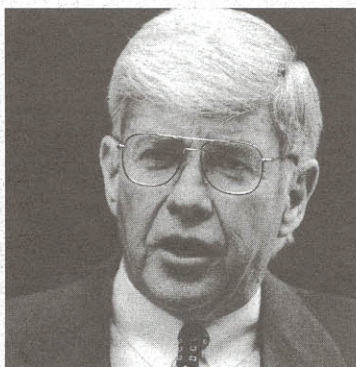




BAKER INSTITUTE REPORT

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



RENO, KEMP, BAKER INVITED TO KEYNOTE SECOND ANNUAL CONFERENCE

Attorney General Janet Reno, Republican vice presidential candidate Jack Kemp, and James A. Baker, III, sixty-first secretary of state and sixty-seventh secretary of the treasury, have been invited to deliver keynote addresses at the institute's second annual conference on November 12-13, 1996. Other participants will include Larry Summers, deputy secretary of the treasury, Governor John Engler of Michigan, Bill Hobby, former lieutenant governor of Texas, and additional distinguished government officials and scholars.

The theme of the conference will be domestic challenges confronting the United States at the end of the twentieth century. The senior faculty of Rice University will be deeply involved in the conference proceedings. Lee Brown, senior Baker Institute fellow, will chair a panel on urban crime and violence. Bob Stein, dean of social sciences, will head a second panel on the devolution of governance. And George Zodrow, chair of the economics department, will lead a third panel on tax policy.

The conference will highlight the Baker Institute's strong commitment to domestic policy. Like last year's conference on foreign policy challenges, this year's event will bring together practitioners and scholars from around the country to discuss critical issues confronting the United States.

Attendance at the conference, to be held on the Rice University campus, will be by invitation. This conference is made possible through the generous support of Gordon and Mary Cain.



Domestic Policy Challenges at the End of the Century

JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY • RICE UNIVERSITY
ANNUAL CONFERENCE • NOVEMBER 12-13, 1996

PANEL I: URBAN CRIME AND VIOLENCE

Dr. Elliott Currie, University of California, Berkeley,
Visiting Scholar

Dr. John DiIulio, The Brookings Institution,
Douglas Dillion Senior Fellow

Dr. Charles Moose, Portland Police Department,
Chief of Police

Matt Rodriguez, Chicago Police Department,
Superintendent of Police

Chukwudi Onwuachi-Saunders, M.D., M.P.H.,
Center for Disease Control,
Deputy Health Commissioner

PANEL II: DEVOLUTION OF GOVERNANCE

Dr. Andrew Reschovsky, University of Wisconsin,
Department of Agricultural Economics

Dr. Paul Peterson, Harvard University,
Government Department

Dr. Kenneth Bickers, Indiana University,
Department of Political Science

The Honorable John O. Norquist,
Mayor of Milwaukee

Dr. Peter Eisinger, University of Wisconsin,
LaFollett Institute for Public Affairs

The Honorable John M. Engler,
Governor of the State of Michigan

The Honorable William P. Hobby,
Former Lieutenant Governor of the State of Texas

PANEL III: TAX POLICY ISSUES PART I

Dr. Laurence Kotlikoff, Boston University,
Department of Economics

Dr. Eric Toder, U.S. Department of the Treasury,
Deputy Assistant Secretary for Tax Analysis

Dr. Charles McLure, Stanford University,
Hoover Institution on War, Revolution and Peace,
Senior Fellow

Dr. Rudolph G. Penner, KPMG Peat Marwick,
Barents Group, LLC, Managing Director

TAX POLICY ISSUES PART II

Dr. Lawrence Summers, U.S. Department of the
Treasury, Deputy Secretary of the Treasury

INSTITUTE COSPONSORS CONFERENCE WITH THE BRETTON WOODS COMMITTEE

Multilateral Development Banks: Creating Opportunities for the Private Sector in Latin America

On April 25, 1996, a conference was held at Rice University on the theme "Multilateral Development Banks: Creating Opportunities for the Private Sector in Latin America," cosponsored by the Baker Institute of Rice University, the Inter-American Chamber of Commerce, the Greater Houston Partnership, and the Bretton Woods Committee. The conference featured three panels—one on emerging markets in Latin America and the relationship between the private sector and the World Bank, one on the financing of environmental improvements in Latin America, and a third on the opportunities for the energy sector. The overriding theme and an important goal of the conference was the bringing together of the business community and multinational institutions, in particular the World Bank group. A second goal was to familiarize corporations with the opportunities that lie within the World Bank group and how to take advantage of them. The conference was successful in achieving both.

Baker Institute director Edward P. Djerejian began the conference by pointing out the importance of international financial institutions for the continued advancement of the developing world. The moderator of the conference, James C. Orr, executive director of the Bretton Woods Committee, highlighted the committee's task of bringing together the business community and various institutions.

