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Article 1.

The National Interest

The Case for Ending Aid to Israel

Doug Bandow

June 5, 2012 -- You can't buy love, it is said, but it isn't for want of trying by Washington. The United States appears to believe the only way to demonstrate friendship with other governments is to either defend or subsidize them. Unfortunately, the latter strategy rarely works. It's time for Washington to turn off the aid spigot—especially for wealthier nations like Israel.

Israel does not need foreign aid—it is a wealthy nation with a booming hi-tech sector. Weaknesses elsewhere in the economy are largely self-inflicted through collectivist economic practices. Moreover, Israel is a regional military superpower. If anything, the transfers should run in the other direction. However, the Senate is considering legislation to extend \$9 billion in loan guarantees and provide more military support. Rather than reflect warming ties, however, the extra cash indicates an election-year financial raid. Israeli politicians enjoy having more American money to spend while U.S. politicians enjoy spending more American money to win votes.

Yet even some Israelis doubt that American “assistance” is so good for their nation. Last year, Yarden Gazit of the Jerusalem Institute for Market Studies wrote a study that warned “a good many people do not appreciate the real costs of America’s assistance to Israel.” His analysis suggests that true friendship for Israel would be to set it free.

Washington has provided more than \$110 billion in aid over the years, not counting loan guarantees. Last year, figured Gazit, American support accounted for 1.5 percent of Israel’s GDP, 4 percent of the government’s budget and 24 percent of security outlays. Since 2008, all U.S. aid has been for the military, but money is fungible. Israel receives \$3 billion annually, three-quarters of which must be used for the purchase of U.S. weapons. Gazit noted: “While on the face of it, three billion dollars of annual assistance seems fully advantageous, a closer look reveals not a few shortcomings.” Money from America has conditions, most notably the requirement that Israel purchase U.S. weapons, which raises Israeli acquisition costs. Gazit estimated that America’s “gift” may cost around \$600 million.

That's a fifth of the nominal "foreign aid." That money, at least, is primarily a subsidy to U.S. arms makers.

Washington also links aid between Israel and Egypt. The latter typically receives two-thirds of whatever Israel collects. The transformation across the Nile could upend the arrangement, especially if Cairo abandons peace with Israel, but so far the relationship continues.

Jordan, too, receives bountiful American subsidies—about \$700 million last year. Although the Egyptian and Jordanian grants are a mix of economic and military support, again, money is fungible. And that means American aid frees up resources for Egyptian and Jordanian military use. While the danger of either country attacking Israel remains small, Gazit pointed out that Israel "must be prepared for any eventuality—even one of very low probability—of a defensive war on either the Egyptian or the Jordanian front."

Thus, the more money given by America to Egypt and Jordan, the more Israel must spend on its military. Added Gazit: "With Israel's comparative disadvantage in terms of relative population (over ten Egyptians for every Israeli), maintaining a qualitative advantage in equipment and weaponry is critical." Gazit cited researcher Erez Raphaeli in asserting that every extra dollar to Egypt requires an Israeli expenditure of \$1.30 to \$1.40 to maintain the military balance. In this way, complained Gazit, "Not only does American assistance not provide Israel with an economic advantage, it requires Israel to expend additional amounts from its own internal security reserves."

There's another problem with U.S. aid. While bilateral defense

cooperation has helped boost the Israeli arms industry, the conditions on American aid do the opposite. Since in some cases the Israeli government has to go with U.S. weapons even if the domestic products were better, cheaper or both, efficient Israeli producers lose government contracts and consequent economies of scale. Israeli companies also have to purchase American raw materials, which raise the costs of Israeli weapons in world markets.

Further, notes Gazit: “Due to Israel’s reputation as a military power, any acquisition choice of Israel’s will instantly increase the demand for that product on the international market. When a foreign country contemplates a purchase from an Israeli arms manufacturer, the question of whether Israel’s own army uses that product often plays into the decision.” Thus, if the Israeli government buys American instead, Israeli companies may lose contracts abroad.

Washington even uses its leverage to limit Israeli overseas arms sales. For instance, in 2000 Congress threatened to reduce aid if Israel provided weapons to China. “American assistance places pressure on Israel in this area, with the resulting economic loss,” says Gazit.

Another impact of foreign aid on Israel is the same as elsewhere—a disincentive to be efficient. The guaranteed payment irrespective of Israel’s defense needs “leaves the system with no incentive to become more efficient,” warns Gazit. Former prime minister Ehud Olmert argued that Israel could cut its military outlays with no harm to its security but that American money reduces the pressure to do so.

Perhaps even worse is how U.S. “assistance” further inflates Israel’s already bloated government. Government-to-government “aid” has expanded the overbearing, money-wasting regulatory state around the globe. Israel is no different.

