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Article 1.

Reuters

## **New Egypt leader steps out on world stage seeking "balance"**

Samia Nakhoul and Edmund Blair

Aug 28, 2012 -- CAIRO (Reuters) - Egypt's new Islamist president said on Monday he would pursue a "balanced" foreign policy, reassuring Israel its peace treaty was safe, hinting at a new approach to Iran and calling on Bashar al-Assad's allies to help lever the Syrian leader out. Mohamed Mursi, who was elected in June and consolidated his power this month by dismissing top military leaders, is seeking to introduce himself to a wider world ahead of a trip to Iran - the first by an Egyptian leader in three decades - and China.

"Egypt is now a civilian state ... a national, democratic, constitutional, modern state," he told Reuters in his first interview with an international news organisation since taking office as the candidate of the once-banned Muslim Brotherhood.

"International relations between all states are open and the basis for all relations is balance. We are not against anyone but we are for achieving our interests," said the U.S.-educated engineer, appearing confident and assertive in the marble-lined presidential palace. The first leader Egyptians have elected in a 5,000-year history dating back to the pharaohs, he spoke in a room for visiting dignitaries surrounded by monarchy-era furniture, oil paintings and a grand tapestry on the wall. Mursi, 61, came to power after the fall of Hosni Mubarak, who served for decades as a loyal U.S. ally and the guarantor of Egypt's status as the first Arab country to make peace with Israel. His emphasis on balance suggests he is seeking a less explicitly pro-American role in the region, but he has also been at pains to reassure traditional allies.

Mursi's Brotherhood describes Israel as a racist and expansionist state, but he resigned from it on taking power and has avoided inflammatory language. He repeated his position that Egypt will continue to abide by international treaties, including its 1979 peace deal. Without mentioning Israel by name, he indicated Egypt's neighbour had nothing to fear from a new military campaign in the Sinai Peninsula, which he ordered after gunmen attacked an Egyptian border post, killed 16 guards and tried to burst across the frontier into Israel. "Egypt is practicing its very normal role on its soil and does not threaten anyone and there should not be any kind of international or regional concerns at all from the presence of Egyptian security forces," he said, referring to the extra police,

army and other forces moved to the area. The military campaign was in "full respect to international treaties", he said. The Egypt-Israel peace deal includes limits on Egyptian military deployment in Sinai. Officials in Israel, already concerned that Egypt's Islamists will support the Brotherhood-offshoot Hamas in Gaza, have voiced worries about Egypt's build-up of heavy armour in Sinai to quash militants. Mursi would not say if he would meet Israeli officials. Mubarak regularly received top officials although only went to Israel once for a funeral. In an effort to increase Egypt's role in regional affairs, Mursi has called for dialogue between Egypt, Saudi Arabia, Turkey and Iran to find a way to stop the bloodshed in Syria. Notably, the initiative has been welcomed by Iran, the only country in the group that supports Assad. During his interview, Mursi gave a particularly strong call for Assad to be removed from power, suggesting that he is comfortable taking a high profile role in regional affairs. It is a message he will take on his trip to Iran and China, which, along with Russia, are the main countries backing Assad. "Now is the time to stop this bloodshed and for the Syrian people to regain their full rights and for this regime that kills its people to disappear from the scene," Mursi said.

"There is no room to talk about reform, but the discussion is about change," Mursi said, adding Egypt had repeated that "the friends of the Syrian people in China and Russia and other states" need to back ordinary Syrians. However, Mursi said he opposed

foreign military action in Syria "in any form".

#### FIRST VISIT TO IRAN

In what could be an important sign of a shift in the region, Mursi's visit to Iran this week will be the first by an Egyptian leader since Iran's 1979 Islamic revolution. The two countries broke off diplomatic relations at the time over Egypt's support for the ousted Iranian Shah and its peace with Israel, and have yet to formally restore ties.

Officially, Mursi's visit is to attend a summit of the 120-nation Non-Aligned Movement, and he would not be drawn on whether Egypt would resume full diplomatic ties with Iran.

Asked whether he saw a threat from Iran, whose nuclear programme has sparked fears in the West and Israeli warnings that it could consider a military action, Mursi said: "We see that all the countries in the region need stability and peaceful co-existence with each other. This cannot be achieved with wars but through political work and special relations between the countries of the region."

After Iran, Mursi will travel in September to the United States, which still gives the Egyptian military \$1.3 billion in aid a year.

Asked how the outcome of the U.S. election in November might change ties, Mursi said Egypt works with the United States as "a stable institution" rather than dealing with personalities.

#### TRANSFORMATION

Stocky and well-dressed, Mursi spoke in good humour in the palace where Mubarak held court for decades.

Criticised at the start of his election campaign as a stiff politician who seemed more of a Brotherhood functionary than statesman-in-waiting, he has warmed to the role. His dramatic move against the army on August 12 stamped his authority on the nation far more quickly than many had expected.

