



BEYOND THE HEADLINES

Featuring
Vali Nasr
Author of

Forces of Fortune: The Rise of the New Muslim Middle Class and What It Will Mean for Our World

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WARREN HOGE: Good evening. I'm Warren Hoge, the Vice President for External Relations of IPI, and I'm delighted to welcome you here for this evening's Beyond the Headlines event with Vali Nasr, author of *Forces of Fortune: The Rise of the New Muslim Middle Class and What It Will Mean for Our World*. In a review published this past Sunday, *the New York Times* called the book "outstanding" and credited Vali with "brilliantly narrating" the histories of the middle class in parts of the Muslim world like Iran and Pakistan.

Now in addition to being a celebrated author, Vali, as your invitation indicates, is also a professor at Tufts University and senior advisor to Richard L. Holbrooke, U.S. Special Representative for Afghanistan and Pakistan.

In the Great Blue Mosque in Turkey, there is a phrase in flowing script etched into the arch over its main exit. The words, ascribed to the prophet say, "A merchant is the beloved of God."

Turkey is one of the models for Vali, and the argument he is making in the book is about the transformative power of markets and commerce. Turkey is a state with a democratic government, a robust economy, a substantial middle class, thriving trade and political relations with other countries, and a vocation for engaging with the world economy.

There are other countries in the Muslim world with some similar attributes that Vali examines in this book about the virtues of a middle class commercial revolution. Among them are Indonesia, Malaysia, Bahrain, other Gulf States and the Emirate of Dubai. "It is time," he says, "that we

take a good look at the vitality of the energetic blending of Islamic piety and capitalist fervor that is flourishing in many pockets around the region."

Now, a secular middle class has been at the forefront of recent transitions to capitalism and more representative governments in China, India and across East Asia, Latin America and Eastern Europe. Only in the Middle East has a sizable middle class, friendly to Western values and eager for political freedom, failed to take root.

The book is rich in historical detail about the evolution of Muslim society since the time of the Crusaders and the importance of people like Mustafa Kemal Ataturk in Turkey and Reza Shah Pahlavi in Iran. It includes an affecting anecdote about how Reza Shah gathered a group of students together in 1928 and lectured them on their national responsibilities as they went off to study in Europe. One of those students was Vali's grandfather.

The book focuses at the outset on a critical more recent time, in which the Muslim world changed dramatically;-- that 32-month period that separated the Ayatollah Khomeini's return to Iran in February, 1979 and the assassination of Anwar Sadat in Cairo in October, 1981. During that brief time an Islamic revolution seized Iran, Pakistan proclaimed itself an Islamic state, the Soviet Union touched off a jihad by invading Afghanistan, and Egyptian President Anwar Sadat was assassinated by radical fundamentalists.

Vali notes that this moment in history provoked a deepening of conservative Islamic attitudes and anti-Americanism across a wide swath of countries from North Africa to Southeast Asia and a rise in extremism that ended up birthing Al - Qaida. In its sharp reaction to these events, Vali fears the U.S. and the West risk reducing everything in the Middle East to a fight against fundamentalism and seeing every expression of Islam as a threat. His book wants us to direct our attentions elsewhere.

We should concentrate, he says, on the one billion Islamic consumers "spread across a vast expanse from Morocco to Malaysia with notable toeholds from Detroit to Dusseldorf, from San Paolo to Singapore."

We entitled this evening's talk *Transforming the Understanding of the Muslim World* because Vali asserts throughout his book that Westerners suffer from an over-simplified view of the many things in Muslim society that deeply disturb them. He names them and attempts to detoxify them: Islamic finance, Sharia law, Jihad, Madrasahs, and fundamentalism itself which Vali argues is not necessarily at odds with modernity. He also takes up secularism, something prescribed by many in the West, and shows how it has failed in the Middle East.

Vali, we're all ears. Thanks for coming up here from Washington to talk to us, and the floor is all yours.

VALI NASR:

Thank you very much. First of all, it's a great pleasure being here at this institution and I'm very grateful to Warren for having invited me to talk about my book and the direction that I think we ought to be thinking about the Muslim world. It's often quite a challenge to try to nudge public opinion to step back and think about Islam and the Muslim world differently. Every time we try to do that, there is yet another suicide bomber or a terrorist attack, and it almost seems like we're back at square one, at least in terms of our discussion.

It goes without saying that extremism, particularly since the events of 9/11, has been quite transformative in the way in which the West thinks about the Muslim world, the phobias that it has about an Islamic challenge, and the frustration about its inability to either make sense about why the Muslim world appears the way it does and how to get it to move past where it is. But there's also a danger in the obsession, near obsession, that exists with this issue whether it's deserved or not. We often lose sight of the larger picture of why we are where we are and whether there is anything else happening that we ought to be thinking about.