Explains Gazit:

Without this aid, it stands to reason that the government would be forced to reduce the public sector in size, through defense budget cuts, restructuring and increased efficiency in other frameworks. This would direct many more resources toward the private sector, which would be motivated to seek creative and growth-oriented solutions, involving personnel, financing, as well as land and other resources currently held by the government.

Encouraging a larger and less efficient government naturally reduces Israel’s economic strength, which is necessary to maintain an effective defense. More broadly, he argues, “the Government of Israel’s reliance on the American taxpayer sets a negative example which acts to encourage a culture of dependence.”

Gazit worries about the intangible moral damage to Israeli society. He recognizes that budget pressures in America eventually may affect financial aid to Israel. Then unilateral cuts would be seen as weakening the commitment to Israel, yet “if the same move was the outcome of an agreement between the two countries, at Israel’s initiative, Israel’s situation would not be impaired.” Overall, he predicts that “the economic and strategic damage to Israel as an outcome of American aid will only increase.”

The financial trials facing America will worsen in coming years. Instead of continuing to borrow to subsidize other countries, Uncle Sam needs to admit that he's broke and stop giving away money he doesn't have. Heavily indebted Spain just announced that it was ending development assistance for Latin America. Washington should do the same, including to Israel. Far from hurting Israel, ending "aid" would be doing America's ally a favor. Israel is likely to achieve its full potential only after it ends its unnatural dependence on Washington.

Doug Bandow is a senior fellow at the Cato Institute. A former special assistant to President Ronald Reagan, he is the author and editor of several books, including Foreign Follies: America's New Global Empire (Xulon) and Perpetuating Poverty: The World Bank, the IMF, and the Developing World (co-editor, Cato Institute).

Article 2.

The Washington Post

Annan's new road map for peace in Syria

David Ignatius

June 6 – Istanbul -- Kofi Annan is tinkering with a radical idea for reviving his moribund peace plan for Syria — a road map for political transition there that would be negotiated through a “contact group” that could include, among other nations, Russia and Iran.

The former secretary general’s new plan was outlined Tuesday by a diplomat who is familiar with the United Nations mission. The proposal, which is expected to be presented to the U.N. Security Council later this week, comes as Annan’s peace mediation with President Bashar al-Assad appears to have hit a dead end in Damascus, leading to growing concerns that the Syria crisis will spiral into all-out civil war.

What’s intriguing about Annan’s new approach is that it could give Russia and Iran, the two key supporters of Assad’s survival, some motivation to remove him from power, and also some leverage to protect their interests in a post-Assad Syria. This would also make the plan controversial, with Israel and Saudi Arabia asking why the United Nations would give the mullahs in Tehran a share of the diplomatic action.

The reason Annan is said to be considering this unconventional approach is that nothing else has worked. The United States and its key Western allies don’t want to intervene militarily, fearing that this could produce a highly unpredictable and unstable outcome. The West wants Russia to broker a deal, but so far President Vladimir Putin hasn’t seen enough pragmatic benefit to embrace this course.

To break the deadlock, Annan would create his contact group, composed of the permanent members of the U.N. Security

Council (Britain, China, France, Russia and the United States), plus Saudi Arabia and perhaps Qatar to represent the Arab League, and Turkey and Iran. The idea is to bring together the countries with most influence on the situation.

This unwieldy group would then draft a transition plan and take it to Assad and the Syrian opposition. This road map would call for a presidential election to choose Assad's successor, plus a parliamentary ballot and a new constitution — with a timeline for achieving these milestones.

Assad would presumably depart for Russia, which is said to have offered him exile; the Syrian dictator is rumored to have transferred \$6 billion in Syrian reserves to Moscow already. Under this scenario, Assad presumably could avoid international prosecution for war crimes. Iran is also said to have offered exile to Assad and his family.

To contain the bloodletting that would follow Assad's ouster, Annan is said to favor a detailed plan for reforming the security forces, similar to reforms in Eastern Europe after the fall of communism.

The Russians' participation could help stabilize Syria during the transition, because they might get buy-in from the Syrian military, many of whose senior officers are Russian-trained. As Syria's main weapons supplier, Moscow has, over many decades, developed and cultivated contacts throughout the regime power structure.

Would Russia or Iran support this unconventional proposal? It's impossible to know. In recent days, the United States is said to have held exploratory talks with Russian officials who

apparently have indicated some interest. Russia's foreign minister, Sergei Lavrov, said a week ago that Moscow wasn't wedded to Assad's remaining in power, but the Russians have done nothing to move the Syrian dictator toward the exit.

As for Tehran, the Iranians have been signaling recently through various channels that, as part of any diplomatic settlement of the nuclear issue, they may want a parallel process to deal with regional issues. Annan's contact group would address this Iranian desire.

