructure outside the military-industrial complex



was neglected and the economy was left anemic and brittle.

There was little choice but to try and change. In the face of this, Gorbachev devised *perestroika*, or restructuring. At heart, Gorbachev was a reformer, not a revolutionary. It is quite clear that he sought reform as a way to strengthen and renew communism and the Soviet Union as a superpower itself. He felt he could modify socialism without fundamentally altering the system. But soon it became obvious that merely tinkering with a Gosplan-organized economy was only going to hasten its collapse.

By the late 1980s, the Soviet economy was sagging heavily under its own weight. At the same time, the people of the Soviet Union and the Eastern Bloc began to see the West for what it really was—a home of liberty and prosperity—rather than the false vision they had been fed. *Perestroika* played into a nascent desire for change.

But economic collapse alone cannot fully explain the end of the Cold War and the dissolution of the Soviet empire. The political earthquake attending Gorbachev's program of *glasnost* was also a necessary ingredient.

The intent of *glasnost*, or openness, was originally rather limited: to provide a means to root out corruption from the Brezhnev era. After all, this graft was an economic drag that the Soviet Union could no longer afford. But the effect of *glasnost*, however modest in design, was enormous. It let the freedom genie out of the bottle.

Perestroika and *glasnost* then fed into deeply rooted nationalist sentiments long stifled by

an artificial construct—the U.S.S.R. itself. The struggle for national self-determination first appeared in Eastern Europe and then spread to the Baltics, Ukraine, and Central Asia. The spread of political and intellectual freedom unleashed a centripetal force which tore apart Moscow's empire—first, from Bucharest to East Berlin and, later, in the Soviet Union itself, from Tallinn to Tashkent.

The end of the Cold War reminds us once again of the enduring power of ideas and the resilience of the human spirit to think and act freely.

But an examination of the end of the Cold War would be incomplete without consideration of the geostrategic contributing factor, as well.

In the end, George Kennan, the father of “containment,” was proved prophetically right: as long as the U.S. and the West stood strong and united, the

Communist Bloc would eventually disintegrate, unraveling from its own internal contradictions. The nature of *perestroika* and *glasnost*—and the sympathy these reforms engendered among Western public opinion—allowed the United States and its allies to treat its former adversary as a partner rather than a defeated foe as the end approached.

In 1989 we in the Bush Administration knew that we could not “deliver” reform to the U.S.S.R. But we, nonetheless, realized we could assist the process (and the Soviet leadership) by fostering a supportive international environment. As President Bush told Chancellor Kohl in February 1990: “We are going to win, but we must be clever while we are doing it.” We wanted the Soviet Union to go out peacefully, and, accordingly, we focused on areas of mutual advantage. Early in the Bush administration, we identified a number of such areas of mutual cooperation. They included progress toward creation of a Europe whole and free, resolution of regional conflicts, expansion of arms control, institutionalization of *glasnost* and democratization, and the provision of technical assistance to support economic reform in the Soviet Union itself.

U.S.–Soviet cooperation began in real earnest on regional conflicts in 1989, picked up speed with the Kremlin's agreement to the “two-plus-four” process for German unification in February 1990, and reached its apex when the U.S. and the U.S.S.R. were able to look beyond past rivalries to stand together against Saddam Hussein in August 1990.

But we should never forget that the Cold War was colored by its potential for turning

hot. In a military sense, then, many view the end of the Cold War as a victory for American and Western armed forces. While this view is not altogether wrong, it must be clarified: the end of the Cold War was a military victory of a different kind—one in which capabilities and technology, not infantry and firepower, were the crucial factors.

The 1980s and early 1990s witnessed a technical revolution in military warfare, one in which sophisticated technologies, such as computers and stealth weaponry, fundamentally changed strategy. Not insignificantly, high-technology projects like President Reagan's Strategic Defense Initiative stood as an example to the Soviet Army that it was falling behind in the technological arms race. In this sense, "new thinking" in Soviet foreign and military policy was an outgrowth of the recognition that it could not compete in this new era. In order to gain the intellectual and technological resources for modernization, the Soviet military initially supported many of the efforts to open Soviet society and liberate its economy. For the U.S.S.R. to keep up strategically, scientists and technicians needed room to innovate. Later, when the Soviet military began to oppose reform, it had become too late.