Richard H. Frank, chairman of the Private Sector Development Group of the World Bank, set the tone of the proceedings by providing a broad view of the developing world today in his talk, "Emerging Markets

in Latin America: the Private Sector and the World Bank." He was optimistic concerning Latin America because the region is part of the worldwide revolution, not only in terms of growth rates (which are twice as high as compared to the industrialized world), but also in the adoption of free market ideas. In particular, Latin American countries have gone from being viewed as "basket cases," capable only of gains from spin-offs from the industrialized countries' use of natural resources, to major economies whose policies can impact the industrialized world as well. Previously, support from the World Bank was often viewed as an act of charity. Today this has changed. Giving to and investing in Latin America is good business, as exemplified by the fact that the U.S. annually exports \$40 billion to Latin America, much of which comes from Texas. Frank pointed out other positive trends in Latin America, such as the abandonment of central planning, a bigger private sector, greater integration with the world economy, dramatically reduced inflation, and increasing intraregional trade and investment. All these factors make it easier and more secure for U.S. business to invest in the region.

However, the main concern is income distribution. The benefits of increasing economic growth are not reaching the developing poor. The average per capita income in Latin America is lower today than it has previously been. Thus, the macroeconomic reforms that are being carried out are crucial but not enough. Today, there is a consensus in the World Bank about what needs to be done; specifically, sustaining the increase in overall growth (i.e., high levels of

savings and investment), export-lead growth, rebuilding infrastructure, and reversing environmental degradation. This overall strategy must, however, be supplemented by more investment in people, thereby increasing the human capital of Latin

America as has been done in East Asia. Also crucial to further development is institutional change, such as judicial reforms and a better banking system. In conclusion, the potential risks from investment are far outweighed by the possible benefits.

The second panel addressed the topic of financing environmental improvements. The key speaker was Victor Miramontes, chief operating officer of the North American Development Bank (NAD Bank), who emphasized that economies are intertwined, especially Texas and Mexico, with important implications for environmental policies. The NAD Bank deals with the issues of water supply, wastewater, and solid waste—in particular, how to "turn the theory of a bottoms-up approach into practice and success." He stressed the importance of modifying the theory to fit local realities in order to obtain long-term success. The key to this is the formation of partnerships between business and foreign institutions.

The third topic was "Energy Sector Opportunities in Latin America." The panel was initiated by Antonio Vives, chief of the infrastructure and financial markets division of the Inter-American Development Bank (IADB), who spoke about the IADB's role in energy sector investments. The energy sector is an important part of the IADB's investments—today emphasis has shifted toward private sector energy loans as the public energy sectors in Latin America have declined. These loans are exclusively in electricity, since private sector tends to be more willing to invest in oil-related projects. Vives said that a problem in Latin America, and a major reason for the need of the IADB is the lack of well-established "rules of the game." If such rules were in place, as they are in Chile, Argentina, Colombia, and Peru, then privately provided loans should suffice.

Craig W. Reynolds, senior vice president and manager for GE Capital, who is responsible for infrastructure investments in Latin America, focused on the kind of market structure that improves the likelihood of successful project financing. Reynolds stressed the importance of such issues as a clear regulatory framework, diminishing the role of the state, separation of generation from transmission and distribution of power, and the development of local capital markets.



Key speaker Victor Miramontes, chief operating officer of the North American Development Bank, addresses the conference attendees.

INSTITUTE HOLDS SEMINAR ON OIL AND ENERGY MARKET STUDY

On May 16, Rice faculty engaged in research in the Center for International Political Economy (CIPE)-sponsored Baker Institute study on oil and energy markets, met with strategic planners from a number of key energy corporations. The purpose of the meeting was to have Rice faculty make brief presentations on their projects and to engage in both general and individual discussions on these analyses. Also present at the meeting were Jack Copeland, the chairman and chief executive officer of CIPE, and Professor Carl Jackson from Johns Hopkins, director of another CIPE-sponsored study involving Pacific Rim security.

Baker Institute director Edward P. Djerejian moderated the session. Copeland made brief remarks describing the genesis of the study. Rice faculty made presentations of their research projects, and each presentation was followed by a discussion with the strategic planners. Presentations were made by Professor George Marcus (anthropology), Professor Fred von der Mehden (political science), Professors Ronald Soligo and Peter Mieszkowski (economics), and Professors Peter Hartley and Robin Sickles (economics).

Jackson gave a brief overview of the CIPE-sponsored study on Pacific Rim security that he is directing.