If Annan's idea for a contact group proves to be a non-starter, there aren't any obvious alternatives, other than a deepening civil war. Assad last week resisted the former secretary general's de-escalation proposals, such as withdrawing Syrian troops from conflict zones and releasing political prisoners. And if progress isn't made soon, Annan probably will have to abandon his peace effort — with all sides understanding this means a bloody war to the finish.

Who will bell the cat? That, in colloquial language, has been the puzzle for more than a year in the push to oust Assad. The Arab League wants a U.N. peacekeeping force, but it won't happen. Saudi Arabia and Qatar have been arming the Sunni opposition and urging the U.S. to mount a major covert action. But that proposal scares the Obama administration and most of its Western allies. What does that leave for an option? Annan appears to have come up with a new idea.

Article 3.

The Washington Institute

Beyond Worst-Case Analysis: Iran's Likely Responses to an Israeli Preventive Strike

Michael Eisenstadt and Michael Knights

(Full article: <http://www.washingtoninstitute.org/uploads/Documents/pubs/PolicyNote11.pdf>)

Conclusions:

June 2012 -- An Israeli preventive strike on Iran's nuclear infra-structure would likely prompt a harsh riposte against Israeli and Jewish targets overseas. Teh-ran might also launch limited attacks against U.S. interests in order to deter intervention on Israel's behalf—and therein lies the potential for unin-tended escalation. Moreover, Hizballah could cause grievous harm to Israeli civilian targets with its reported inventory of fifty thousand rockets, and the group's assistance could greatly enhance Teh-ran's ability to launch terrorist attacks on Israeli and U.S. targets around the world (though Israel has thwarted several such efforts in recent years).¹⁹

Thus, the key policy challenges for the United States would be threefold:

1. Deterring Iranian retaliation against U.S. interests.
2. Limiting the scope and duration of the conflict by keeping Hizballah out of the fight and mobi-lizing international pressure on Iran.

3. Ensuring that Iran is unable to rebuild its nuclear program in the conflict's aftermath, and that Hizballah is unable to rearm.

Several of the steps Washington could take to deter and constrain Iran and its allies would need to be

implemented before an Israeli strike. Thus, the Obama administration would have to balance its desire not to appear complicit in such a strike with the need for prudent steps to limit possible fallout if one does occur. And although these measures could be used to enhance the credibility of military threats in order to bolster nuclear diplomacy with Tehran (i.e., by convincing the regime that an Israeli strike is coming if diplomacy fails), they could undermine negotiations instead. Accordingly, some of the more provocative steps should be implemented only if negotiations appear to be fruitless or faltering.

Deterrence. Washington should quietly indicate to Iran and Hizballah, through words and deeds, that it has their agents under observation, and that it would be very difficult for either to act in a deniable fashion.²⁰ It should also quietly indicate that

the United States will respond forcefully if its personnel or interests are harmed by actions taken or facilitated by either;

its response will not be symmetric—and thus not predictable—thereby complicating Iranian efforts to manage risk; and

strikes against U.S. interests could result in the destruction of Iran's conventional military forces, its oil and gas infrastructure, and whatever parts of its nuclear infrastructure survive an Israeli strike.

These considerations also argue against a comprehensive embargo of Iranian oil. Such a move would only increase Tehran's motivations to disrupt Gulf shipping or break out of the NPT in order to gain diplomatic leverage (in much the same way that nuclear tests by Pakistan and North Korea pre-saged greater engagement and diplomacy with the United States). Perhaps more important, it would also limit U.S. escalatory options in the event of a conflict. Washington's strategy should be to hold Iranian equities at risk, not put Tehran in a position where it has nothing more to lose. This approach also dovetails with America's interest in preserving at least some Iranian oil exports at a time when supplies are tight and the global economy is—at best—experiencing a slow, fragile recovery from recession.

Conflict limitation. The United States should also work with allies to roll up Iranian intelligence personnel and cells located abroad, and consider outing Iranian agents serving overseas under official and nonofficial cover (as it did following the 1996 Khobar Towers bombing in Saudi Arabia).²² In light of recent Iranian terrorist plots in Washington, the Middle East, and Asia, the United States and the international community have a compelling interest in—and justification for—constraining the Islamic Republic's ability to engage in poststrike terrorism or military action, or from launching a new wave of terror if nuclear negotiations fail.

Washington should also indicate to Hizbal-lah that if it assists Iran in a conflict, the United States will seek more vigorous implementation of both the Proliferation Security Initiative and the arms embargo called for by UN Security Council Resolution 1701, effectively disrupting the group's efforts to resupply its weapons stocks. Faced with the possibility that postwar rearmament might not be an option, Hizballah may decide to ration its use of rockets and missiles in a war with Israel.

