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Sent: Fri 3/23/2012 2:32:02 PM
Subject: March 21 update

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Article 1.

Agence Global

Israel's Six Strategic Errors

Patrick Seale

20 Mar 2012 -- In one of Jean de la Fontaine's 17th century fables, a frog envies an ox. Consumed with the urge to make itself as big as the ox, the frog puffs itself up, ever bigger and bigger, until it finally explodes. Israel's behaviour towards its neighbours in the Middle East is not so very different from that of the over-ambitious frog. If it fails to correct its policies, it must surely risk suffering the same fate.

With this parable in mind, it is possible to identify six strategic blunders which Israel has made in recent decades, and which have become all the more blatant -- and dangerous to itself --

under the far-right government of Prime Minister Benyamin Netanyahu.

The first of these errors, from which several of the others spring, is Israel's adamant refusal to allow the emergence of a Palestinian state in the occupied West Bank and the besieged Gaza Strip. Any expression of Palestinian nationalism is vigorously stamped on -- even the harmless commemoration of the nakba, the Palestinians' catastrophic defeat and dispersal in 1948. To an independent observer, Israel's rejection of the national aspirations of the captive Palestinians -- or the reduction of these aspirations to a security problem, to be dealt with by unremitting harshness -- would seem to be an extraordinary example of political insanity.

Seen from the outside, it looks blindingly obvious that a small and prosperous Palestinian state living in Israel's shadow would be an enormous asset for the Jewish state, assuring its long-term security by opening the door to peace and to its full acceptance in the region.

How then to explain Israel's frantic efforts to prevent any advance towards Palestinian statehood? Some Israelis may fear that any acknowledgment of Palestinian national claims could undermine the legitimacy of Israel's own national project -- built as it was on the ruin of Arab Palestine. A more down-to-earth explanation is simply Israel's land hunger. The relentless expansion of Jewish settlements on occupied Palestinian land, with the evident intention of creating a Greater Israel, is Israel's second strategic error, since it risks putting an end once and for all to any possibility of a two-state solution.

Years ago, James Baker, U.S. Secretary of State from 1989 to 1992 in George H. W. Bush's administration, urged Israel to abandon the "unrealisable dream" of a Greater Israel. But his

words went unheeded. Netanyahu and his far-right colleagues are steadily proceeding with a ruthless land grab, brushing aside the admonitions of the whole world, including Israel's indispensable American ally.
Many influential Jews, such as Professor Peter Beinart, author of The Crisis of Zionism, have understood the grave dangers of this expansionist policy. An article by Beinart in the International Herald Tribune of March 19 is entitled, "To save Israel, boycott the settlements." It is time, he writes, for "a counteroffensive -- a campaign to fortify the [1967] boundary that keeps alive the hope of a Jewish democratic state alongside a Palestinian one."
A third strategic error is Netanyahu's febrile warmongering against Iran. He has repeatedly threatened to strike its nuclear facilities to avert what he claims is the danger of "another holocaust." It is here that the moral of La Fontaine's fable would seem to apply. Iran's population is ten times that of Israel and its vast land area and natural resources dwarf those of the Jewish state. What is Netanyahu up to? Does he wish to endanger Israel's future generations by turning the Islamic Republic into an "eternal enemy"?
By threatening war -- and seeking to blackmail the United States into joining in on Israel's side -- Netanyahu seems determined to sabotage the talks which Catherine Ashton, the EU foreign affairs chief, is attempting to re-launch with Iran. If he succeeds, and if a regional war breaks out as a result, history will judge him very severely.
The truth is that Netanyahu is prepared to risk war -- with all its unpredictable consequences -- not to avert an alleged, but so far non-existent, 'existential threat', but rather to assure Israel's continued military supremacy. He seems to fear that any advance in Iran's nuclear capability might one day restrict Israel's

freedom to strike its neighbours at will. Instead of building Middle East peace on the foundations of a regional balance of power -- which would be eminently sensible -- he insists on dominating Israel's neighbours by force, with military means provided by the United States. This permanently aggressive posture is Israel's fourth strategic error.