The seminar also focused on the recent study of world energy published by the International Energy Agency (IEA). The group concluded that the Middle East will play an increasingly important role in energy supply since this is the region with the lowest cost reserves. Despite the conventional wisdom that there is little need to worry about the supply side, the group underscored the pressing need to develop and study multiple scenarios. The consensus of the participants is that the IEA study had oversimplified a number of critical aspects of the energy demand and supply in the future.

Both corporate and academic participants engaged in an in-depth, productive discussion of the issues and agreed that another such meeting would be useful both for the faculty members undertaking the studies and the representatives from the energy companies. The Baker Institute study will be completed at the end of the year and published shortly thereafter.



George Soros, chairman, Soros Foundations, and Ambassador Djerejian discuss UN reform.

Baker Institute and Council on Foreign Relations Study Group UN REFORM

On May 22, 1996, academic, community, industry, and finance leaders were welcomed to a meeting convened by the Baker Institute and the Council on Foreign Relations to exchange and gather diverse views on (1) the manner in which the UN serves the national interests of the United States and (2) how the UN can be made more viable as an instrument of American foreign policy. Ambassador Edward P. Djerejian, director of the Baker Institute, set the stage for the discussion by providing a brief history of the Baker Institute's interest and participation in a number of programs on the UN. This session was part of an ongoing study, specifically focused on the question of how U.S. security interests are served by the UN and what reforms are necessary to make sure these interests are met.

Initial discussion focused on whether U.S. security interests would have been as well served without the UN. Senior Fellow and Council on Foreign Relations Group chair Dr. Ruth Wedgwood provided an overview of the UN's last fifty years. She described the UN as essentially twenty-seven independent organizations in search of a center, which contributes to problems of accountability. This concern has made the task of justifying UN expenditures extremely difficult.

A primary opponent of UN funding has been the U.S. Congress. Congress generally believes the UN has failed to live up to the mission articulated in its charter. Congress is further opposed to the UN because of multilateralism, which enables actions that may not represent U.S. interests. Discussion focused on the likelihood that Congress could have more direct involvement in the UN, specifically with respect to finances. UN debt is increasing, and funding problems continue. UN accounting practices are in question, partly due to the tendency to borrow from the peacekeeping budget to supplement other regular budget expenditures. Congress recently approved \$600 million for the UN, split between peacekeeping and regular budgets, while calls continue for a reduction in the U.S. share of contributions from 25 percent to 15-20 percent.

Structural limitations, such as procedural rules in the Security Council, have tended to favor the U.S. All other countries have been obliged to conform. UN reform may mandate an expansion of the Security Council, leading to changes in its size, composition, and procedures. Remedies have included the possibility of a rotating seat or the European Union. Yet, any expansion could lead to delayed decision making and would require an amendment of the UN charter. The council must represent the world power structure and could include Germany, India, and Japan. However, very little consensus exists among Asian, African, and Latin American countries as to which nations should be included. In any event, election to the Security Council is based on a nation's capacity to contribute to collective security.

Djerejian commented on assumptions in the report generated by the independent task force. The report, while not specifically addressing any particular committee or agency, focuses on three specific action categories of the UN—war, peacekeeping, and peacemaking. Each of these categories has tended to provide a legitimizing function for the UN to act where other nations cannot. The report defines national interest as that which is established

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by the current administration and makes the assumption that agreement exists as to what is in the national interest.

The very universality of the UN has prevented any single country from acting unilaterally to impose sanctions. However, when the U.S. has coherently articulated a specific national interest with international implications, the UN has performed magnificently as an instrument of U.S. foreign policy. When the administration is weak or unsure, the UN does not perform effectively. The mission of the UN must be defined in more eclectic terms. It was suggested that perhaps a constitutional-type convention is needed to lead to real structural reforms. Generally speaking, consensus holds that there is a need for the UN to exist.

The extent of inertia and lack of accountability, according to George Soros, has resulted in a UN that is an outdated and bloated bureaucracy. The UN can be thought of as an association of nations, each of which puts its own interests ahead of common interests. He commented that the U.S. may not want the UN to be effective or autonomous since U.S. interests are perhaps better served by having the UN do its bidding. Before any conclusions can be reached, a decision must be made as to what the U.S. wants the UN to be. Does the U.S. want the UN to be efficient and self-financing? Perhaps the U.S. would prefer the UN to be dependent, and if so this needs to be stated up front. As for UNCTAD, it is unfortunately a relic of the past—a soft pad. It has become a vehicle for less-developed nations to voice their views rendering it a “sacred cow” that really does not fulfill any effective function. Soros suggested that perhaps it would be helpful to promote ECOSOC and merge it with UNCTAD or fold it into the World Trade Organization.

Soros continually stressed the need to consider the alternatives. Perhaps the U.S. would be better served by having to “go it alone.” Is benign neglect a possibility? The role of the secretary general also needs to be strengthened. The position does not have enough independence to say no effectively. There must be some capacity to resist external pressures. However, if the secretary general’s position is strong, he can refuse to act, and then to whom can the buck be passed? In any case, the UN and the role it serves allows the U.S. a way to dispose of unpleasant problems.