Similarly, Washington should make clear to Syria that participation in such a war (including efforts to facilitate retaliatory attacks by Iran, Hiz-ballah, Hamas, or other entities) could cause the United States to vigorously pursue regime change in Damascus. This threat might also diminish the incentive of Hizballah and Iran to drag Syria into the fighting.

In addition, Washington has several options for limiting the impact of a potential covert mining campaign in the Persian Gulf or other Iranian attempts to disrupt oil shipments. These range from temporarily assuming financial responsibility for tankers to sending retired, foam-filled vessels ahead of oil convoys to absorb mine strikes. The key to deterring disruptive Iranian tactics is to convince Tehran that Washington would expose its role in such activities and strike back asymmetrically in response, perhaps by destroying components of its armed forces or oil infrastructure.

Finally, to reduce Iran's temptation to seek a quick win over the U.S. Navy (even if, in the end, it proves to be a Pyrrhic victory), Washington should consider redeploying to the Gulf of Oman the aircraft carrier that it currently keeps on station in

the Persian Gulf. There, it would be much less vulnerable to a surprise attack and much better positioned to wage an “out-side-in” campaign to ensure freedom of navigation in the Persian Gulf.²³ To deny Tehran a propaganda victory and to prevent it from claiming that it expelled the U.S. military from the Persian Gulf, Washington should maintain a small naval force in the Gulf and deploy additional strike aircraft and bombers to the southern Gulf states and the region.

Preventing reconstitution. In the aftermath of a potential Israeli strike, Washington should make it as difficult as possible for Tehran to reconstitute its nuclear program. The regime’s ability to rebuild will likely depend on several factors, whether

1. members of the international community blame Iran for the failure of diplomacy that presumably led to the strike;
2. large numbers of Iranian civilians are killed in the strike;
3. Iran alienates international opinion by the way it responds to the attack; and
4. the international community believes that Israel might strike again if Iran tries to rebuild.

The United States could make it more difficult for Iran to rebuild its nuclear program after a strike by

bolstering information activities that highlight the P5+1’s offers of a diplomatic solution that met Tehran’s demands for peaceful nuclear technology, so that it is clear that Iran was to blame for the failure of diplomacy;

intensifying efforts to disrupt Tehran's overseas procurement networks and denying it the materials, technologies, and equipment necessary to rebuild any nuclear facilities destroyed in a strike; and

renewing efforts to offer Iran an option for a peaceful nuclear program in return for pledges to forswear rebuilding its centrifuge enrichment facilities and heavy water reactor.

In short, although an Israeli preventive strike would be a high-risk endeavor carrying a potential for escalation in the Levant or the Gulf, it would not be the apocalyptic event some foresee. And the United States could take several steps to mitigate these risks without appearing complicit in Israel's decision to attack. The very act of taking precautionary measures to lessen the impact of a strike, moreover, would enhance the credibility of Israeli military threats and bolster the P5+1's ongoing nuclear diplomacy. Less clear, however, is whether a strike would prompt Tehran to expel inspectors, withdraw from the NPT, and pursue a crash program—overt or clandestine. And whether enhanced international efforts to disrupt Iran's procurement of special materials and technologies would succeed in preventing the rebuilding of its nuclear infrastructure remains an unknown.

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Project Syndicate

The Triumph of Politics in Europe

Shlomo Ben-Ami

05 June 2012 -- Economics, particularly economic theories, always yield in the end to political imperatives. That is why Europe's fast-changing political landscape, reshaped by electoral insurrections in France and Greece against German-backed fiscal austerity, is bound to affect Europe's economic policies as well.

Such an imperative has been at work throughout Europe's postwar history. Indeed, Europe's shift from the modest customs union of the European Economic Community to the single market and common currency of today's European Monetary Union was itself a fundamentally political move, one with strategic implications, of course. France wanted to tame German power by harnessing it to the European project, and Germany was prepared to sacrifice the Deutsche Mark for the sake of France's acceptance of a united Germany, the nightmare of Europe's recent past.

An economically robust Germany is, without doubt, vital to the European project, if only because history has shown how dangerous an unhappy Germany can be. Indeed, it was thanks to the euro – and the captive European market that goes with it – that Germany today is the world's second-leading exporter (China surpassed it in 2009).

Europe, however, has always found it difficult to come to terms with an over-confident, let alone arrogant, Germany. The current political turmoil in Europe shows that, regardless of how sensible Chancellor Angela Merkel's austerity prescriptions for debt-ridden peripheral Europe might be in the abstract, they resemble a German Diktat. The concern for many is not just Europe's historic "German problem," but also that Germany could end up exporting to the rest of Europe the same ghosts of radical politics and violent nationalism that its economic success has transcended at home.

Once the crisis became a sad daily reality for millions of unemployed – particularly for what appears to be a lost generation of young, jobless Europeans – EU institutions also became a target of popular rage. Their inadequacies – embodied in a cumbersome system of governance, and in endless, inconclusive summitry – and their lack of democratic legitimacy are being repudiated by millions of voters throughout the continent.