If we thought about fundamentalism back in 1979 before that 32 months started and before the Iranian Revolution happened, you would go to the library and look at books written on the Muslim world or on the Middle East with literally no reference to Islam that is of political significance. It didn't exist. It didn't exist until it happened, which means that we often don't see what's coming over the horizon being focused on what is right in front of us; and I do think that there are trends in the Muslim world that are critical. Some are very negative and some are positive. It is important for us to look at this and to put it into perspective.

Now the other issue is that often when we think about the Muslim world it's become almost a habit that we talk about moderates versus extremists; and how to find the moderates, how to empower the moderates, how to make extremists more moderate, and there are all kinds of prescriptions out there. We then think of the necessity for a grand debate in which we should sit down the extremists and find the moderates and have a debate that can be won intellectually and culturally.

We also are constantly looking in our own mind for a great reformer, sort of like an Islamic Luther, as we often say, who's going to essentially Protestantize Islam, break the hold of tradition, and bring Islam into modernity All of these issues are worthy of thinking about, although I think sometimes in thinking about the Muslim world and trying to find parallels with the Western world, we're looking at the wrong picture. If we were to think about who is a Luther in the Muslim world today, it's probably Osama bin Laden and Mahmoud Ahmadinejad, who are anti-clerical, who are the ones breaking with tradition and talking about every man to his own Koran the way early Protestants broke the power of the Church. If we thought about early history of Protestantism in the West, Calvin's Geneva or John Knox's Scotland was pretty much like the Taliban's

Kabul, a puritanical, rigid, intolerant place with severe punishments for the slightest deviation from the practice of true faith.

But the West which we imagine as prosperous, liberal, open, driven by capitalism and democracy, was not the product of religious reform. It was the product of industrial revolution and a capitalist revolution. Looking around the Muslim world for a very long time, particularly after 9/11, what struck me and was one of the most important facts about the Muslim world was not just that it had a prevalence of piety and extremism in it. That may very well be. I'm not going to contest that, but I think another very important fact is that its large parts are outside the global economy in a meaningful way. It's the largest single part of the world that is not part of globalization. The two most important global trends of the past two decades; one is economic globalization and the other is the rise of extremism.

And there is a very clear correlation to that. The more places in the Muslim world which are outside the global economy, have more rigidity of ideas and extremism, and where you have the greatest amount of integration into the global economy, which is not in many places you have more hopeful signs and hopeful trends and even breakthroughs. So the fundamental fact similar to the case in Europe is that cultural change doesn't come before other changes. It is other changes that bring about cultural change.

So the West went from rigid Protestantism to democracy and prosperity. Scotland went from being the seat of very rigid Protestant ideas to being the inventor of modernity, the seat of Industrial Revolution, the place that produced people like David Hume and Adam Smith, not because of religious reform but because of a commercial revolution, because of trade, because of economic prosperity. This to me says that when we think about the Muslim world, one of the most fundamental issues is going back to sort of an American political dictum, it's the economy, stupid.

Now at some level, I think we understand that because we make a correlation often between poverty and extremism. We assume that it's frustration caused by lack of opportunity in country after country that breeds extremism. People who don't have any hope, are suffering and poor are lured to easy solutions that are produced by fundamentalisms and extremists. There is probably a lot of evidence to support this and if we thought of it that way, the picture in the Muslim world is actually not rosy. You have in country after country the overwhelming majority of the population or a plurality of the population who are youths, which means that they are in their 20s and below. In some countries, upwards of 60 percent of the population would be in their teens and therefore you have sort of a huge demographic bulge that the economies cannot sustain.

The Arab Development Report said that by 2015, the Arab world has to produce 110 million new jobs in order to catch up with the demand that is being generated by the demographic. So we understand that there is this

correlation between poverty, frustration and extremism. But the issues I thought are important are a little bit more than this idea that injustice breeds extremism.

I think the key issue is that if you look at the Muslim world, it is not just that it has too many poor people, too much lower class. It is that it has too little of a middle class and lacks the right kind of middle class. In other words, the transformative class in the history of the West--and if you looked at modern cases in Latin America, in Eastern Europe, in East Asia, in India today, in China--is a middle class. It's a middle class that is connected to trade, and the global economy, and whose financial interests are tied to market forces, and not the product of governments. Rather, it's a product of the market. It is responsible for economic transformation of its societies and it's the main force that brings about cultural and political transformation.

If we looked at large parts of the middle class, that class has been missing. There is a middle class. There was a middle class in Iran in 1979. If you went to many Arab countries, in the Gulf, etc., you find the middle class. But that's not the kind of middle class that we see in China or in Brazil or in India. This is a middle class that was created top down, from the time of Reza Shah Pahlavi in Iran or Mustafa Kemal Ataturk in Turkey and it depends on government for salaries or for business contracts or for its sustenance. It's not the generator of wealth. Economies in most countries do not depend on the wealth that is produced by this class. So as a result, it doesn't play the same role that the Chinese or the Indian or the Latin American middle class are playing.