Mursi's rise to the presidency is not only a transformation for Egypt but also for him personally, climbing from a poor Nile Delta village to study in California before joining the Brotherhood. Like many members of the group, he was jailed for periods under Mubarak. They have swapped places and the 83-year-old former president is now serving life in jail.

Mursi sealed his rise to power this month with his audacious move to pension off military leaders who had ruled the country during the long transition after Mubarak was toppled last year. In his interview, he took care to praise the army in its transitional role and describe it as part of Egypt's "national fabric."

Liberals worry that the rise of Mursi and his Brotherhood group could lead to the imposition of Islamic sharia law, which they fear will impose social restrictions in a country where a tenth of the 82 million people are Christians and tourist visits to its beaches and pharaonic ruins are a vital source of income.

Mursi said tourism would grow under his rule. When asked whether the new constitution, now being drawn up by an assembly before being put to the nation on a referendum, would seek to implement the Islamic code, he said it was up to the Egyptian people

to decide.

Article 2.

Foreign Policy

## **The Talkfest in Tehran**

David Bosco

August 27, 2012 -- This week, Iran will be more than the country struggling under the weight of U.N. sanctions, imposed for its controversial nuclear program. It will be more than a potential target for Israeli airstrikes. It will be something other than the home of a theocratic government routinely pilloried by leading human rights groups. On Sunday, Iran became host to the 16th summit of the Non-Aligned Movement (NAM), heralding the start of a three-year turn for Tehran at the group's helm.

Dozens of world leaders and foreign ministers, reportedly including U.N. Secretary-General Ban Ki-moon, new Egyptian President Mohamed Morsi, India's Prime Minister Manmohan Singh, Pakistani president Asif Ali Zardari, and Venezuela's Hugo Chávez are descending on the Islamic Republic for the summit. Sudan's Omar al-Bashir, subject of an International Criminal Court warrant, will also attend -- and it's a fair bet that he won't be dragged from Tehran in handcuffs. North Korea is sending its nominal head of state, Kim Yong Nam, instead of new leader Kim Jong Un. In all, as many as 7,000 delegates are expected.

The spectacle of Supreme Leader Ali Khamenei and President Mahmoud Ahmadinejad playing host to such a major international gathering has caused heartburn in Western capitals. The United States publicly discouraged the U.N.'s Ban from attending and none too subtly urged others to stay away. "[W]e frankly don't think that Iran is deserving of these high-level presences that are going there," said a U.S. State Department spokesperson.

There is no doubt that Iran's leadership will seek to deflect international pressure and to showcase the diplomatic support it still enjoys in some parts of the world. The Iranian authorities have announced a tour of scientific and technical sites designed to simultaneously demonstrate Iran's scientific prowess and its peaceful intentions. The regime will have a largely sympathetic audience. Most states in the NAM are skeptical of what they see as a double standard that permits only certain powers to maintain nuclear arsenals. The last NAM summit document chastised the current nuclear-armed states for a "lack of progress ... to accomplish the total elimination of their nuclear arsenals." In 2006, the movement approved a statement lauding Iran's cooperation with the International Atomic Energy Agency and warning against any military strikes on peaceful nuclear facilities.

This year, other issues on the agenda will likely include equitable economic development, the reform of major international organizations, and the Israel-Palestine conflict -- a perennial topic at NAM

meetings. It's also certain that the assembled leaders will discuss Syria, whose regime Tehran strongly backs. Russia's envoy to the NAM reportedly expressed hope that summit decisions "will lead to the development of a political solution to the Syrian crisis."

That seems highly unlikely, and the subject will be a tricky one for the hosts. Syrian Prime Minister Wael al-Halqi and Foreign Minister Walid Muallem will attend the summit -- but as Reuters's Marcus George points out, a majority of NAM members have already voted to condemn the Syrian regime at the United Nations. The impact of the Tehran summit on most major issues will likely be minimal, but it will nevertheless be an important moment for the NAM itself. The organization has endured a several decades-long identity crisis: It was, after all, a movement born early in the Cold War to provide diplomatic shelter and support for states not clearly identified with either the United States or the Soviet Union. The 1955 Bandung summit document, which, among other things, urged participants not to serve the "particular interests of any of the big powers," was the movement's ideological breakthrough. The 1961 Belgrade summit represented its formal coming-out party. The prime movers of that era were giants from large and populous non-Western states: India's Jawaharlal Nehru, Indonesia's Sukarno, Egypt's Gamal Abdel Nasser, and Yugoslavia's Josef Broz Tito.