Europe's experience has shown that the subordination of society to economic theories is politically untenable. Social vulnerability and frustration at the political system's failure to provide solutions are the grounds upon which radical movements have always emerged to offer facile solutions.

A concomitant of such Kurzschluss between mainstream leaders and voters has always been the politics of accentuated ethnic identity, ultra-nationalism, and outright bigotry. Former French President Nicolas Sarkozy ended up trying desperately to appeal to those very sentiments in his last-ditch effort to avert his political demise.

What we have seen across Europe of late is a rebellion of voters against mainstream politics. In the first round of French presidential elections, the extreme right and left received more than 30% of the vote, with Martine Le Pen's anti-EU National Front threatening to supplant the center-right Union for a Popular Movement as the country's new mainstream rightist party. In Greece, the party system's dangerous fragmentation into a range of smaller groups, combined with the robust emergence of a new anti-austerity left, Alexis Tsipras's Syriza, and a neo-Nazi right, has plunged governance into a state of total paralysis.

Ironically, what the civilized protests of mainstream parties in peripheral Europe failed to achieve – a relaxation of the dogma of austerity – might come about as a result of the politics of brinkmanship proposed by the Greek radical left. By its blatant rebellion against German-dictated austerity, and by making Greek withdrawal from the euro a credible possibility, Syriza is bringing closer than ever the euro's chaotic collapse in Europe's periphery, if not beyond. By insisting that the choice is between new terms for the Greek bailout or a Doomsday scenario, Syriza could be creating the possibility for a quasi-Keynesian resolution of the European crisis.

Tsipras might be "impetuous," as his mainstream adversaries from the center-left Pasok and the center-right New Democracy would say, but he is not irrational. His is a rather sober reading of reality: the austerity plan has become a highway to social hell for his countrymen, and would likely condemn Greece to long years of ruinous depression within a permanent debt trap, and possibly to a breakdown of democracy. Merkel's now legendary obstinacy eventually might have to succumb to the

imperatives of politics. It is one thing to ignore European Commission President José Manuel Barroso's call for a more flexible economic policy, and quite another to dismiss out of hand the powerful message coming from French and Greek voters. Nor is it a minor political headache for Merkel to have to face an anti-austerity alliance of Italian Prime Minister Mario Monti and the new French president, François Hollande. Spain's capacity to withstand an austerity "cure" that only sinks it deeper into recession must also have its limits. So now Germany's finance ministry, the guardian of fiscal rectitude, is considering measures such as using the European Investment Bank to foster growth, issuing EU "project bonds" to finance infrastructure investment, and allowing wages in Germany to rise at a faster pace than in the rest of Europe. The imminent – indeed, inevitable – victory of politics over recalcitrant economics may well be at hand.

Article 5.

NYT

What the Locusts Ate

Thomas L. Friedman

June 5, 2012 -- One of the most troubling features of today's global economic crisis is the lack of political leadership anywhere. No one has the courage to tell their people the truth. And the truth, alas, is that four of the pillars of today's global

economy — Europe, America, China and the Arab world — have, each in their own way, squandered huge dividends they enjoyed in recent decades, and now they have to dig out of their respective holes with fewer resources, less time and, almost certainly, more pain. There is no easy way out. But, as confronting these hard truths becomes unavoidable, I think we're likely to see some wild, angry and destabilizing politics that could make the economic recovery even more difficult. Deep holes and weak leaders are a bad combination.

Let's start with Europe. Greece, Italy, Spain and Portugal all enjoyed a "German dividend." That is, they enjoyed German-level interest rates as members of the euro zone, even though they were not as productive or disciplined as German savers and workers. Instead of using that dividend to modernize their economies and make themselves more competitive and productive, they went on real estate or consumption binges that have badly weakened either their banks or national balance sheets. Now there is no more escaping the bill.

Chancellor Angela Merkel of Germany decried this "missed opportunity" to overhaul their economies in a speech on Saturday, as reported by Bloomberg News. The lower borrowing rates that came with the introduction of the euro meant "countries like Italy became virtually on a par with Germany in terms of interest rates," she said. "The freedom created by this situation wasn't exploited to improve long-term competitiveness. Instead, the time was used to spend too much money in consumption and too little time in tackling reforms."

Bloomberg quoted Nikolaus Blome, the Bild newspaper's chief political columnist, as saying that the Greek state "must be

rebuilt, like in a developing nation.” “Someone among the eurozone leaders must finally tell the Greeks the truth: this fresh start can only be achieved with a radical first step,” he said. “And that means leaving the euro.”