Its fifth strategic error is, without doubt, its murderous attitude towards Gaza, as was evident in its recent assassination of Zuhair al-Qarsi, secretary-general of the Popular Resistance Committees, together with his companion, Mahmoud al-Hannani, a recently freed prisoner. Predictably, these targeted killings provoked rocket fire from Gaza. Israel then responded with air-raids, which killed 25 Palestinians and wounded close to a hundred, demonstrating yet again its total indifference to non-Jewish human life. Some observers even believe Israel callously killed al-Qarsi in order to test the efficacy of its Iron Dome anti-missile system.

What do Israel's hardliners now propose to do about Gaza? Efraim Inbar and Max Singer of the Begin-Sadat Center (BESA) provide an answer, published in the Jerusalem Post on March 14. The following is their blood-chilling executive summary:

Israel has to respond to the attacks from Gaza with a large-scale military operation. If no such action is taken, the attacks against Israel will surely increase. Gaza is small enough so that Israel can destroy most of the terrorist infrastructure and the leadership of Hamas, Islamic Jihad and other organisations. The goal would be to restore deterrence and to signal Israel's determination to battle the rising Islamist forces in the region. By acting now in Gaza, Israel will also greatly reduce the missile retaliation it would face if and when it strikes Iran's nuclear facilities. Political conditions seem appropriate as Hamas is

divided, most of the Arab world is busy with pressing domestic issues, and the U.S. is in the middle of an election campaign. The expression of such extreme views surely points to how far Israel has strayed from rational politics.
Geological surveys, confirmed by recent discoveries, suggest that the Eastern Mediterranean contains very large natural gas reserves, located off the coasts of Israel, Lebanon, Syria, Cyprus and Gaza. Once developed, they could transform the economies of these countries. Urgently required, therefore, are maritime demarcation agreements to establish how these riches are to be shared so that all can benefit -- but this, in turn, will require peace agreements.
Israel's failure to understand that now is the time to make peace not war is its sixth, and possibly greatest, strategic blunder.

Patrick Seale is a leading British writer on the Middle East. His latest book is The Struggle for Arab Independence: Riad el-Solh and the Makers of the Modern Middle East (Cambridge University Press).

Article 2.

The National (UAE)

Hizbollah is forced to choose sides against its own interests

Faisal Al Yafai

20/3 -- As July turned to August in 2006, Lebanese citizens began to throng the border with Syria. Israel had started its assault on Hizbollah and the south of Lebanon was being destroyed by air strikes. Many fleeing the conflict took refuge in Syria. At the border, I watched as hundreds of cars, filled with suitcases, boxes and frightened-looking children, queued to cross. Many of the refugees were solidly middle-class, doctors, engineers or businessmen who never would have imagined themselves as refugees waiting at a border of their country to escape a bombing campaign.

But the most remarkable aspect was the way ordinary Syrians extended their welcome, allowing strangers to share their homes.

In Damascus, Syrians opened their hearts and houses to their fellow Arabs. Schools and sports stadiums were turned into makeshift accommodations. Businesses in the Old City put up signs offering free water or soft drinks to any Lebanese. This was not a top-down order from the government; it was a genuine outpouring of support. The sign seen most often around the city said simply: "We are all Lebanon."   Six years on, and the exodus is going the other way. With the uprising against the rule of Bashar Al Assad now in its second year, and with the regime responding with brute force, thousands have fled to neighbouring countries. The UN refugee agency estimates 32,000 Syrians have left in the last year, with about 8,000 going to Lebanon.   Yet this incipient refugee crisis highlights the convoluted politics of the region. The arrival of Syrians on Lebanese soil poses a serious challenge to Hizbollah, the military-cum-political organisation that supports, and is supported by, the Assad regime.

Hizbollah is predominantly a Shia organisation - it draws fighters and donors from the ranks of Lebanese Shiites, and wider political, financial and military support from Iran. Yet as a political force, Hizbollah has been careful to define itself as a Lebanese party, as a group standing up for Arab rights against Israel's encroachment. The group has wide support among Arabs in many countries and is almost unquestionably the strongest non-state military actor in the region.

But the refugee crisis - and the broader Syrian uprising - is testing Hizbollah's support, or rather exposing the daylight between its leadership and the broader Lebanese population.

Earlier this month, Hizbollah's second in command, Naim Qassem, said the group could not accept the presence of Syrian refugee camps in Lebanon. This stance has drawn criticism from many Lebanese, most of whom have broad sympathies with ordinary Syrians - there are family, business and friendship links between the two countries.

