

COMMENT & ANALYSIS

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Islam, the US and its allies

The west must stem the tide of hate in Islamic countries

It used to be only in Saudi Arabia, and occasionally in parts of Upper Egypt, that Jews and Christians were vilified by Muslim prayer leaders as the "grandsons of monkeys and pigs", as one Saudi imam recently put it. But this sort of poison is spreading throughout the Arab and Islamic world. From Peshawar in Pakistan's north-west frontier to Sana'a at the bottom of the Arabian peninsula, Osama is becoming the name of choice for newborn boys.

Little or nothing the US and western world does or says is seen by Arabs and Muslims as anything other than an attempt to crush them. A cursory look at the recent Pew Center Global Attitudes survey confirms what anyone who has been recently in the Middle East or central and south Asia already knows.

In Turkey - secular, a Nato ally and European Union candidate - 67 per cent are against allowing Americans to use US bases in the country to attack Iraq. In Egypt - a US ally in recent years - more than 82bn a year in aid since its 1979 peace treaty with Israel - only 6 per cent hold positive views of the US.

Nothing does more to fuel Arab anger and distrust than the failure to deal even-handedly in the Israel-Palestine conflict

(conceivably why the Pew interviewees were not allowed to ask questions about suicide-bombing. In two other pivotal Muslim countries allied to Washington, Jordan and Pakistan, clear majorities hold "very unfavourable" views of America.)

Put another way, the bin Laden network's monstrous bet that it can foment a clash of civilisations may be evil but it is not wholly mad. And many western explanations of what this phenomenon is about - the emerging "why they hate us" industry - often bury this truth under heaps of moral approbrium. One of the more influential such explanations was President George W. Bush's when he said, in the aftermath of September, that "they hate us for our freedoms". There is something nearby right in the wrongness of this idea.

There are, of course, Islamic fanatics who despise the freedoms of the west as a corrupting influence to be resisted and combated. There are also worried Muslims who fear the effect of democracy on ethnically fragile, religiously fissiparous countries bolted together by European colonialists from the wreckage of the Ottoman empire. But there are many Muslims who yearn for the freedoms of the west, and who sense that one of the roots of the Islamic

Deflation has increased the chances of business failure in Japan

From Mr Daniel J. Aronoff, Sir, John Plender (a "disaster can save Japan and Germany".) becomes correct on the effect on businesses of the low nominal interest rates induced by deflation in Japan. At one point he states that low rates create conditions where "zombie companies can go on for ever, because debt servicing costs are low", while elsewhere he acknowledges that in Japan's deflationary environment "nominal short-term interest rates are zero but real rates are rising because of falling price level".

Deflation places three primary sources of pressure on businesses. One is that a falling price level implies higher real borrowing costs - whatever the nominal rate; another is that the anticipation of falling prices causes buyers to defer purchases; the third is that, since nominal wages display downward "stickiness", they tend to fall at a slower rate than prices and so increase production costs relative to sales prices, thus reducing operating profit margins. The scourge of deflation lies in the distortion of relative prices and purchasing behaviour that it engenders.

Deflation has not removed the discipline of bankruptcy from Japanese capitalism. Rather, it has markedly increased the chances for business failure. The discipline of bankruptcy has been eroded by a policy response of providing unlimited capital - at whatever real cost - to "zombie" companies.

Daniel J. Aronoff, President and Chief Executive, The London Companies, 3850 N. Woodward Ave., Bloomfield Hills, MI 48304, US

An opportunity to ease N Korea tensions

From Lord Hanmyathazi, Sir, In the many commentaries written about North Korea's nuclear brinkmanship, two salient facts tend to be missing. First, that, in 1993, it was the United Nations security council that then then director-general of the International Atomic Energy Agency (Hans Blix) brought his concerns that North Korea might not be fulfilling its obligations under the Nuclear Non-Proliferation Treaty, thus bringing it once again within the purview of the UN security council.

towards the best method of achieving the multilateral approach to this crisis for which your December 28 editorial called. It is understandable that the US is reluctant to be drawn back into a bilateral process when North Korea has breached its previous agreement with them and seems intent on black-mailing them back to the negotiating table. It is also understandable that Russia and China, key players in any effort to persuade the North Koreans to change their policies, may be reluctant to back-matter them back to the negotiating table. And it is essential that the overall objective should be to bring North Korea back into conformity with its obligations under the Nuclear Non-Proliferation Treaty, which it freely signed and ratified.

not simply to reconstruct some version of the 1994 agreement with the US. The case for going back to the UN security council as the best route to the negotiating table would seem a compelling one, even if it did not help answer the criticisms that the international community is applying different standards to the cases of Iraq and North Korea. The last sentence of security council resolution 825 of May 11 1993 reads: "Decides to remain seized of the matter and to consider further action if necessary." A fairly long gap, perhaps, but the opportunity is there.