The Arab world had 50 years of autocratic rule in which leaders from Libya to Tunisia to Egypt to Syria to Yemen could have gradually ordered reforms from the top down. The military dictators in South Korea and Taiwan used their power surpluses to build export-led economies and educate all their people, creating huge middle classes that gradually took power democratically. But the Arab leaders used their surpluses of power and wealth to ignore the U.N.’s Arab Human Development Report in 2002, which said they urgently needed to overcome their deficits of freedom, knowledge and women’s empowerment. Instead, they enriched a small slice of their populations and distracted the rest with shiny objects, like Israel or populist Nasserism. Now the Arabs have to dig out of this deep hole with fractured political systems and huge youth populations. Who will tell their people that building competitive economies with modern schools will be a huge challenge? The turmoil on the streets of Egypt today is a taste of things to come.

To its credit, China used its huge export dividend to build 21st-century infrastructure and to educate its people, creating a giant middle class. But the current Chinese leadership has not used this surging economic growth to also introduce gradual political reform. Corruption is as bad as ever, institutionalized transparency and rule of law remain weak and consensual politics nonexistent. If growth slows and incomes widen further, more and more steam will build up in that system with

no outlet, which is surely one reason Wen Jiabao, China's retiring prime minister, warned in March that his country had reached "a critical stage."

Without real "political reform," Wen added, "it's impossible for China to fully institute economic reform and the gains we have made in these areas may be lost, and new problems ... will not be fundamentally resolved, and such historical tragedies as the Cultural Revolution may happen again in China." Yikes.

As for America, in the 1990s we enjoyed a peace dividend, a dot-com dividend and a low-oil-price dividend, which combined to sharply reduce the federal deficit. But 9/11, two wars accompanied by tax cuts, not tax increases, a Medicare prescription drug plan and a necessary bailout to prevent a potential depression put us more in debt than ever.

So for Europe, the Arabs, China and America, in different ways, these have been the years the locusts ate. Getting healthy again will be wrenching for all of us. If I were President Obama, I'd focus my entire campaign now on an effort to reforge a "grand bargain" with Republicans based on a near-term infrastructure stimulus tied with a Simpson-Bowles long-term fiscal rebalancing. At a minimum, it would show that Obama has a sensible plan to fix the economy — which is what people want most from the president — and many in business would surely support it. We cannot wait until January to do serious policy making again. We, and the world, need America to be a rock of stability — now.

Foreign Policy

The Brothers Abbas

Jonathan Schanzer

June 5, 2012 -- In the wake of the Arab Spring, U.S. leaders have promised to reverse the United States' long reliance on autocratic, unrepresentative leaders who enrich themselves at the expense of their citizens. There's only one problem: Just as top American officials have been making these lofty promises, new details are emerging of how close family members of Palestinian leader Mahmoud Abbas, a major U.S. partner in the Middle East, have grown wealthy. Have they enriched themselves at the expense of regular Palestinians -- and even U.S. taxpayers?

Abbas's wealth recently became a source of controversy during the investigation of Mohammed Rachid, an economic advisor to the late Palestinian leader Yasir Arafat, in a high-profile corruption probe. Last month, Palestinian officials charged Rachid with siphoning off millions of dollars in public funds; his trial is set to begin on June 7.

According to a former Palestinian advisor, Abbas holds a grudge against Rachid dating back to the peace talks during the

waning days of the Clinton era. In that intense period, Rachid was an advocate of working with Israel to find a solution, while Abbas called diplomacy a "trap that was laid for us." Abbas also resented Rachid because he was an Iraqi Kurd -- not even a Palestinian -- who had gained Arafat's trust and was part of his inner circle, while Abbas was on the outside looking in. "There was a huge amount of jealousy," the former advisor said.

With his back up against a wall, Rachid has now fired back at the Palestinian president with claims that Abbas himself has socked away \$100 million in ill-gotten gains.

In stalking Rachid, whether or not the charges have merit, Abbas may have opened up a Pandora's box. The conspicuous wealth of Abbas's own sons, Yasser and Tarek, has become a source of quiet controversy in Palestinian society since at least 2009, when Reuters first published a series of articles tying the sons to several business deals, including a few that had U.S. taxpayer support.

Yasser, the elder son, graduated with a degree in civil engineering from Washington State University in 1983 and carries both Palestinian and Canadian passports. According to his biography (where he goes by the alias Yasser Mahmoud), he worked for a variety of Gulf contracting firms from the 1980s until the mid-1990s before returning to Ramallah in 1997 to launch businesses of his own.

Yasser now owns Falcon Tobacco, which reportedly enjoys a monopoly on the sale of U.S.-made cigarettes in the Palestinian territories. According to the Toronto Star, Yasser also chairs Falcon Holding Group, a Palestinian corporate conglomerate

that owns Falcon Electrical Mechanical Contracting Company (also called Falcon Electro Mechanical Contracting Company, or FEMC), an engineering interest that was established in 2000 and boasts offices in Gaza, Jordan, Qatar, the United Arab Emirates, and the West Bank. This business success has come with a helping hand from Uncle Sam: According to a Reuters report, Abbas's company received \$1.89 million from USAID in 2005 to build a sewage system in the West Bank town of Hebron.