For Hizbollah, the issue of refugee camps is ostensibly about security - the group has said it does not want camps to become staging posts for attacks on the Syrian regime, which might then retaliate on Lebanese soil, drawing the two countries into conflict. The group maintains its first priority is still the Lebanese people.

Yet there is a larger dilemma for the group. In 2006, Hizbollah, the overwhelming majority of Lebanese, the Syrian regime and most Syrians all found themselves (broadly) on the same side: the politicians and public opinion were outraged by Israel's attacks on Lebanon. After the month-long conflict ended ambiguously, with Israel failing to achieve its military goals, it was widely seen as a victory for Hizbollah, and Mr Al Assad garnered some political capital for supporting the party. As the Arab uprisings gripped Tunisia and Egypt, Hizbollah cheered the activist-led revolutions. When Egyptian president Hosni Mubarak stepped down after overwhelming public protests, Hizbollah hailed it as an "historic victory" for Egyptians. "Hizbollah is filled with pride over the achievements of the Egyptian revolution," party statements said, and its supporters took to Lebanon's streets to celebrate.

But in Syria's uprising, the party is torn; unwilling to accept the fall of its chief Arab patron, but conscious that Mr Al Assad is killing his own people to secure his rule.

Hizbollah has tried not to take sides, but as the death toll has mounted it has become harder to maintain neutrality. With Hamas leaving Damascus and coming out against the Assad regime, the pressure on Hizbollah has increased. Silence, in effect, is taking sides.

It is getting harder for the party to maintain its line. Last Thursday, Hassan Nasrallah, the party's secretary general, suggested that the regime should seek a political solution to avoid plunging the whole region into chaos. This caution, stopping short of calling for Mr Al Assad to step down or lead a transition, implies that the group still sees him as a legitimate ruler, something which increasingly the Arab world does not.

This daylight between Hizbollah and public opinion is dangerous for the group, especially as the political language in the region takes a more sectarian tone. If Hizbollah cannot place itself on the right side, especially of the Lebanese on whom it depends, the party's position may change. Arabs, especially majority Sunnis, may increasingly see Hizbollah as a nakedly Shia organisation, willing to sacrifice people for its ideological goals.

If the Assad regime continues its brutal crackdown and still collapses, it may take the region's most powerful non-state military along with it.

Article 3.

Los Angeles Times

Turkey's foreign policy pivot

Soner Cagaptay

March 21, 2012 -- Turkey's foreign policy has come full circle in the last year. Far from confronting Washington on a range of issues, Ankara is embracing its membership in NATO while working closely with Washington on Middle East issues, including Iran and coordinating Syria policy. What has changed?

First and foremost, Ankara has come to appreciate a constant in the value of its foreign policy: Turkey is east if you view it from the perspective of the West, and west if you view it from the perspective of the East.

In the 2000s, Ankara'spivot away from the West almost upset Turkey's unique identity. The nation entered a period of increasingly cold relations with the United States and turned its interest to the Middle East in hopes of becoming a regional power. This strategy, however, did not exactly make Ankara a formidable power in the Middle East. Take, for instance, the Saudis' and other Persian Gulf countries' yearning for a regional counterbalance against Iran. For them the Turkey of the 2000s, isolated from NATO and Washington, began to resemble a "wealthy Yemen," i.e., a prosperous, large Muslim nation with no real value added to regional security. Ankara's strategy even started to erode its national prestige, although it initially was popular with the people.

Ultimately, Turkey came to realize that its strategic value to the Middle East is not rooted in the fact it's a Muslim power — the region has many such states — but that it is a Muslim power with strong ties to the U.S., access to NATO technology and muscle, and the ability to sit at the table with the Europeans. This realization was the catalyst forAnkara'sforeign policy turnaround. Accordingly, in September 2011, Turkey made the strategic choice to join NATO's missile defense project.

That was a major foreign policy move by the Turkish government. If the Cold War defined NATO's identity in the 20th century, then the missile defense project defines NATO in the 21st. Just as members of the alliance agreed to defend one another against communism during the Cold War, with the missile defense project, the members of NATO have now agreed to defend one another against a new threat, namely ballistic missiles that would likely come from Iran, Russia, China or other volatile regions.