David Hannay, Former UK Ambassador, London W4 1JZ

Nation-building and Afghanistan

From Prof Kenneth C. Payne, Sir, The notion that international nation-building strategies should include "practices that command wider assent than at present" was splendidly articulated by John Lloyd (Analyst, December 27).

water in their derelict dormitories. Afghanistan is at the virtual start of its nation-building experience. There is a substantial international presence, and investigating the incident under the watchful eye of the international community and support the institutions that the transitional administration had developed.

Post-mission monitoring provides a method of ensuring that the work and funds of the international community are an investment for the future rather than a hand-out of the present. In essence, the establishment of institutions is still nation-building projects do not eliminate incidents that had occurred prior to international intervention.

Developing a nation's government and hoping for the best certainly increases the chances that the institutions cultivated will either be misused (through lack of experience) or abused by the resurfacing of past corrupt practices. Recent examples in Afghanistan and East Timor underscore the need for monitoring. On November 31, at least four students were reported killed by Afghan police in Kabul. The police reportedly opened fire with automatic weapons at students who were throwing stones and protesting at the lack of electricity and

when competition replaces public monopoly. On that basis, the Tories could make a 20 per cent cut in taxes without anyone noticing the slightest difference. It would need to be brave enough to make real and radical reforms that open up public services to competitive supply.

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Kenya's chance for a new beginning

After the election, the hard part may be yet to come

Smooth transfers of power are infrequent events in Africa. For that alone, the outcome of Kenya's presidential and parliamentary elections should be cause for celebration. The contest to replace Daniel arap Moi at the end of a 24-year presidency was conducted in a remarkably calm and good-humoured fashion. Despite some ugly episodes earlier on, and allegations of abuses, there was no repeat of the politically instigated tribal bloodshed that marked both previous multi-party ballots in 1992 and 1997.

The voters' verdict, in the most genuinely competitive elections in Kenya's history, was overwhelming. The Kenya African National Union (KANU) party, in power since independence in 1963, and its candidate Uhuru Kenyatta, son of the country's founding leader, was trounced by an opposition coalition led by Mwai Kibaki, the former vice-president. In a contest where "Big Men" leaders more usually stay until they die or are violently overthrown, Mr Moi's best contribution, in the end, may have been his compliance with his constitutional duty to stand down. His era may be over, but the spirit of his legacy will not be easily overcome. Kenya's once promising economy has been corroded by pervasive corruption and political patronage. It is now one of the most disappointing performers in sub-Saharan Africa. There is barely an economic or social indicator that does not testify to the country's decline. Since Mr Moi took office, the population has doubled to 30m and the proportion living in dire poverty - subsisting on less than \$1 a day - has risen from 40 to 55 per cent. Unemployment has soared. Infrastructure is crumbling and the country has become notorious for violent crime. Making matters worse, tourism - a

Competition could squeeze this out

From Dr Eamonn Butler, Sir, The shadow chancellor may be cautious about the tax cuts, but he could actually deliver "Tory leadership in tangible over low-tax pledge", December 23, but in principle at least he could make enormous cuts without any reduction in the quality of public services. Fifty years of state monopoly have mired health, education and many other services in enormous waste, bureaucracy, inefficiency and cost. Competition would squeeze this out

when competition replaces public monopoly. On that basis, the Tories could make a 20 per cent cut in taxes without anyone noticing the slightest difference. It would need to be brave enough to make real and radical reforms that open up public services to competitive supply.

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OBSERVER in BERLIN

Eastern rise for Schröder

After a gruelling election campaign and an intensely demanding first 100 days of office, what better relaxation for Gerhard Schröder than a little Chinese levitation to end the year? Grounded at home by crashing popularity ratings and incessant squabbles in his governing coalition, Germany's embattled chancellor is heading for Shanghai to launch the first commercial service of the German-designed Transrapid magnetic levitation train.