According to Yasser's biography, other arms of Falcon Holding Group include Falcon Global Telecommunication Services Company and Falcon General Investment Company, companies about which less is known. Through the Falcon companies, Yasser boasted to an Emirati magazine in 2009 that the companies' revenues total some \$35 million per year.

And the Falcon group doesn't even account for everything. Yasser is listed by the New York-based financial information database CreditRiskMonitor.com as the chairman of the publicly traded Al-Mashreq Insurance Company, with 11 offices across the Palestinian territories. The company is valued on the Palestinian stock exchange at \$3.25 million.

Finally, Yasser serves as managing director of the First Option Project Construction Management Company, whose website suggests that it does a great deal of public works projects, such as road and school construction, on behalf of the Palestinian Authority. First Option employs at least 15 people in offices in Amman, Tunis, Cairo, Montenegro, and Ramallah. This enterprise also benefited from the U.S. government's financial support: As Reuters reported, First Option was awarded nearly

\$300,000 in USAID funds between 2005 and 2008.

The president's son is certainly entitled to do business in the Palestinian territories. But the question is whether his lineage is his most important credential -- a concern bolstered by the fact that he has occasionally served in an official capacity for the Palestinian Authority. In 2008, Yasser reportedly visited Kazakhstan as a special envoy, and according to a former Bush administration official, he "regularly accompanies his father on official travel."

Tarek Abbas appears less inclined than his older brother to take part in the political aspect of the Palestinian cause, but is just as ambitious in the business world. His online biography indicates that he followed in the footsteps of his older brother, working in the same Gulf contracting firms, as well as a trading company in Tunis during the early 1990s.

Today, he appears to be a successful entrepreneur. His principal enterprise, Sky Advertising, had 40 employees and earned \$7.5 million in sales in 2010. And once again, the firm has worked with the U.S. government: Reuters reported in 2009 that Sky received a modest grant of approximately \$1 million in USAID funds to bolster public opinion of the United States in the Palestinian territories.

The younger Abbas is also listed by the Arab Palestinian Investment Company (APIC), as the vice chairman of "Arab Shopping Centers." This is presumably shorthand for Arab Palestinian Shopping Center Company, valued on the Palestine Exchange at \$4.2 million. The company, a project of APIC, now has two shopping centers, three supermarkets, and two indoor play facilities in the West Bank.

APIC is an economic juggernaut in the West Bank. In 2010, the company had more than \$338 million in revenues. The company lists Tarek Abbas's Sky Advertising on its roster, as well as the Ramallah-based Unipal General Trading Company, where Tarek sits on the board. Unipal, which has 4,500 retail outlets in the Palestinian territories, distributes consumer goods to Palestinians, including products from Philip Morris Tobacco, Procter & Gamble, and Keebler.

Since the Arab Spring began in late 2010 and early 2011, the Abbas brothers have largely dropped out of sight in the West Bank. Where have they gone? According to an article written by Rachid on the staunchly anti-Abbas website InLight Press, the family owns lavish properties worth more than \$20 million in Gaza, Jordan, Qatar, Ramallah, Tunisia, and the UAE.

Of course, the Abbas brothers' absence doesn't mean that Palestinians will forget. On a research trip to Ramallah last year, several Palestinians told me that the Abbas family dynasty is common knowledge. However, discussion of the issue rarely rises above a whisper -- thanks to growing fear of retribution by PA security officers, who have apprehended journalists and citizens for openly challenging President Abbas's authority.

At a time when the sons of Arab strongmen are under scrutiny, the questions surrounding the Abbas brothers will not go away. Indeed, the Arab public continues to demand accountability from its leaders -- and the upcoming Rachid trial will only bring this controversy closer to Ramallah.

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Article 7.

NYT Books

Covert Wars, Waged Virally

Thomas E. Ricks

CONFRONT AND CONCEAL

Obama's Secret Wars and Surprising Use of American Power

By David E. Sanger

Illustrated. 476 pages. Crown Publishers. \$28.

June 5, 2012 -- Is the United States at war with Iran? If David Sanger's account in his new book, "Confront and Conceal," on President Obama's foreign policy, is to be believed — and I find it very believable — we certainly are.

The stunning revelations by Mr. Sanger, The New York Times's chief Washington correspondent, about the American role in using computer warfare to attack Iran's nuclear program already have made headlines, and rightly so. He persuasively shows that under Mr. Obama, the United States government has been engaged in what one presidential adviser calls "a state of

low-grade, daily conflict.”