As decolonization speeded up in the 1960s, the NAM became a sprawling collection of diverse states with

heavy representation from Africa and Asia. Particularly at the United Nations, it had a significant diplomatic impact. The movement was instrumental in the 1965 expansion of the U.N. Security Council to 15 members, which gave its members more weight in that body. In the early 1970s, the NAM marshaled support for a "New International Economic Order," which emphasized the obligation of former colonial powers to redistribute wealth to the global south. Along the way, Washington came to see the NAM as a mostly hostile movement that, for all its protestations of independence, tended to line up with Moscow. Cuba's active role in the organization -- Havana hosted the 1979 summit -- only intensified U.S. skepticism. The end of the Cold War -- and the rigid diplomatic alignments against which the NAM supposedly militated -- posed an existential challenge for the movement. At its 1992 summit in Jakarta, key players in the NAM claimed that the end of the Cold War vindicated their worldview, but they also recognized that the organization needed to generate a new sense of purpose. Indonesia's Suharto warned that NAM "cannot afford to be passive" in the face of new challenges.

He need not have worried. Multilateral organizations often endure even when their initial purpose has expired (witness NATO's post-Cold War activism). Right on cue, the NAM found its new *raison d'être* in the outsized economic, military, and diplomatic power of the West that persisted throughout the 1990s. In many respects, the movement shifted from being a

voice for Cold War neutrality to serving as a rhetorical bulwark against what many members saw as U.S. hegemony and interventionism.

NAM members condemned U.S. airstrikes against Iraq in the late 1990s and opposed the 2003 invasion. In 2004, South Africa's deputy foreign minister exhorted a NAM gathering to "heighten awareness of the threats to multilateralism through the imposition of unilateralism and it ought to galvanize us into concrete courses of action."

Given the diversity of its membership, the NAM's pronouncements tend to be stem-winders that give everyone something; the last summit document totaled more than 100 pages. But a persistent and distinct worldview permeates the verbiage: NAM members remain skeptical of the leading Western powers, watchful for all forms of incipient neocolonialism and racism, mostly hostile to Israel's policies, and animated by the vast gulf between the world's rich and poor.

This week's summit in Tehran poses distinct tactical challenges for the movement. Not only does Syria badly divide its members, but some Western diplomats have speculated that moderate states won't be pleased about being used as a foil in Tehran's nuclear struggle with the West. But a deeper question is whether even Nonalignment 2.0 makes sense in a world where many see U.S. and European power in decline relative to that of India, South Africa, and China (a NAM observer state). In small but notable ways, these states have acquired new standing and weight in bodies like

the World Bank and International Monetary Fund. The United States has even backed India's bid for a permanent Security Council seat.

The NAM has often claimed to speak for the world's weak and marginalized. But it's increasingly hard to put the likes of India and Indonesia in that category. What happens when some of the NAM's most important players become part of the global establishment?

*David Bosco, a Foreign Policy contributing editor and author of the FP blog [The Multilateralist](#), is assistant professor at American University's School of International Service. He is at work on a book about the International Criminal Court's first decade.*

Article 3.

Los Angeles Times

## **Isolating Iran?**

Najmedin Meshkati and Guive Mirfendereski

August 28, 2012 -- The 16th summit of the Non-Aligned Movement in Tehran this week will draw dignitaries and representatives from more than 100 countries — 35 heads of state, including Mohamed Morsi, the current chair of the movement and the first democratically elected president of Egypt, as well as U.N. Secretary-General Ban Ki-moon. For the next three years, Iran will serve as the chair of the movement, which was formed in 1961 to counterbalance the superpowers. In early August, Iran hosted a high-level meeting that included Russia on

the crisis in Syria. All this points to the abject failure of the U.S. policy in the last 30 years to "isolate" Iran. Policies of restriction or containment through sanctions and economic mechanisms do not work. In a porous world, sanctions are largely ineffective. Sanctions didn't change the behavior of Saddam Hussein or Moammar Kadafi (despite what some think, other factors forced Kadafi to disarm his nuclear program) or affect North Korea, and Cuba has survived in spite of comprehensive U.S. sanctions. Where a U.S. sanctions policy has been successful, it has been coupled with constructive or positive engagement: the ending of apartheid in South Africa and of communism in Eastern Europe, Arab-Israeli peace (through U.S. engagement of Jordan and Egypt), protection of intellectual property in China — all have come about because of influence through involvement. Proponents of further tightening of the so-called crippling sanctions or the oxymoronic "smart sanctions" on Iran point to the significant drop in Iran's oil exports, shortage of foreign currency and the economic hardship in Iran as evidence of the effectiveness of sanctions. However, the sole intended consequence of all these sanctions has been zero insofar as scaling back or curtailing Iran's nuclear program.

The underlying rationale for Iran's pursuit of nuclear technology is a need to achieve self-sufficiency in production of fuel for its planned nuclear power industry and a desire for prestige that goes with technological advancement. The fact that nuclear

power capability might be weaponized acts also as deterrence against Iran's adversaries. The Iraq-Iran war of 1980-88, in which the West backed Saddam Hussein and his Arab allies, showed Tehran the need for strong deterrence if the country were to survive in a secure and stable environment. But for the United States, Iran's nuclear "issue" is a political matter.

As Homi Jehangir Bhabha, father of India's nuclear technology, said in 1965, "a way must be found so that a nation will gain as much by not going for nuclear weapons as it might by developing them."