Ironically, then, the attempt to bring the Soviet Union into the twenty-first century strategically, economically, and politically through "new thinking," *perestroika*, and *glasnost* fostered the very forces that caused it to implode. Indeed, perhaps the grand irony of the twentieth century is that Mikhail Gorbachev sought to engineer neither the demise of communism nor the breakup of the Soviet Union. Yet he will be credited (appropriately) with having done both. This outcome is not just ironic, it is paradoxical.

Despite the trends I've outlined here—which suggested the eventual cessation of the Cold War in any event—it's important to remember that a range and variety of outcomes were possible. The peaceful end of the Cold War was by no means a preordained event. It was contingent on a series of historical events—some rational, some irrational, some intended, some unintended.

This brings me to my final and, perhaps, most important point: the events we discuss here this weekend were, above all, shaped by people.

The peaceful end of the Cold War was brought about by the hard work and brave actions of individuals like Ronald Reagan, George Bush, Mikhail Gorbachev, Helmut Kohl, Margaret Thatcher, and Francois Mitterrand, among others. These leaders made tough, but informed, decisions and accepted their consequences.

The Soviet Union went out with a whimper, not a bang, because of the judgments and choices of our leaders. In the final analysis, history remains man-made.

"COLD WAR ENDGAME"

Baker Institute and Princeton's Woodrow Wilson School Cosponsor Conference on the End of the Cold War

On March 29 and 30, 1996, The Woodrow Wilson School of Public and International Affairs at Princeton University and the James A. Baker III Institute for Public Policy cosponsored a conference at Princeton on the "Cold War Endgame." Fred I. Greenstein, director of the John Foster Dulles Program for the Study of Leadership in International Affairs, described the purpose of this conference as follows: "The end of the Cold War will be remembered as one of the most momentous transformations in this or any century. For nearly fifty years, the United States and the Soviet Union were poised in a conflict that could have ended much of the human race. Then that confrontation came to a rapid, unexpected, and remarkably peaceful end, culminating with the fall of communism in Eastern Europe in 1989 and the collapse of the Soviet Union in 1991. In convening key former members of the Bush administration and their Soviet counterparts in the diplomacy that spelled an end to the Cold War, we hope not only to better understand the endgame of that conflict, but also to gain insight into how future cold and hot wars can be avoided."

The discussions and exchanges of the participants provided unique and frank insights into American and Soviet decision making during that historic period. Further, the overall importance of the personal relationships that were formed between key personalities on both sides did much to promote the U.S.–Soviet dialogue on the most sensitive issues and facilitated the reaching of agreements and cooperation on such critical issues as German unification and the Persian Gulf War, which effectively spelled the end of the Cold War. The American participants included James A. Baker, III, the secretary of state during this period; Lieutenant General Brent Scowcroft who was the assistant to President Bush for national security affairs; Jack Matlock, Jr., the American ambassador to the Soviet Union 1987–91; Robert B. Zoellick, who served as counselor of the State Department under Secretary Baker; and Philip Zelikow, who was on the NSC Directorate for European and Soviet Affairs during that period. On the Russian side, the participants included Alexander A.

Bessmertnykh, who was foreign minister of the Soviet Union in 1991; Anatoly Chernyaev, who was personal adviser on foreign affairs to President Gorbachev 1986–91; Pavel Palazchenko, who was special assistant and interpreter to Gorbachev; and Sergei Tarasenko, who was the principal policy assistant to Foreign Minister Eduard Shevardnadze 1985–91. Don Oberdorfer, who was diplomatic correspondent of the *Washington Post*, moderated the panel sessions.

The first session dealt with the forging of a new relationship between the new Bush administration and Moscow, ending with the Malta Summit in December 1989. There, Bush and Gorbachev established a strong personal relationship that paralleled the one formed earlier between Baker and Shevardnadze. It was at Malta where Gorbachev, after hearing of the U.S. policy initiatives, made the historic statement to President Bush, "We don't consider you an enemy anymore."

The second session dealt with the downfall of the communist regimes in Eastern Europe in the second half of 1989 and the sudden and unexpected breaching of the Berlin Wall in November, which marked the most fundamental shift in Europe since its division into opposing camps following World War II. Baker explained that Shevardnadze made clear to him that there would be no resort to the use of force to keep Eastern Europe in the Soviet camp. The collapse of the Berlin Wall did not, however, resolve the future of Germany, the most powerful nation of Central Europe and the source of two twentieth-century world wars. This session focused particularly on the developments and diplomacy that led to the unification of Germany and the realignment of Europe.