This is what makes Ankara's decision to join the missile defense system the most important Turkish foreign policy move of the last decade. It is Turkey saying Ankara's relations with the West remain key, but more important, that Turkey now appreciates the effect its Western overlay — i.e., NATO membership — will have in making it a regional power.

For the Saudis and other Arab nations in the Middle East, Turkey is no longer a "wealthy Yemen" but rather the strong Turkey that Ankara sought to be when it launched its Middle East policy a decade ago.

Of course, other factors have helped foster Ankara's foreign policy change. One is the close relationship that has emerged between President Obama and Prime Minister Recep Tayyip Erdogan. Erdogan likes to be liked, and Obama has given him attention and respect, which in turn helped remold Turkish foreign policy through Erdogan's powerful personality.

At the same time, the Arab Spring has exposed the limits of Turkey's "act alone" strategy in the Middle East. For example, the uprising in Syria demonstrated that Turkey cannot deal with massive regional instability unilaterally. Ankara reportedly has asked for NATO assistance to contain the fallout of the Syria crisis, such as dealing with a probable massive refugee flow from Syria.

Moreover, the uprising in Syria has further cast Turkey and Iran as regional adversaries: Turkey supports the Syrian opposition; Iran arms the Assad regime. During the 2000s, Turkey approached Tehran to establish good relations, but today Iran considers Turkey a rival. This is one more reason why Ankara turned to Washington and NATO.

Turkey's new foreign policy perspective even provides Israel with a unique opportunity. But the Israelis first need to move beyond the paralysis in their relationship with Ankara, which seems to boil down to the "apology" issue over the 2010 flotilla incident off the coast of Gaza. Ankara too should be interested in repairing ties with Israel because Turkey's value to the region would be increased if Erdogan could pick up the phone and call any world leader, including Israel's. This is the logic behind Turkey's pivot.

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Article 4.

The Washington Institute

Washington and Israel on Iran: Unresolved Differences

Michael Herzog

March 16, 2012 -- The March 5 summit between President Obama and Prime Minister Binyamin Netanyahu marked an important milestone in the U.S.-Israeli decisionmaking process on Iran's nuclear program. The meeting helped clarify positions and narrow gaps, yet significant differences remain to be addressed in the coming months.

According to Israeli government sources, the two leaders refrained from sharpening their differing red lines on Iran. This is understandable given that neither country is likely to forsake its freedom of action on such a crucial issue. Israelis are pleased that the Iranian nuclear file has moved to the top of the U.S. and global agenda, with the international community adopting sharp sanctions for the first time. They also appreciate Obama's strong public statements rejecting containment, depicting a nuclear-armed Iran as a threat to U.S. national security, pledging to keep all options on the table -- including the military one -- and, above all, respecting Israel's sovereign right to protect its vital national security interests. Such statements are important to Israeli ears because they create a sense of commitment no less significant than what is said behind closed doors.

Yet respecting Israel's sovereign rights or appearing open to Israeli requests for certain military wherewithal does not mean that Washington has given its ally a green light to strike Iran. The White House apparently reiterated its negative attitude toward a premature strike during the summit, urging Israel to allow sufficient time for sanctions and diplomacy to work first. For its part, the Israeli leadership clarified that it had not yet made a decision and would wait to see whether Iran yields to international pressure. In interviews with the Israeli media following his return from Washington, however, Netanyahu stated that the time to decide is measured "not in days or weeks, but also not in years."

In this context, the Israeli government demands even tougher sanctions, and it is more skeptical than Washington that such measures will produce results. Prior to the summit, Netanyahu set the bar high for sanctions to be deemed successful. His benchmarks -- cessation of all Iranian enrichment activities, removal of all enriched material from Iran, and dismantlement of the Fordow enrichment facility -- are probably too high for the international community to adopt or for Iran to accept.

Regarding the U.S. military option, Israelis did not fail to note the toughening up of presidential and other official utterances on the subject, but they remain unsure about whether and to what extent Washington is ready to moderate its previously stated red line of Iran actually developing a weapon. On March 6, Defense Secretary Leon Panetta told the American Israel Public Affairs Committee (AIPAC) that if all nonmilitary options fail, "we will act." Some have interpreted this as readiness to set a time limit for sanctions and diplomacy rather than wait endlessly until Iran moves to weaponize.