Now there is a sign of hope. In other words, there are places around the Muslim world where this middle class has been emerging and where it has been emerging--and I must say it's still fairly small and the global economic downturn has not been good for it--the results are positive. In other words, we've seen the right kind of movement in terms of cultural change, attitudes towards society, attitudes towards politics, towards the economy, towards globalization taking place, which says a number of things to us which are critical.

One is that if given an opportunity Muslims are capable of behaving like everybody else does. In other words, often when we debate about Islam, we're caught between two arguments. We want them to follow the laws of history as they were laid down by the West, but often in the same breath, we say they are incapable of it. So we often argue both ways: that because of their faith they cannot get on the rail tracks of history, but at the same time, that's the only way in which they could be members of the global community.

But the evidence from countries like Turkey, Indonesia, Malaysia, Dubai and even pockets in the Arab world, Iran and Pakistan, is that when you have this middle class emerging, it begins to behave in similar ways as middle classes everywhere else.

Now let me first begin by saying well who do we mean by middle class? Middle class is defined very basically as the middle of society, not too rich, not too poor. At least people who have formal income, have formal jobs, have formal income, and if you put aside the money they spend on food and housing and staples, they have a third of their disposable income left to spend on anything else. And then you go from there up, middle class upwards. Some also have definitions of modernity attached to it. In other words, the middle class is made up of those who also have accepted certain values about smaller family, investing in family, issues relating to women, education of children, etc. Regardless of how we pick it numbers vary, but when we look even at fuzzy numbers, you have about ten to 15 percent on average in the Muslim world that would fall into the category of the middle class.

Now the way I thought about this, numbers are not easy to come by. It's difficult to pinpoint where this class begins and where it ends. It's much easier to look at its impact and its footprint, and if we looked at places for instance, Dubai or Turkey, both the impact and the contours of this class become clearer.

Now I know these days it's not fashionable talking about Dubai. After a few front-page articles about the collapse of its real estate market and its impact on Wall Street, I often hear people saying that Dubai is over. What's the point of referring to Dubai? I was not impressed. I'm not talking about Dubai as if suggesting to people that they should move their money there and that they should actually look at it as a business investment opportunity. I think of Dubai in terms of what it means for the transformative potential of the Muslim world. Although I must say, Dubai is in the mess that it is because it behaved exactly in the way that we want Muslims to behave, as rabid capitalists without any kind of social or moral conscience and therefore, it fell into the same trap that the rest of the global economy fell into.

But what I found fascinating about Dubai is that Dubai was a virtual economy and still is a virtual economy. It's a very small Arab population of maybe 200,000 people that created a regulatory, legal and financial framework that would allow people from elsewhere to come and engage the global economy, particularly people who could not engage the global economy in their own country or in their own economies. So Dubai became a place where Muslims from Kazakhstan, Iran, Pakistan, Lebanon, Jordan, Egypt came and engaged the Chinese, Russians, Indians and also Americans, Europeans in varieties of financial and other economic activities.

In of itself it showed that if you remove barriers to market activity and you create a regulatory economic framework that supports market activity, you're going to have market activity. You're going to have capitalist behavior, for better or worse, and then Dubai also showed something else, which is when Muslims begin to earn money, which we associated with rising middle classes in the Third World, they tend to behave like

middle classes everywhere else; which is as rabid consumers, as world embracing, not world negating.

Now there is a time, and it's still probably the case, that polls showed Dubai was the most desired place for a Muslim to live other than in his own country, and the most desired place to visit above Europe and the United States. I mean, there was a point and it still might be the case, but the last polls in 2008 showed across the Arab world, Iran, Pakistan and even parts of Asia, people preferred, for the first time, to visit Dubai rather than London, you know, all being equal.

Now why did they want to go to Dubai? They don't want to go to Dubai because it's a Sharia land or because, you know, there's enormous amount of restrictive religious rules imposed to them. They like to go to Dubai because it's a cross between Las Vegas, Disneyland and Rodeo Drive, all set in an Arab entity. I cite this in the book. One Saudi businessman told me, "I like Dubai because I can stay in five-star hotels and pray in five-star mosques." It's about luxury. It's about luxurious consumption. It doesn't mean he's secular, but the kind of behavior that the Muslim middle classes showed in Dubai and the kind of ostentatious wealth that is displayed in Dubai literally is opposed to everything that we think extremists preach: social justice, frugality, giving up on the world in promise of some kind of hereafter. I mean, none of this is reflected in Dubai.

Now what we saw in Dubai is not that the ruling elite of Dubai by writ decided to build these buildings or these mosques. They built it, but they built it like that movie, *Field of Dreams*. "If we build it, they will come," and that "they will come" part to me is in fact the promise of economic and capitalist transformation in the Muslim world.

So whether Dubai failed economically because of poor mismanagement or because of bad loans or because its debt ratio to GDP was way too high to be prudent, whether they needed as much over investment in real estate or not, it is really about the details of good capitalist management and bad capitalist management. The larger issue is that Dubai showed--even though it hasn't succeeded necessarily as a sort of financial case,--essentially what the potential of the middle class is in the Muslim world.