Djerejian pointed out the important role of the UN in allowing for effective multilateral enforcement in some instances, specifically in the imposition of sanctions. The UN–Iraq situation clearly reflects the benefits of multilateral international commitment, whereas the U.S. policy toward Iran on UN sanctions is basically unilateral and, thereby, not as effective. The U.S. “dual containment” policy is misleading, and sanctions against Iraq have been undercut by U.S. allies in the industrial world.

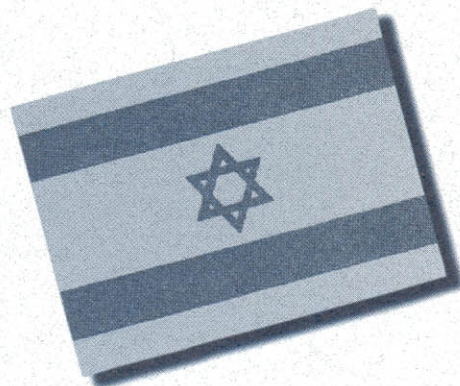
Further concerns were expressed about the UN’s capacity as a military organization. There are serious problems associated with rapid deployment forces being placed under the aegis of the secretary general, which could lead to having the U.S. support actions not in concert with its interests. Discussion also focused on the need to retrofit peacekeeping operations with better operational capacity and technology, thus increasing and improving the ability for immediate response and real-time monitoring. A reassessment is needed about what the UN can do realistically in military operations.

The U.S. must decide what the UN should be without focusing so strongly on its negative aspects. The tendency to focus on these negative aspects makes it difficult to see the specific and positive things the UN has accomplished. In any case, it would be impossible to make the UN more perfect than the world in which it exists. It is difficult to answer questions about who is in charge, particularly in the post-Cold War period. The original concept of the UN was that it would serve all nations. Therefore, the question is raised whether or not American interests are more important than all others.

Discussion focused also on the need to maintain an internal consensus. The U.S. ought to conduct a critical evaluation of the UN’s role in the context of U.S. interests.

In summary, the major points of consensus of the meeting participants were:

- Prioritize key U.S. interests and what interests the UN can serve;
- Clarify and articulate the concept of security to include other interests, such as ecology. Fundamentally, security can include examination of any situations that cause problems, not just hostility;
- Develop a U.S. foreign policy that is clearly articulated and makes sense as determined by U.S. goals and values in the world;
- Develop U.S. policy and goals for Asia (i.e., focus on China, Korea, Japan, and India), then the UN can be seen as a global mechanism for foreign policy;
- Ensure that U.S. foreign policy and UN issues are integrated; and
- Use U.S. leadership, especially presidential leadership, to enhance the role of the UN as the U.S. would like to use it.



ISRAELI ELECTION RESULTS DISCUSSED

The Baker Institute hosted the American Israeli Political Action Committee (AIPAC) reception on June 5, 1996, at Rice University to discuss the results of the Israeli elections. Baker Institute Director Edward P. Djerejian spoke on the election outcome and its implications in terms of Israeli domestic politics, U.S.–Israeli relations, and the Arab–Israeli peace process. Melvin Dow, the national president of AIPAC, discussed AIPAC’s current agenda.

A main theme of the presentation was that the Israeli campaign focused on a key issue—personal security. The Likud Party emphasized the atmosphere of expectation of a terrorist event and the fear this created. Labor had hoped that the absence of major terrorist attacks would work in its favor, but instead the mere threat of terrorism became the major focus of the election.

Equally important, peace and security was a fundamental issue in the campaign. Polls before the elections indicated clear majority support for the peace process by Israelis (over 66 percent). But at least one-third of those polled preferred that the process pause where it was. Important events that affected the election were:

- Hamas terrorism and the fifty-nine Israeli victims of terrorist actions helped Netanyahu and the Likud Party.
- Operation “Grapes of Wrath” in Lebanon worked against Peres, as evidenced by 21,000 “blank Israeli–Arab votes,” and did not gain Peres any Jewish votes.
- Another factor helping Likud was the stall in Israeli–Syrian negotiations and the Hezbollah operations in southern Lebanon.

The big question is what impact will the Likud victory have on the peace process. Likud has fully embraced the Israeli–Jordanian treaty and will continue to support and respect it. On the Palestinian track, it would

be very difficult to turn back the clock on the Oslo Accords, but one could expect, at least, a pause and policy assessment by a Likud government before deciding to initiate final status negotiations with the Palestinian Authority. Likud has a strong commitment to the settlements, and there are adherents within Likud for a "greater Israel" in Judea and Samaria. Also, Likud would focus on the West Bank as a security issue of prime importance in military terms. Likud's positions on refugee return, borders, security arrangements, and Jerusalem will be much less flexible than that of the Labor Party. Some commentators think that Likud would freeze the final status talks or there will be no final status with Likud in power. The preamble of the 1996 Likud Party platform states that immigration will be increased, settlement will be strengthened, and the decision to freeze settlements will be rescinded.