In mid-February 1990, Baker persuaded the Soviet leaders, as well as those of Britain and France, to sponsor a "two-plus-four" mechanism to deal with the future of Germany; thus, five months of intense diplomacy began, including a U.S.–Soviet summit meeting in Washington, to persuade Moscow to accept the incorporation of East Germany in the West and to include the re-

"... we hope not only to better understand the endgame of that conflict but also to gain insight into how future cold and hot wars can be avoided."

—James A. Baker, III

united Germany in NATO. Chernyaev stated that Gorbachev never would have allowed the use of force to prevent German unification. This accord, sealed by West German Chancellor Helmut Kohl in a meeting with the Soviet leader in July, brought about intensified domestic criticism of Gorbachev as well as dramatic movement to unification. In an interesting aside, Tarasenko revealed that Shevardnadze, during the negotiations on German unification, had a World War II Soviet veteran on his foreign ministry negotiating team as a touchstone to determine what the Soviet people could support on the sensitive issue of Germany.

The third session dealt with Iraq's invasion of Kuwait on August 2, 1990, which brought the United States into conflict with a Persian Gulf state that is close to the Soviet Union geographically, had been a major Soviet arms recipient, and represented one of the most important Soviet "client states." In the past, Moscow almost certainly would have defended its client and strongly opposed U.S. armed intervention near to the Soviet borders. This time, in an important test of the new relationship between the superpowers, Baker and Shevardnadze issued a joint statement on August 3, 1990, condemning the Iraqi action and calling for an arms embargo against Iraq. While not without misgivings and internal opposition, the Soviet posture was a major asset in the U.S. drive to line up a powerful and inclusive coalition to drive Iraq from Kuwait. This was a major breakthrough that the participants stressed could not be overestimated. The Cold War was largely defined as the United States and the Soviet Union being on opposite sides of international crises. Indeed, the U.S.-Soviet joint session represented an historic turning point away from the Cold War. The participants also revealed how deeply decision making was facilitated by the trust that had grown between the key players, such as Baker and Shevardnadze and Bush and Gorbachev. Difficult decisions were made that had high political risks, as evidenced by the mounting criticism of Shevardnadze and his subsequent resignation.

The final session dealt with the failed military coup of August 1991 and the dissolution of the Soviet Union in December 1991 that brought the world into a new epoch, leaving only the United States as a global superpower. The sudden resignation of Soviet Foreign Minister Shevardnadze in December 1990 and his warning of the dan-



"Cold War Endgame" Conference Gathers U.S. and Soviet Leaders Who Made History. The participants and their positions in the period considered by the conference included James A. Baker, III, secretary of state during the Bush administration; Alexander A. Bessmertnykh, foreign minister of the Soviet Union; Anatoly Chernyaev, personal adviser on foreign affairs to President Mikhail S. Gorbachev; Jack F. Matlock, Jr., U.S. ambassador to the Soviet Union; Pavel Palazchenko, special assistant and interpreter to President Gorbachev; Brent Scowcroft, assistant to the president for national security affairs; Sergei Tarasenko, principal policy assistant to Foreign Minister Eduard Shevardnadze; and Robert Zoellick, counselor of the State Department.

ger of a hard-line "dictatorship" foreshadowed the dramatic developments of 1991. Efforts to warn Gorbachev, including warning from Baker, Bush, and Ambassador Jack Matlock in 1991 of an impending coup, were ignored by the Soviet leader.

Oberdorfer asked the participants three basic questions: Could the Soviet Union have been saved? Should it have been saved? Was there anything the United States and its allies could have done to change the outcome? A lively discussion ensued. Chernyaev stated that the Soviet Union could not and should not have been saved. It was a totalitarian military state despite its name. The democratic reforms advocated by Gorbachev initiated the transformation of that state. The key question is whether that state could have been reformed. After the attempted coup against Gorbachev, reform was no longer possible. Baker replied negatively to all three questions, emphasizing that the Soviet Union, in its form, denied basic freedoms and should not have existed. He said it was a canard that the United States stuck too long with Gorbachev. "A relationship of trust had developed between us. Gorbachev and Shevardnadze were taking major risks to change the Soviet

Union. We lost nothing by sticking with them. As soon as Yeltsin came to the fore, he wanted to have a close relationship with the United States, and we proceeded promptly." Bessmertnykh commented that Gorbachev wanted to change and ultimately destroy the system, but he was never willing to destroy the state. It is important to differentiate between the state and the system. It is revealing that Gorbachev's latest book is entitled "The Union Could Have Been Preserved." Bessmertnykh felt that a union of democratic republics could have been preserved but that it would have had to be done without the Baltic Republics. He said that opportunity was missed because the other republics were asking only for special status. Tarasenko spoke of the human dimension of a Russian people who had lost their faith. Society had taken a wrong turn and had now discovered a new faith. At that point, communism and the Soviet Union were doomed. Chernyaev spoke of Russians seeking a normal, democratic country without Messianic ideas and concluded this may take several generations. Scowcroft commented that history does not reveal its alternatives.