Now the other country that I think is fascinating in this regard is Turkey. Now we know Turkey had a secularist revolution that carried it for much of the 20th century. It gave Turkey many things. It gave it education. It gave it social cohesion. It gave it nationalism. But the Turkey that we see today--as a member of G20 countries, as one of the world's top 20 economies that has grown at enormous pace in the past decade that attracted over \$50 billion in direct foreign investment between 2002 and 2009--has become the sort of regional hub for business. The wave of tourism and a major tourist destination is not the product of rigid seculars. It's the product of what happened afterwards.

Turkey in 1980s was like many other Latin American countries of that time: Mexico, Argentina, Brazil. It was in huge debt and it didn't have the ability to finance that debt and it was causing political problems. So it did the same thing that the Latin American countries did at that time: it went to the IMF and is still doing it. The IMF supported it economically in exchange for Turkey dismantling its government-controlled economic structures, giving up on subsidizing industries, opening the market, being export-friendly. I mean, doing literally the same kinds of things that we've seen in Latin American, East European countries.

Now the beneficiary of that is not the secular business elite which were close to the government but it was the small-time merchants, and in Turkey they refer to them as the Anatolian tigers, the people from the interior. I would say the closest example would be middle America businessmen. You're not New York. You're not San Francisco. Their culture might be different, but they nevertheless are engaged in economic activity. And those were the ones who took advantage of this opening and they began to produce things that integrated Turkey into the European market. Long before Turkey was on path to becoming member of EU, it began to integrate into the European economy.

Now the result was the rise of a new class in Turkey which is if you want to call them, pious tycoons; very wealthy businessmen who are connected to Europe. I think the fundamental issue that makes Turkey different from many other Muslim countries is a sentence that a businessman told me about a year ago when there were rumors of a military coup in Turkey. You remember when the current President of Turkey was nominated because of his pious background? There were rumblings of unease and there was at one point an e-coup as they call it. There was a letter posted on the website of the chief of Turkey's military chief's website, sort of suggesting that they might intervene.

So I asked this businessman--one of these Anatolian tigers, pious, billionaire--what would happen if the military came in. He said nothing. He said every government that comes into power in Turkey has to listen to us because we pay for the government. It is the same formula you have in the West. Their taxation and their business create jobs and pay for the government budget.

I would say sort of emblematic of this class is a little industrial town in the middle of Turkey. It's called Kayseri. It's very close to Ankara. It's literally next to Cappadocia, which is a tourist destination . Kayseri was a small little town in the middle of nowhere. From the 1980s with the opening of the Turkish economy it began to become a major industrial center. Today, something like five to six percent of all the denim jeans sold around the world are produced in Kayseri. There is a major furniture exporter to Europe and a major leather exporter to Europe. If you go to Kayseri, there is a brand new posh mosque in the middle of town and on Fridays there's a line of Mercedes Benz parked in front. This sort of speaks to the same demand for luxury.

Now these businessmen are very pious. They're very conservative. They hold on to sort of small town values when it comes to women, family, et cetera. They're conservative, but they're also in some ways raging capitalists. What was interesting for me in talking to these businessmen was –that they inherently understood that if you are selling leather to Ferragamo in Milan, Jihad is not good for business. Image of Turkey matters. If you actually have items sold at Wal-Mart or Banana Republic that says made in Turkey on it, you have to care about your image, not because the U.S. government tells you, not because the Western press tell you, not because your own government is preaching to you. It actually comes from below. It is their bottom line that compels them to think about that. So when you ponder on what kind of Islam they are interested in, they're not interested in social justice. They say they are, but they really are not. You can't be a billionaire and be interested in social justice in the sense that we think about it.

They are interested in religion as moral values and as a moral compass, not as political action. So for them, Jihad is about purification of the soul, being a better person, a better society. They're not about to pick up a stick and a gun and do anything about it. It's the kind of piety that we are very familiar in the West or in the United States, which sees religion as morality and as values, not religion as politics. Now, how this happened in Turkey is by and large because of the economic impact of integration into the global economy. Turks also had their version of rabid fundamentalists. Still there are some extremists that, you know, trek all the way to Chechnya or to Afghanistan and Pakistan. But by and large, the majority of the Turks, even those who demand religion, are not interested in Jihad, and that is because of the economic transformation that has happened in Turkey.

Now, you know, we can look around many spots in the Muslim world and they're not clear cases like, a Turkey or a Dubai, although, Indonesia and Malaysia are very good examples. Even in countries that have only partially or to a small extent opened themselves up and you have the beginnings of this rise of this middle class, you're seeing the same kind of a mix of consumption and new attitudes towards religion that you see in these places.