During the Truman administration, Secretary of State Dean Acheson's policy of containment of China pushed Chairman Mao Tse-tung to greater extremes and arguably led to the Chinese invasion of southern Korea that produced the Korean War, ensnaring the United States. Likewise, his treatment of President Gamal Abdel Nasser and refusing to fund the construction of the Aswan Dam further radicalized the Egyptian leader, pushing him into the arms of the Soviet Union.

Likewise, imposing more sanctions on Iran would result in further radicalization, adding fuel to the fire of hard-liners and eventually marginalizing the democratic forces in Iran. Instead of sanctions, the West is better advised to support and promote the Iranian private sector, which is the engine of economic growth and social change.

When it comes to building relationships, the recipe for Iran should be the same one that the U.S. followed in overcoming its ideological angst with respect to the

Soviet Union, China and Vietnam. In the case of Iran, the U.S. could take a baby step by allowing the Iranians to purchase goods, know-how and other services that enhance the safety of Iran's civil aviation. This confidence-building initiative, which is powered by science and engineering-enriched diplomacy, is a correct approach and promotes global aviation safety. To begin the process, there must be a willingness on the part of the U.S. or Iran to admit that one day there could be a meaningful relationship between the two. Then we must consider the circumstances that can bring about the relationship — not conditions precedent to talks or the like but rather to imagine what the relationship itself would be. In that relationship, all other external issues, such as terrorism, regional concerns and weapons of mass destruction, could be discussed.

The U.S. needs to see Iran as part of the solution to its strategic challenges in the Middle East, which have little to do with Iran itself. For example, the Syrian quagmire, which is fueled by the Sunni governments, mostly dictatorial monarchies, is not of Iran's making. But, first, Washington and Tehran must be able to communicate directly and reciprocally on matters of mutual interest. Resolving their differences can come later, much later.

As the gathering of the Non-Aligned Movement in Tehran demonstrates, Iran is isolated mostly in the minds of some U.S. policymakers and their cheerleading pundits. It is U.S. interests that suffer as a consequence. By not reckoning with Iran as a major

player in the Middle East, the U.S. deprives the American private sector of a lucrative market, indirectly keeps Israel's security in a state of limbo and deepens the stagnation in the Arab-Israeli peace process. A fresh and bold approach to U.S.-Iran relations is not only desirable but imperative for the United States' national interests in the Middle East, Central Asia and Africa.

*Najmedin Meshkati is a professor of engineering at USC and was a senior science and engineering advisor in the Office of Science and Technology Advisor to the Secretary of State (2009-2010). Guive Mirfendereski is an international lawyer and lecturer in legal studies at Brandeis University; he is the author of "A Diplomatic History of the Caspian Sea: Treaties, Diaries and Other Stories."*

Article 4.

Washington Institute

## **Fresh Concerns about Health of Saudi King**

Simon Henderson

August 27, 2012 -- This morning, King Abdullah of Saudi Arabia left the country for an undisclosed destination after deputizing Crown Prince Salman to take over his responsibilities in his absence. The reason for the trip has not been revealed, but there is widespread speculation that the eighty-eight-year-old king will head to New York City for medical

treatment, perhaps after a brief stop in Morocco. He had operations for a back complaint in 2010 and 2011, and he was almost bent double while standing during an Islamic summit in Mecca two weeks ago.

Photographs showed him in obvious discomfort as he left the kingdom today.

Despite the lack of information about the trip, now is a good time to examine Saudi Arabia's regional role and relationship with the United States. The Obama administration sees King Abdullah as a crucial ally in several fields. In Syria, Riyadh is providing arms to the anti-Assad rebels. In the oil market, it has expanded production to offset the drop in Iranian exports caused by nuclear sanctions. Although Riyadh was reportedly disappointed with Washington's swift removal of support for longtime ally Hosni Mubarak in Egypt, the kingdom appears to share many policy objectives with the United States. Washington undoubtedly views Saudi leadership of the Arab and Muslim worlds as useful, not to mention its role as a major oil supplier.

Having Crown Prince Salman stand in for the monarch is no particular relief. Although he serves as defense minister and is, at seventy-six, significantly younger than Abdullah, some have expressed concerns about his own health and his ability to focus on detail. An additional worry is that the House of Saud has no obvious crown-prince-in-waiting behind him. The need for such a candidate has become more urgent in the past year given the deaths of no fewer than two crown princes, Sultan and Nayef, who were half-

brothers of Abdullah and full brothers of Salman, yet died within eight months of each other.

Saudi foreign policy capacity is already strained due to the ill health of longtime foreign minister Prince Saud al-Faisal. In his absence, the kingdom is being represented at this week's Non-Aligned Movement summit in Tehran by the king's son and deputy foreign minister Prince Abdulaziz bin Abdullah. It is unclear to what extent Prince Bandar bin Sultan's recent appointment as intelligence chief has boosted Saudi capabilities.