On the other hand, one cannot jump to conclusions. While the pace of the peace process will slacken in the immediate aftermath of a Likud victory, another Likud leader, Menachem Begin, made some very hard choices to return the territory in the Sinai, dismantle settlements, and pursue the idea of full autonomy for the Palestinians. The question is whether or not a Likud government under Netanyahu would follow a more creative path, as it did under Begin, or resort to more hard-line Likud policies, which could put an end to negotiation with Arab neighbors.

Likud will approach the Syrian and Lebanese negotiations as basically security issues with important national defense implications. Indeed, one could speculate whether or not Likud would be tempted to display negotiating flexibility on the northern front with Lebanon, while hardening Israeli positions vis-à-vis the Palestinian front. Netanyahu stated publicly in an interview in *Yedioth Ahronoth*, "I intend as a first step, immediately after I am elected prime minister, to call for the reconvening of the peace conference in Madrid. Through the conference we will reorganize the peace process. . . . I will propose at the peace conference in Madrid to start negotiations with Syria on a series of agreements which will be good for us and them in the sphere of security." The key issue on the Syrian front, however, is what happens to the land for peace equation, relative to the Golan Heights. President Asad of Syria will require that any resumption of negotiations be based on UN Security Council Resolutions 242 and 338 and the land-for-peace equation. Approaches by Likud, for example in Lebanon, which skirt the land-for-peace formula including Syria will not move the peace process forward.

ISRAELI AMBASSADOR TO THE U.S. TALKS AT RICE

On June 12, 1996, Itamar Rabinovich, the Israeli ambassador to the United States, delivered a speech at Rice University during an event sponsored by the Baker Institute. This event was held in support of the effort to establish the Yitzhak Rabin Fellow in Peace and Security at the Baker Institute. Ambassador Rabinovich recalled his relationship with Prime Minister Rabin, and addressed the past, the present, and the future of the Middle East peace process.

He commended the notion of endowing a Baker Institute fellow position in honor of Yitzhak Rabin, who he described as one of the great statesmen of the twentieth century. He had the ability to see the big picture, to distinguish between the important and the trivial, to make the right decisions on the basis of these distinctions, and to move forward to implement these decisions. The peace process would not have taken off from its point of departure and would not have stayed on course without the leadership of Yitzhak Rabin.

Ambassador Rabinovich discussed the three phases of the Arab-Israeli peace process. The first phase, which created the process, was initiated by Secretary of State James A. Baker, III, and produced the Madrid framework. This was the first time there was a single sustained effort to solve the Arab-Israeli conflict in a comprehensive manner. The first phase brought the parties together in direct face-to-face negotiations.

In the second phase the process began to yield results. This part of the process was largely shaped by Prime Minister Rabin and began in the summer of 1992. It has had three important achievements: the agreement with the Palestinians, full-fledged peace with Jordan, and normalization between Israel and the rest of the Arab world. Ambassador Rabinovich discussed each of these achievements.

The agreement with the Palestinians is the most controversial part of the peace process. It has generated heated debates, and the Israeli public has reservations about it. But Ambassador Rabinovich stressed that without this breakthrough none of the other breakthroughs would have happened. Many Arab countries have no direct conflict with Israel but feel that they have to support the Palestinians. Once the Palestinians recognized Israel as a legitimate state in the Middle East, and the Israeli government recognized the PLO as the legitimate national movement of the Palestinians, this opened the door to relations with other Arab states. The agreement also created a basis for Palestinian self-rule, something that many critics see as a positive development since it means that Israel does not have to govern or administer the life of the Palestinians. Ambassador Rabinovich reminded the audience that the agreement with the Palestinians was not a final agreement. Final-stage negotiations have yet to happen, and because Israel and the Palestinians do not see eye-to-eye, a successful conclusion to these negotiations is not a foregone conclusion.

The second achievement of the peace process was full-fledged peace with Jordan, the second Arab state to sign a peace treaty with Israel. But Jordan has gone beyond the formal peace that exists between Egypt and Israel and is building a warm, genuine relationship between the two countries. This is due, in part, to the different geography that exists between Israel and Jordan, compared to Israel and Egypt, but it is nevertheless a significant achievement.