So, in sum, I would say the lesson we have to take away from this is: if our focus is on the desire for a cultural transformation in the Muslim world, we have to put the horse before the cart, which means that the change agent in the Muslim world will have to be the market, not a cultural debate. The change agent in the Muslim world is not some enlightened cleric or an enlightened liberal intellectual. It's the businessman. It's the middle class. It's the entrepreneurs. They have to be the force that would create, if you would, the way for those ideas.

Secondly, that secularism is not as important because in some ways, it's almost an unattainable goal of imagining the Muslim world becoming secular in the short order. But the right kind of attitude about religion and society and religion and economy and religion and politics is possible

because we're actually seeing it. However, it requires a context and that context means that you have to have a very different kind of relationship between local economies and global economies.

Now, you know, we engage the Muslim world as governments, as people, in many ways, but we really don't engage them economically. I mean, buying oil and giving finished products is not globalization. That's barter trade. It doesn't really impact anything. What matters is that large parts of the Muslim world will become part of the supply chain of the global economy so that you would buy things made in the Arab world or made in different parts of the Muslim world in Wal-Mart; that economic interests of key classes and those who they employ in the Muslim world would be tied to the health of the global economy. In Turkey or in Dubai or in these pockets, there is evidence that that will actually have an impact on attitudes.

I'll stop here and I'll be very happy to answer any questions.

HOGE:

I'm going to ask you a couple of questions first and then we'll turn it over to the floor. Vali, I want to ask you about Islamic finance. How can you have banks operating and finance going forward in societies where you cannot charge interest, and also how can business co-exist with Sharia law?

NASR:

Well right now I would say unhappily and very clearly Islamic finance has been growing very aggressively. Just as sort of an introduction, Islam does not accept charging of usury -- paying or receiving of interest because it's money made without effort or skill, and therefore pious Muslims would technically not want to put their money in business ventures where they either give interest or charge interest. Now the idea of Islamic finance came from fundamentalist thinkers in 1920s and '30s. For the longest time, it was a no go because obviously they couldn't make it work. It was ideas that came from clerics and intellectuals, not from economists. It became a viable idea when international banks like HSBC, Deutsch Bank, Bank Paribas and Citibank began to pick on Islamic finance, and the reason they did it is because they understood that there is a market, and if there's a financial product that can appeal to a niche market, then there's money to be made, and it's been growing very rapidly. It's the most rapidly growing part of finance.

I mean, even last year despite the global slump, Islamic finance grew at about 29 percent. So it's a growing part of the market. Now there are difficulties with it. For instance, Islamic finance also demands that you cannot speculate. You cannot have credit swaps, for instance. You have to have some kind of a concrete equity attached to investment and you cannot just speculate on thin air. As a result, it does nudge economies in the direction of overinvestment, for instance, in real estate. It is quite clear that Islamic finance can't keep growing without ultimately undertaking certain reforms, but that will not happen unless the Muslims become involved in global finance.

In other words, like all other branches, it will ultimately hit a ceiling and then it will have to transform itself. Right now, the importance of global finance, it shows that the Muslims who are coming into the mainstream of economy are bringing religion with them. In other words, they want goods that reflect their piety. They want Islamic education, for instance. Now we fret a lot about seminaries and madrasahs in the United States as being a problem, but in many parts of the Muslim world, secular education, government education, is worse than madrasahs in terms of what they teach and in terms of quality. Those who can afford it actually behave the way people in California do where I live, which is optimum for private schools. They increasingly opt for private schools that would teach much like Catholic schools by combining good education with piety, and they're willing to pay very good money for it.

So it is very clear that the rising middle class in the Muslim world is consumerist, but it's also at the same time pious, so there is, in their mind, no disparity between wealth and piety or being modern and being pious or wanting the same things that people in the West want but wanting it tailored to their particular needs.

HOGE:

The last thing I want to ask you about not surprisingly is communications. How does the word get out? You have a fascinating chapter or part of a chapter in the book talking about the number of television stations in the Muslim world, the televangelists who are preaching prosperity much as they do in this country. Can you talk a bit about them?

NASR:

Well, even at the time of the rise of capitalism in the West and the rise of print media, the new methods of communication of ideas were very critical in formation of a new culture that went with the post-Industrial Revolution Western society. It's happening in the Muslim world at a time of tremendous new opportunities in telecommunications.

First, there was a revolution in satellite television technology. For instance, there are 280 satellite Arab television stations. Even in Afghanistan, for instance, I think there are like four or five satellite television stations. I mean, there's no electricity, but there are satellite television stations. And then, you know, the satellite television revolution was followed by the Internet, and then that's been followed by cellular technology. I mean, when you look at countries, for instance like Pakistan or Afghanistan, penetration of cellular or mobile technology is far ahead of the U.S., and in fact its use in economy and communication is far more advanced. In Iran last year Twitter was made into a phenomenon in the United States through entrepreneurial use of it for rapid communication.