Meanwhile, the continuing threat of al-Qaeda terrorism in the kingdom became apparent this weekend with the announcement of arrests targeting terrorist cells in Riyadh and Jeddah. The suspects were mainly from Yemen, but the cell leaders were said to be Saudi. Police displayed a considerable amount of seized explosives for the press. The discovery of the cells, which were said to be targeting "security men, citizens, foreign residents, and public facilities," can probably be credited to Prince Muhammad bin Nayef, the assistant interior minister for counterterrorism. He is reportedly very capable but has yet to be promoted to the vacant position of deputy interior minister, in part due to apparently intense competition for promotion among the sons of the current generation of leaders. The deputy interior position remains open after its previous incumbent, Prince Ahmed, was made interior minister after the death of Prince Nayef, who held that post while serving as crown prince.

Saudi help for Washington in terms of oil policy is

another issue demanding attention. Although the kingdom has increased production to its highest level in many years, global prices remain stubbornly high, apparently because of Riyadh's preference to store extra volumes rather than put them on the market. The short-term challenge is to work out who is the main point of contact: King Abdullah or Crown Prince Salman. In the longer term, Washington must ensure that it develops a good working relationship with whoever might emerge as a future crown prince -- and one day, probably sooner than later, as a future king.

*Simon Henderson is the Baker fellow and director of the Gulf and Energy Policy Program at The Washington Institute, specializing in energy matters and the conservative Arab states of the Persian Gulf.*

Article 5.

Asia Times Online

## **China's Challenge: Balancing State and Market**

James A. Dorn

August 24, 2012 -- The slowing of the global economy is forcing China as the world's largest exporter to

confront the issue of rebalancing, which at heart is a problem of striking the right balance between state and market. State-owned banks still dominate the financial sector and are kept profitable by a positive spread between loan and deposit rates dictated by government policy.

Financial repression has penalized savers while rewarding banks. The recent decision of the People's Bank of China (PBOC) to allow greater flexibility in interest rates is a welcome sign.

In June, the PBOC announced that banks will be allowed to offer loans at interest rates up to 20% below the benchmark rate and be free to pay savers a rate up to 10% above the ceiling rate. With CPI inflation at about 2%, real rates on saving deposits are now positive. Wang Tao, chief China economist at UBS in Hong Kong, calls the deposit rate reform "unprecedented" and a "milestone for interest-rate liberalization." The influence of the state in controlling key prices — notably interest rates, the exchange rate, and prices for refined energy products, water, and electricity — politicizes investment decisions, artificially spurs export-led growth, and favors manufacturing. China's challenge is to expand the scope of private markets and use competitive pricing to allocate resources efficiently. Once prices are right, China's growth path can be rebalanced toward greater domestic consumption. President Hu Jintao wants to build a "harmonious society" by creating a more extensive growth model that spreads growth to less developed regions and by decreasing

income inequality. Yet, as Nicholas R Lardy, one of the world's leading China scholars, notes in his new book, *Sustaining China's Economic Growth after the Global Financial Crisis* (Peterson Institute for International Economics), present leaders have not done much to extend liberalization in the post-Deng Xiaoping era. Modest reforms are not sufficient to free interest rates and other key prices from the hand of the state. The new leadership team that is soon to take over will need to take bolder steps if China is to end financial repression and extend prosperity.

China's 4 trillion yuan (US\$586 billion) stimulus program was launched in 2008 to counter the global financial crisis. Monetary easing and infrastructure investment, financed primarily by loans from state-owned banks, helped keep real gross domestic product (GDP) growing by more than 9% in 2009 and more than 10% in 2010, while the United States, Europe, and Japan languished.

Critics of that program, such as MIT economist Huang Yasheng, argue that state intervention during the crisis has set back the reform effort and harmed the private sector. In particular, it is claimed that the bulk of bank loans went to state-owned enterprises.

Lardy does not accept that verdict. Relying on official data, he concludes that "the stimulus program did not lead to a wholesale advance of the state at the expense of either private firms or individual businesses." In particular, "state-owned firms did not increase their share of bank lending." Nevertheless, he recognizes that the state continues to retain control over the so-

called pillar industries such as banking, finance, telecommunications, and petroleum. And he acknowledges the "stepped-up level of state industrial policy", although he thinks it is premature to predict the impact on "the balance between state and market". The question about the proper balance between state and market should be at the center of any debate regarding China's future. Promoting capital freedom — that is, the right to acquire and exchange titles to capital assets — would allow private individuals a wider range of investment choices and limit the power of state officials. Lardy and others argue that one way to increase consumption in China is to extend the social safety net to include rural residents, who now have to pay most of the costs of education, health, and retirement. What is neglected, however, is that reliance on private savings reduces one's dependence on government and thus fosters civil society. In contrast, expanding state welfare would tilt the balance between state and market toward more government power and less individual responsibility. Private firms, many of which are foreign-funded, have been the most important contributors to growth in manufacturing, primarily in tradable goods. Exporters and import-competing industries have benefited greatly from China's opening to the outside world, beginning in 1978. The existence of widespread shadow banking serving the private sector, however, indicates that state-owned enterprises have much easier access to credit. The recent Wenzhou experiment (based on a town in