The heart of this book is the chapter titled “Olympic Games,” which Mr. Sanger writes is the code name for a joint program of Israel and the United States to insert malicious software into the machinery of the Iranian military-industrial complex and so set back Iran’s ability to manufacture weapons-grade uranium. Specifically, in 2008 and 2009 the software threw off the balance of centrifuges at the Natanz nuclear enrichment center. It did so in a variety of unpredictable ways, making it at first seem like the problems were random or the result of Iranian incompetence. The key to getting inside the computers — which were not connected to the Internet — was to load the virus into thumb drives that Iranian nuclear technicians, perhaps unknowingly, would bring to work and plug into the computer systems there.

In one of the most impressive steps in the cybercampaign, the inserted software recorded the operation of the centrifuges. Then, as the computer worm took control of the machines and began destroying them, the software played back the signals of the normal operation of the centrifuges. “The plant operators were clueless,” Mr. Sanger writes. “There were no warning lights, no alarm bells, no dials gyrating wildly. But anyone down in the plant would have felt, and heard, that the centrifuges were suddenly going haywire. First came a rumble, then an explosion.” This is an account that long will be consulted by anyone trying to understand not just Iran but warfare in the 21st century. It alone is worth the price of the book.

And that is a good thing, because the rest of the book —

overviews of Mr. Obama's handling of Afghanistan, Pakistan, the Arab Spring, and China and North Korea — offers a solid but rather dutiful summary of this administration's foreign policy. As I read it, I wondered if the author — in the course of working on a book to be titled something like “The Education of a President” — had come across the extraordinary material on the cyberwar against Iran.

Those other spinach-laden sections are not bad, but they are not as compelling as Mr. Sanger's guided tour of the anti-Iranian operations. He offers a healthy meditation on Mr. Obama's heavy use of drone strikes in Pakistan, asking how such strikes differ from a program of targeted assassination, if at all. And throughout, Mr. Sanger clearly has enjoyed great access to senior White House officials, most notably to Thomas Donilon, the national security adviser.

Mr. Donilon, in effect, is the hero of the book, as well as the commenter of record on events. He leads the team that goes to Israel and spends “five hours wading through the intelligence in the basement of the prime minister's residence.” He is shown studying the nettlesome problems of foreign relations, working closely with the president, and fending off the villains of this story — which in Mr. Sanger's account tend to be the government of Pakistan and, surprisingly, the generals of the American military. “We fought the Pentagon every step of the way on this,” a “senior American diplomat” tells Mr. Sanger. At another point, a “senior White House official” reports that, “There was incredible resistance inside the Pentagon.” And so on.

The virtue of this book — its foundation of White House

sources who give the author insiders' material like a transcript of Mr. Obama's last telephone call with the Egyptian president, Hosni Mubarak — is also its weakness. That is, Mr. Sanger shows us the world through the eyes of Mr. Obama, Mr. Donilon and those around him. But he also tends to depict Washington and the world as they see it. The perceptions of White House officials, especially in the first year of the Obama presidency, which saw a steep learning curve for the president and those around him, are not always dispositive.

When, for example, the White House moved closer to the Pentagon's hawkish view of North Korea, "We had people in the Pentagon telling us, 'We told you so,' " a senior administration official informs Mr. Sanger. That official adds, rather snidely, that "perhaps they were making a case for not cutting the budget" of the Pentagon.

Mr. Sanger's sure touch in discussing foreign policy falters when he addresses the Pentagon. He incorrectly states that "battlespace" is a term of cyberwar, when it actually is United States military jargon for any sort of battlefield, conventional or not. More important, Mr. Sanger seems unaware that a large number of military officers agreed with President Obama that Iraq was a "war of choice," and a huge mistake.

Nor by the time Mr. Obama took office was "much of the military ... running on autopilot." Rather, after five years of sweating and bleeding in Iraq and Afghanistan, the military was engaged in a good deal of soul-searching about those wars. The "surge" in Iraq was largely the product of military dissidents who believed that invading Iraq had been a mistake.

These are minor blemishes in an important book. I raise them mainly because of the warning signal they send about civil-military relations under President Obama. White House mistrust and suspicion of generals is not a recipe for an effective use of military force because it impedes the candid sort of discussion that consciously brings to the surface differences, examines assumptions and hammers out sustainable strategies.

Rather, it suggests that Mr. Obama and those around him are repeating some of the dysfunctionality that characterized the dealings of Presidents Kennedy and Johnson with the Pentagon during the descent into the Vietnam War. With Syria hanging fire, a nuclear-armed Pakistan on the brink and the Afghan war dragging on, that is not a reassuring state of affairs.

Thomas E. Ricks is the author of several books about the United States military, including "The Generals: American Military Command From World War II to Today" (Penguin Press, forthcoming).