But it provides for many kinds of communication, the results of which we cannot possibly know now, but one of the sort of factors that we are seeing is that particularly on television, those who consume, if you would, Islamic finance and consume Islamic schools for their children also demand a different kind of a product, particularly in the religious arena. That's more important than, say, everything else. When satellite TV came

about in the Arab world, very clearly a lot of fundamentalists or a lot of traditional preachers dominated and a lot of them are still there. — However, a niche grew very rapidly of a new kind of televangelist who caters to the up and coming middle class. These are people that often are not clerics. They don't preach in mosques. They preach sometimes in suits and polo shirts. They talk about their conservatism on social issues, but again, the kind of piety that they preach is the kind of piety that I mentioned about Turkish businessmen. It's essentially accommodating to the economic interests, class interests, and consumerist behavior of the middle class.

They hold town hall meetings in hotels, in Washington, D.C., in London and in many parts of Europe, as well as in parts of the Muslim world. When you look at who goes to these, it's not the poor. It's not the Jihadi types. It's by and large those who want a capitalist globalization-friendly Islamic message. So what we see is that when you create the class, the class will demand the right kind of Islam. You cannot force religious change. Religious change will come about when you have the right class with the right kind of economic interests.

HOGE: We'll go for questions now. Just wait for the microphone. Please identify yourself.

ANN PHILLIPS: I'm Ann Phillips. I'm on the Board of IPI. I have not read your book yet, Vali, but I look forward very much to reading it. This was fascinating. I'm interested in hearing from you about the children of these pious tycoons or the Anatolya Tigers. It seems to me that it is a characteristic of youth to be rebellious. In the '60s in the United States, there were rebellions all over the country on college campuses and violence, too. The Weathermen who participated in really violent acts were all middle class and upper middle class kids. I'm interested to know whether the children of these successful and pious capitalists are following in their fathers' footsteps or whether the rebellious nature in youth is attracting them to the violence that is occurring in Jihad.

NASR: It's a very good question and I often get asked that. All those who carried out the 9/11 attacks came from middle class and upper middle class families, the Nigerian kid came clearly from a very upper middle class if not an elite family. But, you know, as you mentioned, if you look at the history of the West, Che Guevara was, you know, middle class. Castro was middle class. All of the members of the Baader Meinhof gang, the Tupamaros in Uruguay, the Red Army faction. They all were middle class and up as were also everybody who was rabble-rousing in Berkeley or the Weathermen.

Actually, terrorism is a middle class phenomenon. If we read actually our own political science literature, which I remember studying when I was a graduate student, it very clearly said it has to do with angst and not just the rebelliousness of youth. It has to do with the angst of the middle class that the leaders of terrorist organizations tend to come from .

But you know, what is important is not that individual terrorists will come from the middle class. There always is going to be individuals who will join in. The key question is that whether the middle class as a whole supports or does not support these ideas. In Germany there were always young middle class kids that went from universities in the '60s and joined radical organizations. One of whom was recently foreign minister of Germany, Joschka Fischer. The point was that the middle class in Germany as a whole did not support these groups. Even in the United States when elements from the Cuban American community, Armenian community in the '70s resorted to terrorism, their own communities would not embrace it. So the bar in the Muslim world should not be that no middle class will ever be violent. That is an absurd criterion, but rather that the middle classes as a whole would not be interested in violence or Jihad. Yes, this Nigerian kid was somehow lured into this, but his own father was not supportive of what he did and his own community was not supportive of what he did.

So what you want is that the middle classes as a whole see a vested interest in global stability, that they relate their own prosperity and their own future to everybody else's prosperity and future . Then you will basically have a context in which those isolated kids who join in will not be able to relate to a larger community the way they have done, say, in the past decade or so.

HOGE:

I should have said explicitly there are books for sale outside. You saw them as you came in. Vali afterwards will stay to sign the books. I recommend you buy the book and read the book.

**DAANISH
MASOOD:**

Hi. (Daanish Masood), Alliance of Civilizations at the United Nations. Based on your question in particular, I want to challenge that point. I speak from the Saudi experience, having been born and raised there and my family is from there. Of course, there is a burgeoning middle class. I mean, for those of us that went to high school in the '90s we were all about Oakley sunglasses and Quick Silver and buying all these brands that were very American. You have a very sophisticated kind of consumerism in Saudi Arabia and yet you say that, you know, it's not the enlightened cleric so much but globalization and the market that can mitigate extremism. To be completely frank with you, while I think that's partially true, I don't know if it's fully true. The reason I say that is because there is absolutely a place for ideas to be challenged and in certain countries, large swaths of the middle class subscribe to certain ideas because that's all they have -- you know, that's the only thing that they're exposed to or they don't have an opportunity to be exposed to different ideas. I mean thankfully within Saudi Arabia now we have various kinds of curricular reform happening within the educational system. However, a lot of the ideas that were being popularized in the '80s and '90s among youth, many of whom were middle class, were extremely problematic. These are very sophisticated consumers who fully understand how the global market works, and many of them ended

up in business schools in the Northeast in America but still subscribe to those problematic ideas.