"Zone of Immunity"

Looming over the meeting was a growing sense of urgency in Israel, driven by the fact that Iran has begun to immunize critical components of its advancing nuclear capabilities against military strikes. Most notably, Tehran has moved to operationalize the Fordow enrichment facility near Qom, which is protected by heavy mountainous rock and appears invulnerable to Israeli airstrikes. Israelis are concerned that a nuclear program entrenched in what Defense Minister Ehud Barak has called a "zone of immunity" would deny them a viable, cost-effective military option and make it easier for Iran to proceed toward a weapon.

Differing Triggers

Israel and Washington share common ground in their assessment and understanding of the Iranian nuclear program; Obama's explanation of the consequences of a nuclear-armed Iran in a recent interview with the Atlantic could have come from Israeli lips. Yet they part ways when defining triggers for military action and, therefore, when determining the critical timeframe for stopping Iran's drive toward dangerous nuclear capabilities.

From Israel's perspective, Iran's nuclear program undoubtedly carries a military dimension, even if Tehran has not yet made a concrete decision to produce a bomb. This fact, along with the regime's nature and ideology, validates a military option once Iran acquires the essential capabilities to overtly or covertly weaponize. Waiting until Iran actually makes that dash is too risky. Israel therefore faces a dilemma: given that Iran has already crossed the critical capabilities threshold, and assuming international sanctions and diplomacy hold little promise, should Israel apply a risky, independent military option while it is still available, or should it rely on the United States to stop Iran? As indicated above, both Netanyahu and Barak have publicly asserted that Israel's decision time is measured in months.

From Washington's perspective, the window of opportunity to stop Iran's nuclearization affords much more time for sanctions and other types of pressure. The United States has far more effective capabilities than Israel and can take military action long after Iran immunizes its program to an Israeli strike. Moreover, many in the Obama administration believe that Israel's "zone of immunity" is too narrow a concept, since it focuses on only one element of the Iranian program and one countermeasure.

Washington is clearly unenthusiastic about an Israeli military strike and has expressed this both privately and publicly. It views Israel's options on this front as far weaker than America's, with questionable cost-effectiveness and great potential for serious unintended consequences, including regional escalation and a spike in oil prices. Ultimately, the administration fears being dragged into a war under circumstances that are highly sensitive internationally and domestically.

Furthermore, while Israel is focused on preventing a nuclear-capable Iran, the United States seems focused on preventing a nuclear-armed Iran. In recent months, Secretary Panetta has defined Washington's red line as the development of a nuclear weapon, and Obama elaborated on this concept in his Atlantic interview: "Iran...is not in a position to obtain a nuclear weapon without us having a pretty long lead time in which we will know that they are making an attempt."

In Israel's eyes, this approach is too risky because it could allow for a protracted period during which Tehran stands at the threshold of weaponization while developing and immunizing its capabilities. Eventually, the Iranians could rush to a weapon in a considerably shortened timeframe and make it increasingly more difficult and costly to stop them, assuming their activities could even be detected early enough.

Behind these differences lies a psychological gap. The United States is driven by the global perspective of a superpower, while Israelis see the issue as much more immediate and dire. Although both realize that the Iranian nuclear problem is not an exclusively Israeli problem, the Israeli leadership is driven by a unique imperative to defend against a potentially existential threat. It therefore attaches more weight to the consequences of inaction. With memories of history burnt deeply into their collective psyche, Israelis are loath to leave their most critical national security interests in the hands of others, even their closest allies. Netanyahu clearly exhibited this mindset in his postsummit speech to AIPAC, when he mentioned the Holocaust while discussing Iran. On a more tactical level, Israel regards its impending decision as important leverage on Washington and the international community to act decisively, and it will not easily forsake this lever.

Conclusion

The U.S.-Israeli differences on Iran demand continued efforts to resolve them. Should the two allies fail to reconcile their red lines and synchronize their clocks in the coming months, Israel will face a critical unilateral decision.

In the meantime, both countries must work to intensify existing pressures on the Iranian regime. They should also better coordinate their public messages on the issue, seeking the right balance between unnecessary belligerence and statements that discredit the military option. Such balance is essential to the success of sanctions and diplomacy, and continued failure to find it could have a counterproductive impact on Iran's calculus. Notwithstanding their differing perspectives, the less daylight seen between Washington and Israel, the better.