The third achievement of the peace process is the growing normalization of ties between Israel and parts of the Arab world, including North Africa and the Gulf. Economic conferences in the Middle East now focus on the joint economic future of the region. Israel and the Arab states are working to establish the Middle East Development Bank. These and other developments, inconceivable four or five years ago, are a reality—albeit a fragile reality—created by the peace process.

Despite all of these achievements, Ambassador Rabinovich noted the problems that must still be resolved. The first concerns the enemies of the peace process. In particular, Ambassador Rabinovich noted that Iran sees the peace process as being dangerous to itself and has "done almost everything that it could to torpedo" the process.

The second is the failure to come to an agreement with Syria. After acknowledging that Secretary Baker and Ambassador Djerejian understand the complexities and know the Syrian regime as well as anyone, Ambassador Rabinovich offered his personal assessment of the situation. He said that Syria's President Assad is interested but not anxious to make an agreement with Israel. If Assad sees an agreement that he defines as a good agreement, he will take it. But he will not make an agreement that does not meet his requirements. Ambassador Rabinovich does not believe that Assad will make an "investment" in another agreement. The Syrian government wants the return of all the Golan Heights and notes that

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there is a precedent—Egypt made peace with Israel and got all of the Sinai. But Rabinovich noted that Egypt's President Sadat was willing to make an investment—not only did he go to Israel and speak to the Knesset, but there were meetings between the Egyptian and Israeli military, i.e., a good deal of public diplomacy. These activities helped to convince the Israeli people that peace could be made with Egypt. This sort of investment is needed from Syria to overcome the great skepticism about Syria's intention toward Israel and the determination by many Israelis to keep control of the Golan Heights. Although Syria does not fully control the Hezbollah militia in Lebanon, they could do more to stop Hezbollah's action against Israeli targets; this is an investment Syria could make to move the peace process forward. Ambassador Rabinovich noted that one important gain to Israel from an Israeli-Syrian peace would be full-fledged relations with more of its Arab neighbors; when there is an Israeli-Syrian agreement, at least ten Arab states will move to full recognition of Israel.

Another problem is the deep divisions within Israel regarding the peace process. Although there have been important gains to Israel, there have also been significant costs. The most painful costs have been the innocent victims of peace—the Israelis who have been killed or wounded in terrorist attacks. These attacks have caused many Israelis who support the idea of a peace settlement to be much more cautious. Divisions within Israel have also been sharpened by some of the statements that have been made by Palestinian officials. Ambassador Rabinovich fully understands that the Palestinian leadership must keep its people mobilized and galvanized, but in today's world statements that are meant for Palestinian consumption are also heard and absorbed by an Israeli audience.

Ambassador Rabinovich also reminded the audience that the Israeli elections were not purely a referendum on the peace process; many other issues were involved. That, plus the small margin of victory, should serve to moderate drawing far-reaching conclusions about the results. Clearly, we can expect that the pace of the peace process will slow down. But Prime Minister Netanyahu has been very careful in his public statements since the election. In this period of transition, it is important that all parties exercise caution in their words and actions in order to give peace a chance.

Baker Institute Study Issued

MIDDLE EAST PEACE

On June 20-22, 1996, the Baker Institute brought together an international study group to discuss the future of the Middle East peace process. The fourteen participants from the group came from Europe and the Middle East as well as the United States. After two days of meetings, a drafting committee produced a working paper that was delivered to policy makers and interested persons throughout the world just prior to Israeli Prime Minister Netanyahu's visit to Washington. The final version was issued as a Baker Institute Study and is available on request from the Baker Institute. Although based on discussions in June, the participants accurately assessed and anticipated events in the Middle East since the Israeli elections. The basic conclusions and recommendations of the study are as follows:

- There is little likelihood in the short run of either (a) significant progress on the Israeli-Palestinian front or (b) a breakthrough with Syria. There will be an Israeli effort to move forward on the issue of southern Lebanon, but Syria will not perceive it to be in its interest to have progress on the Lebanon front without at least parallel progress on the Golan Heights.
- There will be a pause in the peace process as the new Likud government assesses its options and determines its future policies.
- At one level a protracted hiatus risks a perhaps decisive loss of momentum in the peace process. But a limited pause can also provide opportunities to set the stage for future progress. The United States government, the governments of Europe, and international economic agencies (such as the World Bank) all have critical roles to play in advancing the peace process; these roles are elaborated in the institute study.
- Given these realities, emphasis should now be placed on four general areas:

1. *The Israeli-Palestinian front*, which may well be the most immediate flash point leading to either an explosion or implosion on the Palestinian territories. Effective efforts by the Israeli government and the Palestinian Authority are called for to avoid provocative acts of omission or commission that could unravel progress thus far achieved and plunge both parties into a downward cycle of recrimination and violence.

a. The Israeli government must establish formal and informal lines of communication to the Palestinian leadership necessary for crisis management and for the initiation of final status negotiations.