NASR:

Well, you see, Saudi Arabia in my opinion is not a good example because the Saudi middle class doesn't generate wealth in Saudi Arabia. Its economic interests do not depend on the health of Western economies. It doesn't look outside and say this is the next level in the supply chain I depend on. It doesn't exist there. The oil in Saudi Arabia or in many other parts of the Muslim world--any source of wealth that enables the government to essentially dominate the economy and to basically be the hander down of wealth--really spoils this because capitalism in the West was not created by the governments. It was created by the economy. It was created by that middle belt of society that was entrepreneurial, those who were engaged in commerce.

Now even if we looked at Western history, there's something transformative in when that class is actually the generator of wealth. So the culture of production will follow what their economic interests would be. This juncture between wealth in Saudi Arabia or wealth of that middle class and their economic activity is a huge gap in terms of their relating to ideas that would make their business interests more concrete. But, you know, the same thing is also true of many other Muslim societies that are disconnected from the global economy. So not every middle class matters. It's the middle class that is part of the global economy. You know, if you go to Turkey, you have two middle classes. There was a middle class that was protected by state subsidies, et cetera, in the '60s and '70s and then there's this new middle class, and when you have them side by side you can see the dynamic between them and the issue of ideas.

The Muslim world, maybe Saudi Arabia less so, but places like Egypt, Turkey before 1960s and '70s, Pakistan, India; they've been exposed to Western ideas for a very long time. You know, the debate between liberalism and the West began in Egypt at the turn of the century. The problem is you keep giving them ideas-- why don't these ideas have traction. Why is it that all the Islamic reformers that we really like write in English and live here? Very few of them live there and nobody's really interested in what they write. It's a conundrum. I mean, you have to answer it two ways. One, you can say that the Muslims are really dense and they just cannot absorb ideas. Secondly, the rubber doesn't meet the road, meaning that the ideas that are spewed by these intellectuals, doesn't relate to anybody's interests. They don't solve anybody's problems. They solve our problem, but they don't solve their problem, and there is no vested interest in a moderate, liberal, or a watered down version of Islam since you don't have the class interests that relate ideas to classes.

So that to me is a much, much better explanation largely because this phenomenon of a rise of a new middle class in the Muslim world is still very young. It's still only out of the gate. It hasn't even reached domination across the Muslim world, but you see that it begins to force

certain debates in religion that you otherwise were not able to push. So liberal ideas are weak in the Muslim world because the class that traditionally supports liberal ideas isn't there. There is a middle class, but that middle class is not liberal because it's not tied to capitalism.

I mean, fundamentally I believe that capitalism is the most important transformative force of our time. It doesn't mean that, unbridled it always does good, but it is a very important transformative force that really has not touched large parts of the Muslim world and when it does, then it will impact ideas as well.

HOGE: Excellent. Here in the second row, please.

XU JIAN: Mr. Xu from the Chinese Mission. You've raised a very important point and a very interesting point, that Muslim countries are the single biggest part of the world that are not involved in the process of globalization. Can you further elaborate on the reason why most Muslim countries have failed to develop so-called capitalism in their country? You also mentioned one or two successful countries from the Muslim world where they have quite successfully developed capitalism, such as Turkey and Dubai. What's the reason? How do you account for the differences between these few countries and most Muslim countries that failed to develop capitalism? Thank you.

NASR: Well, we don't need to sort of reinvent the wheel in the sense that we know what has to happen. It happened in Turkey. It happened in Argentina. What happened in many countries is that closed economies, which were prevalent in the Third World in the 1960s and '50s, were protectionist. They followed import substitution, industrialization and had to restructure. It's a painful process. It causes a lot of animosity towards the IMF. Sometimes it gets derailed, but ultimately the international financiers, IMF, would say you have to stop giving money to money-losing industries. You have to remove your tariff barriers. You have to devalue your currency. You have to lay off large numbers of redundant labor and government employees that you're hiring. You have to put some of the money- losing industries on the selling block. You have to either shut them down or privatize them.

So large numbers of people would lose their jobs. People with vested interests would lose their interests. It's a very painful process. If governments can avoid it, they will avoid it. The greatest deal of interest in economic reform happened when oil was at 30 to 40 dollars a barrel in the mid-1970s. When the price of oil went up, interest and reform began to subside.

What is in common between Turkey and Dubai, for instance? Turkey has very few natural resources. It cannot really support or sustain an economy that's not money-generated. It doesn't have money coming in the form of massive amounts of foreign aid or oil money that would subsidize the economy. It has to earn its keep. So at some point in time, much like South Korea or like other countries, it basically had to swallow

the bitter pill and encourage businessmen to actually sell something in Europe that would generate foreign exchange.