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Division and chief of staff to the minister of defense.

Article 5.

The Financial Times

Political crisis or civil war will not stop China

Gideon Rachman

2012/03/20 12 -- MY BOOKSHELVES in London groan with titles such as Eclipse: Living In the Shadow of China's Economic Dominance, and When China Rules the World. But travel to China itself and you will find plenty of people who are sceptical about the notion that the country is a rising superpower. The sceptics are not just jaundiced western expatriates or frustrated Chinese liberals. Prime Minister Wen Jiabao does a pretty good job of talking down the Chinese miracle. He has called the country's economic growth "unbalanced and unsustainable". Last week, he warned that if China does not push ahead with political reform, it is vulnerable to another "Cultural Revolution" that could sweep away its economic gains.

Wen's comments were swiftly followed by the fall from grace of Bo Xilai, the controversial Communist Party boss in Chongqing. This outbreak of high-level political infighting has been seized upon by China-sceptics as further evidence that the country's much-vaunted stability is a myth. So who is right? The people who think China is a rising superpower, or those who insist it is a deeply unstable country? Oddly enough, they are both correct. It is clearly true that China has enormous political and economic challenges ahead. Yet future instability is highly unlikely to derail the rise of China.

My own scepticism about China is tempered by the knowledge that analysts in the West have been predicting the end of the Chinese boom almost since it began. In the mid-1990s, as the Asia editor of The Economist, I was perpetually running stories about the inherent instability of China — whether it was dire predictions about the fragility of the banking system, or reports of savage infighting at the top of the Communist party. In 2003, I bought a much-acclaimed book, Gordon Chang's The Coming Collapse of China, which predicted that the Chinese miracle had five years to run, at most. So now, when I read that China's banks are near collapse, that the countryside is in a ferment of unrest, that the cities are on the brink of environmental disaster, and that the middle classes are in revolt, I am tempted to yawn and turn the page. Yet, it is equally hard to believe that either the Chinese economic or political systems can continue along the same lines indefinitely. Rapid, export-driven growth of 8%-9% a year is not sustainable. And China's political system looks increasingly anachronistic, as demands for democracy spread around the world. Wen was probably implying as much last week, when he said that the Arab people's demand for democracy "must be respected … and cannot be held back by any force". It is clearly true that China has very difficult political and economic transitions ahead. There are, however, encouraging precedents from the rest of Asia. South Korea and Taiwan have both moved from fairly brutal one-party states to functioning democracies — and from low-cost manufacturing to hi-tech consumerism. The sheer scale of China — and its uniquely traumatic history — will make the country's political and economic transformation that much harder. In particular, if China were to move towards free elections, it would almost certainly see the rise of separatist movements in Tibet and Xinjiang. Given the depth of Chinese nationalism, it is unlikely that these would be treated with subtlety or sensitivity. As well as struggling to preserve the country's territorial integrity, a more democratic China would find itself coping with all sorts of barely suppressed social tensions — particularly if it scraps restrictions on movement between the countryside and cities.

Yet even if one envisages the very-worst-case scenario — the outbreak of a civil war — that need not mean that China will fail to make it to superpower status. If you doubt it, consider the rise of the last emerging superpower to shake the world. The US fought a civil war in the 1860s — and yet was the world's largest economy by the 1880s. Or take Germany and Japan: countries that were defeated and devastated in a world war yet which swiftly resumed their positions among the world's leading economies.

What the US, Germany and Japan had in common is that they had discovered the formula for a successful industrial economy — something that seems to be able to survive any amount of turmoil. After more than 30 years of rapid economic growth, it is clear that China, too, has mastered the formula.

Some China-sceptics prefer to compare the country's rapid growth to that of the Soviet Union or to Japan in the 1980s. But the USSR's inefficiency was disguised because it never competed on world markets: China, by contrast, is already the world's largest exporter. As for the Japanese bubble, that burst when the country was already far richer on a per-capita basis than China is now. The Chinese economy, because it is relatively poor, still has huge scope for modernisation.

In politics, as in economics, China's weaknesses also hint at untapped potential. The country is still burdened with an immature political system. If and when China achieves the "fifth modernisation", as the dissident Wei Jingsheng once called democracy, it will have surmounted the biggest remaining obstacle to superpower status.

Article 6.