b. Access to the Israeli labor market by Palestinian workers with agreed-upon security measures should be resumed as soon as possible to alleviate the dangerous and depressed economic situation in the West Bank and especially in Gaza.

c. Israel should carry through the agreement to redeploy IDF troops from Hebron in a manner that assures the security needs of both sides.

d. A second set of measures involving mutual obligations should be observed by both the Israelis and the Palestinians. These measures are:

- No new Israeli settlements and no additional confiscations of Arab land.
 - No closing down or hindering Palestinian institutions in Jerusalem that existed prior to September 1993.
 - A strong commitment by both sides to security cooperation with effective measures instituted to achieve this end in order to deter acts of violence and terrorism and to enhance the personal security of Israelis and Arabs.
 - A new basic law of the Palestinian National Council should be passed that reflects the declaratory statements made by the council that nullified all the points in their charter on Israel's right to exist that contradicted the Oslo agreement.
- e. The unfulfilled cooperative steps of the Oslo I and Oslo II agreements should be carried out.

2. *Economic cooperation among the various parties to the process with which Israel has concluded agreements*; the Palestinians, Jordan, and Egypt. This will increase the economic well-being of all involved, most especially the Palestinians, and serve to marginalize extremists. It is also less likely to arouse the political sensitivities of the Likud government. Two areas in particular—energy and water—hold special promise and could provide a model for expanded regional economic cooperation to include, in a later stage, Syria, Lebanon, and other Arab states. Specific proposals are contained in the Baker Institute study.

3. *Progress on the Israeli-Syrian and Israeli-Lebanese negotiations*. Any Israeli-Syrian agreement must be based on the fundamental principles of the Madrid Conference as contained in UN Security Council Resolutions 242 and 338. The United States government must unambiguously adhere to long-standing bipartisan positions in support of the principle of land-for-peace and that Israeli settlements are obstacles to peace. Peace with security is a corollary requirement and the elaboration of specific security arrangements that meet the requirements of both sides is es-

essential, including clear agreements on preventing and eliminating acts of violence and terrorism from individuals and groups inside and outside of the region.

4. *A coherent division of international labor in support of a comprehensive settlement.* While coordinating politically to the fullest extent possible with the Europeans, the United States should retain its historic role of crisis manager between Arabs and Israelis and "honest broker" in the peace process. The Western Europeans should focus on economic support and institution building, most notably through the Barcelona framework. Private investors and international financial institutions, especially the World Bank, have key and complementary roles to play in economic development.

Sovereignty and Stability

Kazakhstan's interests in maintaining national sovereignty and regional stability are obvious. But the interests of the United States are also plain.

Kazakhstan lies at the heart of a region, Central Asia, that has long been a traditional arena of great power rivalry. It is, moreover, a region passing through a period of intense uncertainty associated with the collapse of the Soviet Union. The United States would have much to lose and nothing to gain were Central Asia to descend into internal chaos and cross-border conflict.

I do not have to tell anyone here today that the course of Kazakhstani-Russian relations will, for better or for worse, decisively effect Kazakhstan's ability to sustain

its national sovereignty and promote regional stability. Managing this relationship is unquestionably the most daunting foreign policy challenge facing you today. As is so often the case in international affairs, conducting an effective policy will depend, above all, on balance.

Clearly, relations between Almaty and Moscow will at some level always be problematic. It is never easy to live within the shadow of a great power. I do not mean to underestimate the obstacles to forging a positive relationship between Almaty and Moscow. Nonetheless, I am convinced that building an Almaty-Moscow partnership based on mutual respect and common

purpose, a process already well begun by Presidents Nazarbayev and Yeltsin, is in the interest of both Almaty and Moscow.

Entrepreneurship and Investment

Let me now turn to a second crucial objective for our two countries: the creation in Kazakhstan of a free-market economy that promotes indigenous entrepreneurship and foreign investment.

Only an open economy, rooted in free-market principles and practices, can begin to generate the level of growth necessary to raise the general living standard, ensure so-

cial harmony, and support Kazakhstan's ability to exert a stabilizing influence in the region.

The major components of any successful reform program are by now familiar. It begins with a macroeconomic program aimed at creating a stable environment of sustainable inflation, rational exchange rate, and responsible government finance sufficient to instill public confidence and implement other important reforms. Deregulation and privatization help mobilize private investment and encourage individual entrepreneurship. As such, they are preconditions to strong long-term growth.

Kazakhstan has made huge strides in the direction of a free-market economy under the leadership of President Nazarbayev. Still, I urge you to recall that economic reform must continue if Kazakhstan is to reap its full benefits. To reverse or even slow reform will only make those costs all the more dire when the day of economic reckoning finally arrives.