For Schröder, who has had unusually rough treatment from the media since narrowly winning September's elections, the China trip should be, literally, an easy ride. But that may not stop some plucky local reporter from asking the chancellor why such a supposedly spectacular German invention hasn't found any takers back home.

Banana man

Perhaps Schröder's three-day escape to China - he's also attending political talks in Beijing, apart from taking the train - will help to turn the political tide. But failing that, he may have to rely on the opposition CDU to ensure 2003 marks his comeback. The CDU offer provides a banana skin or two to distract attention from Schröder's domestic dilemmas. But in spite of losing the elections, the notoriously fractious conservatives have shown uncharacteristic unity of late. For CDU's powerful regional barons have united around Angela Merkel, their party leader. Edmundo Schuler, the CDU's leader in Schleswig-Holstein, at the polls, has kept unconvincingly quiet. And even younger aspirant leader, to be unconvincing of Merkel's merits, such as Roland Koch, the tough Hessian CDU premier, have told their necessary friends Merz, the CDU's former parliamentary leader, to show a return to form.

The business

Shunned by the man in the street, could the new year bring a thaw in Schröder's frosty relations with the business community? He gets an early chance - on January 15 - to charm his corporate detractors at Berlin's biggest business bash of the year. The swanky event is hosted by the BDI, the country's most influential business lobby group. But there's no sign yet as to whether the chancellor will show up. For the president of the BDI is Michael Rogowski, who just happened to torment Schröder during the election and pointedly lacked the opposition.

Song birds

Becoming the butt of popular humour has really rubbed in Schröder's fall from grace. The first came during the election, when he was ridiculed on the air waves. Der Steiner Song (the tax song), a ditty penned by anonymous Schröder mimics, is ending the year firmly at the top of the German charts. It is limited-edition clothing. The total was up to 12,000 just before the holidays, with hundreds more stuck in the post. Early truckloads were passed to a project for the unemployed in northern Germany. They have had enough of government.

Germany's economy is far from disaster

From Mr Stefan Schreiber, Sir, In his article ("Only a disaster can save Japan and Germany" December 27), John Plender paints a very gloomy picture of the state of the German economy and even society. As a German living abroad, I feel I must respond. First, this article is absolutely one-sided and tries to prove an already fixed opinion - that of the author. I am not denying there are serious problems in the German economy; but the situation is far from being near to a "disaster". The German banking system is not "weak", though it might be slightly weaker than the British or Swiss ones.

In general advocates a liberal economy, we should remember that there have been spectacular corporate failures in Germany. Neo-liberal theories might have failed altogether in Argentina but that is another story. If the German financial system were weak, there would be big problems with uncovered debts, a problem I cannot see. Remember that Germany saves and exports money. Second, Germany's export industry is very exposed to every international crisis. Even so, most companies (cars, chemicals, even information technology) look in a relatively good state.

The current public deficit is too high but public debt is still around 62 per cent altogether, maybe slightly more. Germany is already recovering from the current crisis. The real problems in the world economy are a huge trade deficit in the US and a housing bubble in certain other countries. Germany might have to change some things but this process has already started. Its real problem is rooted in its difficult unification with the former eastern Länder, and the real problem for Japan is the strong competition from countries such as Taiwan and South Korea.

Stefan Schreiber, Lisbon, Portugal

Turning up the heat in Russia

From Mr Dmitry Krivos, Sir, In his article "Russia warns to demagogue slowly" (December 15), Quentin Peel states that freezing Russian apartments are "a chilling indicator of a positive process". Consumers embrace a market economy and economise on their bills. In reality, residential heating in Russia is not governed by the market. As apartment buildings have central heating, it is impossible for an individual consumer to get the amount of "warmth" he is willing to pay for. In fact, it is the municipal authorities, not the consumers, that decide how much heat to provide. The system is much closer to central planning than to a market economy.

Furthermore, as municipal authorities do not provide an insufficient amount of heat, people have to keep themselves from freezing by alternating between using electrical heaters and running gas stoves around the clock. In this case, consumers do get as much heat as they pay for, but this is hardly an example of an efficient allocation of resources.

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