MIDDLE EAST OIL AND ENERGY MARKET STUDY UNDER WAY

As reported in the last *Baker Institute Report*, the institute is the recipient of a major grant from the Center for International Political Economy to study major political, economic, cultural, and religious actions in the Middle East and their impact on energy supply, security, and pricing. Work on this study is under way. Individual and group projects involving faculty from three different departments have begun. Professors Ron Soligo and Peter Mieszkowski of Rice's Department of Economics will work on the analysis of energy demand, supply, and prices. Professors Peter Hartley and Robin Sickles (also of economics) will examine the marginal cost of oil extraction. Professor Bob Brito of economics, with Eytan Sheshinski of The Hebrew University, Jerusalem, will focus on the existing and potential pipeline system in the Middle East. Professor Fred von der Mehden of political science will analyze the impact of Islamic revivalism on oil, energy supply, and security in the Middle East. Professor Sherry Quiñones of political science and Kei-Mu Yi of Economics will examine oil price shocks, economic growth, and political rivalries in the Middle East. Professor George Marcus of anthropology will convene a miniconference of scholars of Middle Eastern societies and cultures to address the cultural, religious, and social factors that influence the supply of oil from the Middle East. Secretary Baker and Ambassador Djerejian will also contribute their expertise to this study. Aside from faculty studies, several working conferences, visits from outside experts, and a trip to the Middle East are being planned. The report will be completed by the end of the calendar year.

For More Information

If you would like more information about the Baker Institute or if you would like to be added to our mailing list, please call 713-527-4683 or fax 713-285-5993; E-mail address is: bipp@ruf.rice.edu.



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DRUG CZAR BROWN JOINS INSTITUTE

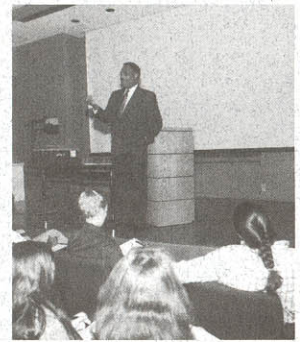
The Baker Institute is proud to announce the appointment of Lee P. Brown, most recently director of the White House Office of National Drug Control Policy, as a senior institute scholar. Brown, who resigned from the Clinton administration in December, has already taken up his position at Rice University, where he will enjoy a joint appointment as Baker Institute Senior Scholar and Radoslav A. Tsanoff Professor of Sociology.

Ed Djerejian, director of the Baker Institute, sees Brown's appointment as an important step in the institute's development. "Lee's presence sends two crucial messages about the institute," Djerejian said. "The first is that we are committed to the very highest standards when it comes to the people who work with us. The second is the importance we attach to the nation's domestic agenda, including Lee's special area of expertise—urban crime and violence. Lee represents precisely the mix of intellectual strength and hands-on experience that we believe the institute is all about. We are fortunate to have him."

Malcolm Gillis, president of Rice University, and Chandler Davidson, chair of the sociology department, also hailed Brown's appointment. Gillis called Brown an "ideal choice to fill the dual roles of the Tsanoff Professor and Institute Senior Scholar." Davidson described his personal pleasure at having Brown join his department: "It's an unusual and enjoyable experience to have someone of Brown's international stature."

Brown, who served as chief of police in Houston, Atlanta, and New York City before becoming the "drug czar" of the Clinton administration, sees his move to Rice University and the Baker Institute as part of a lifelong commitment to the cause of crime prevention. "I am delighted to join an institute that has already distinguished itself and promises to be one of the most prestigious public policy institutes in the country. I consider it an honor to be part of such an extraordinary staff and look forward to helping develop a domestic policy agenda to complete the international effort."

In addition to being one of the nation's most distinguished law enforcement officers, Brown is the holder of a Ph.D. in sociology from the University of California and the author of many articles and papers on crime and crime prevention. He is coauthor of the book *Police and Society: An Environment for Collaboration and Confrontation*.



Lee Brown lecturing.



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