Now Dubai also is the only Emirate that doesn't have oil. Dubai's oil production has been steadily going down. It's about a quarter of what it was a decade ago. It's the only oil-poor of the six Emirates that constitute the UAE. Now as a result, Dubai had to find a way to generate wealth. They actually had to sit down and think about well, we don't have oil. There's nothing else to sell. What is it that we can sell? And they basically came up with the idea to solve the problems of the neighborhood and create a free trade environment using Singapore as their model. If you created a Middle East in Singapore you would have the same benefit: a world-class airline and a world-class airport. And everybody said we're going to copy that, but Dubai came up with that idea because they needed wealth.

Indonesia began to become more and more interested in globalization as its income from oil has been going down. Indonesia now is actually thinking of leaving OPEC because it's not really an oil exporter anymore. It's almost a net oil importer. So there's no more whirlwind oil money coming to Indonesia. It has some oil income, but it has to find a way to generate export revenue. So then it looked at the Malaysian model. It looked at South Korea. It looked at the whole Asian model and it began to follow that. Indonesia is very instructive. In Indonesia in 2002 you had the Bali bombings. You had a very powerful terrorist organization there, the Jamia Islamia which was connected to *al-Qaida*. There is still terrorism in Indonesia, but a decade forward, it's very clear that Indonesians are not interested.

In the last presidential elections, the current president defeated fundamentalists and extremist forces very clearly. Jamia Islamia has lost a lot of its support and its basis in the country and gradually Indonesia is integrating more and more into the global economy. So the problem essentially is that parts of the Muslim world--particularly the heartland of the Muslim world in the Middle East, which has been traditionally the trendsetter intellectually in the Muslim world--has had the luxury of not having to take hard economic restructuring decisions. So neither Egypt nor Iran nor even Pakistan, Yemen, Algeria-- even though their profiles are very similar to Argentina or to Korea,- went that way. None of them at some point in time went to the IMF and said, you know, however difficult it is, we're going to restructure this economy because we need to sell things in the West.

HOGE:

I have time for one last question. Right here in the middle, and after this question, Vali will stay and sign books, so please come forward.

IVAN

GLADSTONE:

Ivan Gladstone from HSBC. I was wondering if you could say a little bit about the case of Egypt and how it relates to your theory. From my understanding, Egypt actually went through the sort of transformation that you're advocating with Sadat and his free market policies, which were

then continued by Mubarak and the result has been a wide disparity in wealth. And this if anything, has only fueled the support for the Muslim Brotherhood in that country.

NASR:

Well yes and no. First of all, economic restructuring does create disparity of wealth. It created disparity of wealth in Argentina, in Bolivia, in Peru. That's why you had a populace backlash. It created disparity of wealth in Russia and it created disparity of wealth in many places. It does create actually a political challenge down the line, and it's exactly that disparity of wealth that generates a desire for a different kind of Islam that is tolerant of disparity of wealth; not an anti-imperialist Third Worldist Marxist Islam.

But I disagree with that interpretation of Egypt. Egypt has done a modest amount of economic restructuring . It has the potential to go a lot further but it came much later than it could have. The opening under Sadat was less economic restructuring. It was more infusion of new money in the form of international aid, tourism revenue, and also remittances of Egyptians who went to the Gulf in the '70s after relations between Sadat and the countries in the Gulf improved in the post-Nasserist (ph) era. This brought billions of dollars of money to Egypt that didn't exist in the previous period. But this is not money that came about because Egypt was exporting things. It was money that came in. Now Egypt has been dealing with the IMF and it has done relative amount of opening. A lot of Egypt's opening has actually happened in the past decade rather than earlier on. So if you would say Egypt had the kind of income inequality that Algeria or Iran had in the 1970s or Saudi Arabia had, than you would see that this wealth was not distributed evenly but not because of integration into the global economy.

Now at some point, if Egypt really opened up, it would have to dismantle its tariffs. It would have to lower its currency. It would have to close down a lot of government-supported industries that employ large numbers of people. It would have to deregulate its economy. Brazil at one point had a ministry of deregulation,which is an oxymoron, a sort of ministry in charge of government regulation, that had to reform laws. In this case you have to sit down and rewrite all of your laws so that businessmen sitting in New York would actually feel comfortable putting money in your country. You have to allow direct foreign investment of the kind that you don't allow right now. It really requires a lot more thorough-going restructuring so that companies from Europe or the United States would go to Egypt and say, "I'm going to set up a factory here the way I did in China or the way I did in Taiwan and then this is going to re-export things to the West."

HOGE:

Vali, you've just given me an opening. I was *The New York Times* correspondent in Brazil when that office was created and I wrote a story about that minister named Helio Beltrão and it was called the Bureau for Debureaucratization. Inevitably it became so bureaucratic they had to abandon it.

You have now seen for yourself that Vali is a deeply grounded scholar who speaks beautifully and clearly. He writes just as well. It's a terrific book and I'm very grateful to you for coming and speaking to us.

VALI NASR: Thank you for inviting me. Thank you.