eastern China noted for its entrepreneurial activity), which officially recognizes and sanctions the informal banking sector, is an explicit admission of past discrimination. Also, the use of investment platforms (special investment vehicles) to fund local governments steers funds to SOEs involved in development projects, thereby affecting the balance between state and market. There is also the problem of identifying recipients of loans from state-owned banks by type of ownership. No official data exists on bank credit by ownership type. Thus, Lardy looks at bank loans by firm size, assuming private firms are mostly small enterprises, and finds that their share of new loans made under the stimulus program exceeded credit going to larger enterprises. He also finds that the share of industrial output produced by SOEs has continued to decline — from more than 80% in 1978 to less than 28% today. Nevertheless, Lardy is critical of the lack of any significant progress in reforming the state sector by liberalizing factor prices, especially interest rates, during the stimulus program. The government continues to set a ceiling on deposit rates and a floor on lending rates. The positive net interest spread enhances bank profitability and gives state-owned banks an incentive to favor financial repression. Low or negative real interest rates on deposits, including saving accounts, provides a low-cost source of funding for state-owned banks. Households appear to have a target rate of saving in order to meet expected expenditures for housing, education, healthcare, and retirement. Thus, Lardy

finds that when interest rates decline, households tend to save more. Meanwhile, relatively low lending rates encourage investment, including in residential housing.

The sources of the imbalances in China's economy are due to the distortions in the price system and the politicization of investment decisions. Unless those distortions are removed by ending financial repression and allowing a greater scope for private markets, China will face increasing disharmony.

The most fruitful reform, notes Lardy, would be to end financial repression by liberalizing interest rates, which would increase real rates on deposits, thereby decreasing saving if the income effect is strong, and increasing consumption. That process now appears to have begun.

Of course, if interest rates are to be market-determined, there must be fully competitive private capital markets, which would require privatizing state-owned banks and bringing shadow banking into the daylight not just in Wenzhou. In addition, the renminbi (also referred to as the yuan) needs to be convertible for all transactions, not only for trade in goods and services. Investors need to be free to choose both domestic and international assets for their portfolios. Using credit quotas and interest rate controls to allocate scarce capital leads to corruption and inefficiency.

The essential condition to normalize China's balance of payments, shift to a more service-oriented economy, slow investment growth, and increase

consumption is to get relative prices right — especially interest rates and the exchange rate. Economists at the central bank and elsewhere have called for faster liberalization and restructuring, but the pace of reform will depend on political factors in a one-party state.

The United States and others can put pressure on China for further reform, but such pressure is limited and could backfire. It would be better for Western debtor countries to get their own fiscal houses in order than to attack China for an undervalued exchange rate and threaten protectionist measures that would reduce world trade and wealth.

A capital-poor country like China should not be a net exporter of capital. By holding trillions of dollars of low-yielding foreign debt, China deprives its citizens of the wealth that could be created by relaxing capital controls and encouraging imports by allowing market-determined exchange rates and freely determined interest rates.

China's challenge is to undertake institutional reforms that protect individual rights, strengthen the private sector, get prices right, and thus tilt the balance between state and market toward more freedom and less coercion.

*James A. Dorn is a China specialist at the Cato Institute in Washington, D.C., and co-editor of *China's Future: Constructive Partner or Emerging Threat?**

NYT

## **New Book in Battle Over East vs. West**

Jennifer Schuessler

August 27, 2012 -- In 1988 Pankaj Mishra was a recent university graduate in the northern Indian city of Benares with big literary ambitions he had little idea how to fulfill. But when he heard that a local library was going to be auctioning back issues of The New York Review of Books as waste paper, he knew exactly what to do.

“I convinced a friend of mine who was a student to pose as a paper recycler,” Mr. Mishra recalled recently. “He put in a very high bid and brought a whole bunch of stuff over in a rickshaw.”

It’s an anecdote that might seem plucked from the pages of a novel by Balzac by way of V. S. Naipaul — or, for that matter, from the essays and reportage that, in the years since, have made Mr. Mishra, 43, a regular presence in the pages of not just The New York Review, but also The New Yorker, The London Review of Books, The Guardian and seemingly every other prestigious publication in the Anglo-American literary world.

Mr. Mishra’s flair for the grace note is matched by a sometimes ferocious instinct for the jugular. In 1999 a denunciation of Salman Rushdie’s novel “The Ground Beneath Her Feet” as “an alarming new kind of anti-literature” helped establish him as a force to be

reckoned with in India's fractious literary scene. More recently, a blistering takedown of the historian Niall Ferguson in The London Review last November prompted extensive coverage in the British news media — and threats of a libel suit from Mr. Ferguson. Now Mr. Mishra seems poised for a fresh round of intellectual battle. His latest book, "From the Ruins of Empire: The Intellectuals Who Remade Asia," has already been greeted by some in Britain as a fuller, footnoted riposte to Mr. Ferguson's sunny view of Western imperialism, with the historian Mark Mazower, writing in The Financial Times, praising its "power to instruct and even to shock."