The Economist

China's economy - Fears of a hard landing

Mar 17th 2012 -- CHINA is routinely accused of exporting too much. Its foreign sales far exceed its foreign purchases, often by a wide margin. This chronic surplus angers many. This week President Barack Obama signed a bill that restores his administration's power to impose tariffs on countries like China and Vietnam, when their goods are reckoned to be subsidised or dumped on American markets. The bill passed swiftly through both chambers of Congress. When it comes to rebuffing China's exports, America's fractious legislature is as harmonious as the Chinese one.

But this month brought two intriguing breaks to the routine. On March 13th three of China's biggest trading partners—Japan, the European Union and America—complained that China was exporting too little, not too much. They brought a case at the World Trade Organisation alleging that China was unfairly restricting its exports of tungsten, molybdenum and 17 "rare earths", obscure elements such as terbium and europium, used in the manufacture of many high-tech goods including fluorescent lights. China's reaction was incandescent; it dismissed the case as "groundless".

The other novelty arrived a few days earlier when China's customs bureau reported something rarer than europium: a Chinese trade deficit. At $31.5 billion in February, the imbalance was bigger than any deficit on record—it was bigger even than many of China's monthly surpluses.

China's trade balance often dips around Chinese New Year, as export factories close for the festival. The holiday also arrived earlier this year than last, distorting the data. But even if the figures for January and February are added together, China ran a deficit of over $4 billion. Exports and imports typically rebound in sync as China gets back to work. This year, imports rebounded alone (see chart 1).

The deficit has fuelled one fear and one hope. The fear is that China's economy will slow sharply, hobbled by declining exports to crisis-racked Europe and a rising bill for commodities like oil. The hope is that China is rebalancing, moving away from an economic model reliant on foreign demand. Neither the hope nor the fear is wholly justified by this month's figures.

It is true that China's weak exports are contributing to a slowdown in the broader economy. China's industrial production grew by 11.4% in January and February, compared with the same two months in 2010, much slower than its normal pace of about 15%. But the prospects for global growth are brightening, suggesting that China's exports have bottomed out. And the slowdown in China's economy has been matched by a helpful fall in inflation. That gives China's government some scope to stimulate demand.

What about rebalancing? February's trade deficit may be an anomaly but it highlights a broader trend: the swift decline in China's external imbalance. China's current-account surplus, a broad measure of the country's external payments and receipts for goods and services, fell to 2.8% of GDP last year from a peak of over 10% of GDP before the financial crisis (see chart 2). In Hong Kong's currency-derivatives market people no longer bet that the yuan will only strengthen. That suggests the yuan is close to its "equilibrium" level, said Wen Jiabao, China's prime minister.

Unfortunately, China has rebalanced externally without rebalancing internally. Its current-account surplus has narrowed largely because of an increase in domestic investment, not consumption. Some economists therefore worry that China's trade surpluses will soon reappear. An investment boom from 2001-04, for example, paved the way for the ballooning surplus of 2004-07, according to Jonathan Anderson, formerly of UBS. That investment poured into heavy industries, such as aluminium, machine tools, cement, chemicals and steel. This domestic supply displaced imports of the same products. And when a slowdown in China's construction industry subsequently depressed domestic demand for these items, China sold abroad what it could no longer sell at home. Big surpluses were the result.

In the past three years, China has also enjoyed a terrific investment boom. And with the property market weakening, the construction industry is also liable to slow again. Is the stage therefore set for a repeat of the surpluses of 2004-07?

The difference now is the nature of China's investment boom, which has concentrated on roads, railways and houses, not factories. In 2009, for example, loans for fixed investment increased dramatically. But only 10% were made to manufacturers, says Nicholas Lardy of the Peterson Institute. About 50% went to infrastructure projects. In his annual review of the government's work this month, Mr Wen noted that China had shut down outdated factories capable of making as much as 150m tonnes of cement and 31.2m tonnes of iron.

Efforts to rationalise heavy industries and remove excess capacity should help prevent a repeat of the big external surpluses of yesteryear. That should, in turn, placate China's irritable trading partners. But things might not be so simple. Take one particularly fragmented and dirty industry. At the government's urging, one of its bigger firms has bought over a dozen others, eight of which were later shut down. That has reduced the industry's capacity to flood the world with its products. The problem? These products are rare earths.