Pluralism and Democracy

I would like now to turn to a third goal shared by our two countries: the continued evolution of Kazakhstan into an established multiethnic, pluralistic, and democratic society.

At first glance, democracy has less to do with narrow conceptions of national interest than it does with the broader realm of universal values. Democracy, after all, reflects a fundamental belief that all individuals possess certain rights by virtue of their humanity alone: rights to choose their leaders, to express their opinions, to practice their faiths.

But I would also suggest another perhaps more mundane (but no less important) reason to support democratic government in Kazakhstan and elsewhere: it works.

The practical advantages of democratic government are particularly compelling for countries such as Kazakhstan and the United States, which are home to a broad range of ethnic, linguistic, and religious groups. By emphasizing individual rights, democracy helps shift the terms of political debate away from potentially divisive communal grievances. By guaranteeing representative government, it allows otherwise disenfranchised minorities a genuine voice and, therefore, a real stake in the political process. And by formally protecting speech, religion, and association, it helps inculcate that most critical of civic virtues in any multiethnic society: tolerance.

In sum, democracy represents a uniquely appropriate form of government for a plu-



James A. Baker, III, meets with Kazakhstani president Nazarbayev in Almaty.

BAKER DISCUSSES U.S.-KAZAKHSTANI RELATIONS

James A. Baker, III, delivered the following remarks at a meeting with parliamentarians in Almaty, Kazakhstan, April 12, 1996.

Today the relationship between Kazakhstan and the United States is strong. And it is strong because it is firmly grounded in our shared interest in achieving three critical goals.

They are:

- The consolidation of Kazakhstan as a sovereign nation and source of regional stability;
- The creation in Kazakhstan of a free-market economy that promotes indigenous entrepreneurship and foreign investment; and
- The continued evolution of Kazakhstan into an established multiethnic, pluralistic, and democratic society.

continued on page 8

appropriate form of government for a pluralistic society like Kazakhstan—and one, moreover, that can serve as a powerful force of social stability and national unity.

Conclusion

Since independence, the people of Kazakhstan have endured immense economic hardship and wrenching social dislocation. But you have persevered. And you have prevailed.

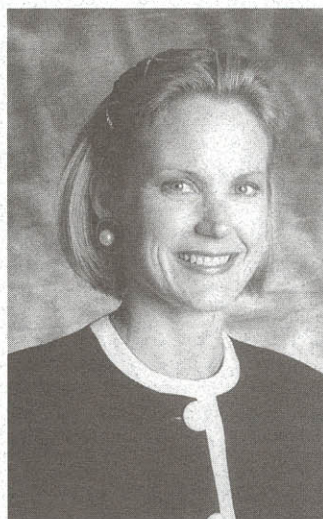
I, for one, am confident that you have a bright national future. And I am convinced that a strong U.S.-Kazakhstani partnership, firmly grounded in the common interests I have discussed today, will be a part of it.

INSTITUTE AND KAZAKHSTANI COUNTERPART SIGN AGREEMENT

On April 13, 1996, the Baker Institute and the Kazakhstan Institute for Strategic Studies concluded an agreement to facilitate cooperation on matters of mutual interest involving research, analysis, exchanges, and other programs focused on Central Asia and relations with the United States. The agreement was signed in Almaty, capital of Kazakhstan, by Edward P. Djerejian, director of the Baker Institute, and Omarserik Kasenov, director of the Kazakhstan Institute for Strategic Studies. Kazakhstani president Nazarbayev and James A. Baker, III, attended the signing ceremony, as did United States ambassador to Kazakhstan Beth Jones.

In the course of the visit, Baker also addressed members of the Kazakhstani parliament and participated with Kazakhstani president Nazarbayev in a roundtable with representatives of American businesses in Kazakhstan.

The Baker Institute sees the trip to Kazakhstan, as well as the agreement with its Kazakhstani counterpart, as part of its broader effort to bring a truly international dimension to its research agenda and ongoing programs, particularly those related to Central Asia, the Middle East, and the energy sector.



Institute Names Associate Director for Programs, Advancement, and Public Relations

The Baker Institute is pleased to welcome Frances H. Jeter as she assumes the responsibilities of the institute's newly created position of associate director for programs, advancement, and public relations. Jeter brings with her extensive experience in international business, marketing, and public affairs and a background in business and nonprofit organization management.

Jeter will assist the director in developing and managing the institute's programs and activities. She also will work closely with the university advancement office to coordinate the ongoing fundraising efforts and the public relations and public information functions of the institute.

A Houston native, Jeter received her international business degree at the University of North Carolina at Chapel Hill, where she was chosen for the honorary so-

ciety Phi Beta Kappa. She has served on several nonprofit boards of directors and was named Outstanding Young Woman of America in 1981, 1984, and 1985 and YWCA Outstanding Woman in 1983.

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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