Some on the right have dismissed the book as a polemic, but Mr. Mishra brushes aside the term. "If your writing collides with the conventional wisdom, there's going to be some kind of friction," he said in a telephone interview from his home in London. And when it comes to the mainstream media, he added, "there are still very few people presenting perspectives other than that of the West."

"From the Ruins of Empire," to be published in the United States next Tuesday by Farrar, Straus & Giroux, is a richly detailed account of late 19th- and early-20th-century Asian intellectuals' often bitter responses to what one Japanese scholar quoted in the book called "the White Disaster."

Mr. Mishra's own story, however, suggests a young man who fell hard for Western literature but was sometimes too shy to consummate the affair.

He grew up in the northern city of Jhansi, the son of a

railway worker whose prosperous Brahmin family had been impoverished by India's 1951 land reform. At Allahabad University Mr. Mishra studied commerce but nursed dreams of publishing a novel in English, "a language that no one around me spoke well, if at all," as he put it. He sent pages of a novel in progress to Arvind Krishna Mehrotra, a poet on the English faculty, who later sought him out at his student hostel for what Mr. Mishra recalled as "the first literary conversation I had ever had."

Even then, Mr. Mehrotra said in a phone interview, Mr. Mishra struck him as bound for big things. "I told my wife: 'I must meet this person. We will hear about him later,' " he said, adding, "He was someone who needed to know everything."

Which isn't to say that Mr. Mishra embraces the narrative of the young provincial who moves to the center of the literary world by sheer force of talent, at least not geographically.

"I still hesitate to say I've moved to London," he said, noting that until his marriage in 2005 to Mary Mount, a book editor and the daughter of Ferdinand Mount, the former editor of *The Times Literary Supplement*, he was at best a "frequent visitor." The arrival of the couple's daughter, now 4, has curtailed his travels somewhat, but Mr. Mishra still spends several months a year writing in a rented cottage in Mashobra, a sleepy Himalayan town of 2,000.

His rise to prominence, however, does seem studded with lucky breaks and chance encounters that Mr. Mishra himself regards with wonder. The first came in

1994, when he was scraping by in Mashobra writing book reviews for Indian newspapers in the morning and reading and “filling notebooks like a crazy person” in the afternoon.

One day he got a letter from David Davidar, the publisher of Penguin India, asking if he’d like to do a book for the princely advance of \$125.

“Butter Chicken in Ludhiana,” a travelogue about small-town India based on six months of very bumpy bus travel, appeared in 1995 to good reviews and respectable sales. Next came a six-month stint as an editor at HarperCollins India in New Delhi, where Mr. Mishra quickly made a mark by acquiring Arundhati Roy’s “God of Small Things.”

His next big break came in 1997, after he’d moved back to Mashobra to start writing again. One day he noticed that Barbara Epstein, an editor at The New York Review of Books, would be giving a lecture in Delhi, and he sent her a note asking to meet.

After a friendly dinner Ms. Epstein invited him to submit a piece. His essay “Edmund Wilson in Benares,” about discovering Wilson’s books in the local library and finding curious echoes of his own chaotic world, appeared the next year, followed by a check for \$4,000 — nearly 40 times the advance for “Butter Chicken.”

Next came a deal for a novel, “The Romantics,” about a shy young Indian man’s encounter with Western spiritual seekers, published in 2000 by Random House to strong reviews. Mr. Mishra seemed to be riding the global vogue for Indian fiction, but he turned his

attention instead to nonfiction, filing long pieces of reportage for The New York Review, along with investigative pieces about suspected human rights abuses by the Indian Army that did not endear him to Hindu nationalists at home.

“Pankaj was one of the first people to write serious nonfiction from India at a time when everyone else was writing fiction,” said Akash Kapur, the author of “India Becoming: A Portrait of Life in Modern India.” “His work was a harbinger of the nonfiction boom we’re seeing right now.”

Mr. Mishra, who has contributed articles and reviews to The New York Times, also began writing increasingly about non-Indian subjects, filing dispatches from Afghanistan, China and beyond, some of which appeared in the 2006 collection “Temptations of the West.”

But even as he has spent less time in India, he can still raise hackles there. In a 2010 speech to the Indian Parliament, the prominent pro-globalization economist Jagdish N. Bhagwati denounced Mr. Mishra’s harsh critiques of India’s economic liberalization as “fiction masquerading as nonfiction.” And last year the writer Patrick French, whose “India: A Portrait” had been dismissed by Mr. Mishra, published a riposte in the Indian magazine Outlook, charging him with self-righteously attacking any writer who dares to praise capitalism, even cautiously.

As for the fracas with Mr. Ferguson, Mr. Mishra professes continued puzzlement. “I don’t know why he took it so personally,” he said. The review’s

provocative comparison between Mr. Ferguson and Theodore Lothrop Stoddard, the author of the 1920 best seller “The Rising Tide of Color Against White World Supremacy,” Mr. Mishra insisted, was not meant to imply that Mr. Ferguson was a racist, as Mr. Ferguson charged in a long reply to The London Review, accusing him of “character assassination.” In his new book Mr. Mishra — an ardent critic of the American-led wars in Afghanistan and Iraq — has disdainful words for unnamed “pundits” who substitute ideological certainties for the messiness of experience. And while he writes a regular column for Bloomberg News, he doesn’t want to hang the label on himself.

“It’s a frightening, frightening word,” he said. For all his success, Mr. Mishra still retains a bit of what, in “Edmund Wilson in Benares,” he called “the furious intensity of a small-town boy for whom books are the sole means of communicating with, and understanding, the larger world.” “My dominant feeling every day is one of great ignorance,” he said.

Article 7.

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## **The Man in the Moon**

Lydia Netzer

August 27, 2012 -- MOST technological advances are actually just improvements. One thing builds on the

next: from shoddy to serviceable, from helpful to amazing. First you had a carriage, then a car, and then an airplane; now you have a jet. You improve on what is there. Technological advances are like that.

Except for the one that involved landing on the Moon. When a human went and stood on the Moon and looked back at the Earth, that was a different kind of breakthrough. Nothing tangible changed when Neil Armstrong's foot dug into the lunar dust and his eyes turned back at us. We didn't get faster wheels or smaller machines or more effective medicine. But we changed, fundamentally. What had been unknown, was known. What had been unseen was seen. And our human horizon popped out 200,000 miles. Forever, we would see the Earth differently, because we had seen it from someplace truly foreign.

This is why Mars is important. When we get a human to Mars — in the next few decades, NASA has predicted — our horizon will expand 1,000 times farther, and it will never go back.

Watching the first images from the rover, Curiosity, which landed on Mars early this month, I was reminded of a short story by Ray Bradbury called "Mars Is Heaven!" In it, Mars is populated by aliens who fool visiting Earthlings into thinking they're in a familiar environment before murdering them. It's about how stupid nostalgia is, how it tricks us into wanting things that were never that great in the first place. What strikes me about the story is that, just over 60 years ago, someone could seriously write about aliens on Mars.

Can you imagine what it was like then? Mars was an impossible frontier; we wouldn't even have decent pictures of the planet until almost 20 years after the story was published. Now it reads like a fairy tale in which the moon is made of cheese, or the sun is a horse-drawn chariot bearing a god, or the stars move in crystal spheres around the sky.

When humanity was in its infancy, we thought the universe revolved around us. Then, with Copernicus, we aged into heliocentrism, became aware we were one of a family of planets inside the walls of our house, the solar system. Nearby stars gather like a town, rotating through the galaxy, our country.

Clusters are like continents. We realized in stages that we were very insignificant. And then, almost like grown-ups, we pulled our boots on and began to try to leave a significant mark anyway.

We don't get anywhere by staying home from Mars. By pushing our little mine carts around the earth and making speedier mine carts, by connecting long pipes to communicate with one another and then creating better pipes to shout down, louder ways to shout. All of our squabbles with other humans and all of our possessions here on earth, the things we make faster, easier, smaller, really mean very little. How could they, when the universe is so big? Significance is in science — not the science that leads to better mine carts and more efficient shouting, but the science that leads to more ideas.

Remember Plato's allegory of the cave. In the cave, the people look at shadows moving on the wall. They

watch the shadows move, and they think that's living. What if they could go outside and see the sun? That's us, moving from the Earth to the Moon. That's Neil Armstrong, who died at the age of 82 over the weekend, standing on the Moon, and looking back at Earth.

The thing about the cave is, it's not just one cave. It's more caves, and more, all nested within one another. The Moon was our first cave; Mars will be next. And then there will be another cave, and another.

When people scoff at sending humans to Mars, and say that pictures of wheel marks on a red desert are not worth the trouble when there are so many things here at home that we could be spending money on, it makes me claustrophobic. It's as if we're trying, out of guilt or shame, to crawl back into the cave and watch the shadows on the wall. We're trying to stay children in our parents' house, knowing that the road leads to town, and then to another town. We're saying, "Look, we made a really great toilet that flushes itself!

Remember that printing press? That was pretty neat. We even made pyramids — those things are huge! Can't we just be happy with making a great toilet even greater? Do we really have to go to Mars?"

But Mars is waiting. It spins now outside our human reach. We must realize that the work of growing up is not something we can cut when the budget gets tight. It is mission critical, for the intellectual life of the species, for the future of humans, not to stagnate, not to wither, but to stretch, and reach, and always to expand.

*Lydia Netzer is the author of the novel “Shine Shine Shine.”*