

# *Rising* Muslim Schizophrenia

BY CRITON M. ZOAKOS

*An investor's guide  
to globalization and  
the war on terror.*

**T**he current political debate over the war in Iraq has become tendentious and unproductive. Most of the issues debated now—whether Iraq is part of the war on terror or not, whether we are “winning” or “losing” in Iraq, whether Saddam had weapons of mass destruction, whether he had connections with al Qaeda, or whether “mistakes were made,” and so forth, *ad nauseam*—are dominated by partisan posturing. Their outcome will not have the slightest effect on the course of the war. The war is following its own logic, forcing the adversaries’ hands at each step of the way.

The war decisions of nations are driven by sheer necessities of survival, not by the outcomes of partisan debates. On matters of sheer survival, people, from ordinary voters to national leaders, are forced into decisions they would not have imagined moments earlier. Cumulatively, these strings of previously unimaginable decisions are known as “the fortunes of war.” These are not susceptible to forecasting.

However, from the standpoint of investment decision making and of financial markets generally, there are four useful things to know about the war—things that cut through the passions of partisan debate and through the fog of war:

- This war is the point of the spear in the fight over globalization—regardless of the deceptive pseudo-theological garb its Islamist combatants have chosen.

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“The strategy is to destroy the Islamist fascists’ ability to intimidate Islamic populations and blackmail reform-minded Islamic governments. The western military interventions in Afghanistan and Iraq have precisely this aim of destroying the Islamists’ capacity to impose their values through intimidation, and in the process to introduce value systems compatible with modernization, economic progress, and globalization.”

—Criton M. Zoakos

*Right, U.S. Army 1st Sgt. Dan L. Schoemaker helps secure the street outside of a mosque in the Ad Hamyah district of Baghdad, Iraq, so Iraqi army soldiers from the 9th Iraqi army can search it for ammunition caches on Sept. 2, 2006.*



DEPARTMENT OF DEFENSE PHOTO BY PETTY OFFICER 2ND CLASS ELI J. MEDELLIN, U.S. NAVY

- It is a risk-reducing, not a risk-augmenting enterprise.
- It is less costly than the Cold War.
- It will not end at the pleasure of political decision makers in the United States. It will end when clear victory or clear defeat comes—regardless of which party is in power in the United States.

#### THE WAR AS STRUGGLE OVER GLOBALIZATION

Privatization, financial transparency, rule of law, trade liberalization, even central bank independence, are not culture-neutral. The great themes of globalization are not culture-neutral; they are a menace to traditional cultures, Islam included. They subvert the status and authority of village elders, shamans, tribal sheikhs, princes and potentates, intellectual classes that function as curators of traditional cultures, hordes of state-franchised compradors, and other worthies who make their illustrious parochial living by sucking on the cultures that globalization subverts.

Compared to the epic strides toward economic integration made by the rest of the world, the domain of Islamic countries looks like The Land

That Time Forgot. Iran’s Islamic Revolution came to power and proposed isolation at approximately the same time as Deng Xiaoping opened up China to the world economy. Since that time, Islam’s economic weight plunged below its already measly levels.

The OIC (Organization of the Islamic Conference) reports that its fifty-six member countries comprise 20 percent of the world population—but produce only 5 percent of world GDP, much of

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it oil. The average per capita GDP for these countries is \$2,600 which drops to \$1,400 if you exclude the rich oil exporters. Of the fifty-six OIC countries, thirty-two have per capita income less than \$1,000 and twenty-four of these have per capita income below \$500 per year. The global average per capita GDP is \$8,000.

This poverty is accompanied by extreme inequalities of wealth and income, and the world's highest obstacles to entrepreneurship. The World Bank's annual survey, *Doing Business 2007*, ranks most of the Islamic countries among the worst for doing business. Of the fifty-six Islamic countries, thirty-six are ranked among the worst third of the world's countries, together with the likes of communist Laos and Congo and the kleptocracies of Venezuela and the Central African Republic. The minimum cost of starting a business anywhere in Muslim North Africa and the Middle East is 819 percent of the region's per capita income. The cost in East Asia/Pacific is 103 percent of per capita income; in Latin America it is 66.2 percent; in the OECD 41.4 percent. In the United States it is 0.7 percent of per capita GDP.

For example, the minimum cost for starting a business in Egypt is \$9,530, in Syria \$58,730 and in Saudi Arabia \$131,270. By contrast, this cost in China is \$5,213 and in the USA \$286 and in Singapore \$229 and in Thailand \$159.

Islamist fascism—the cause of the war—aims at preserving these cultures of squalor and economic repression. It is not the victims of poverty that inspire this movement but the cultural purveyors of poverty. If embracing globalization is the only means for overcoming the poverty of their constituencies, they shall have none of it. They have mobilized all their religious, cultural, clannish, and other emotional resources to fight globalization because it threatens to crush the status and authority that the traditional culture confers on them—because it threatens their identity. They fight an existen-

tial war for their own identity, not for ending the squalor of their followers. It is the kind of war that ends only with the extinction of one of the two adversaries.

The immediate adversary of the Islamist fascists is not the West but those among their own people and governments that attempt to modernize. That is why Islamist terrorism kills far greater numbers of Muslims than westerners. It is Muslims that they must terrorize into submission. Westerners are targeted for the secondary tactical reasons of warning them to stay out of the fray, of demonstrating prowess, and of stirring the myth of “Global Caliphate” for recruitment purposes.

Most governments in Muslim nations are caught in a schizophrenic situation. On the one hand, they must attend to their formal function as governments and minister to the needs of their societies, and this draws them toward modernity and economic integration with the rest of the world. On the other hand, they must satisfy the interests of their constituent local elites and factions, whose survival depends on opposing globalization. For example, Saudi reformers around King Abdullah are hemmed in and intimidated by the Wahhabi clergy, while the Pakistani reformers around President Musharraf are under siege by landowning clans, the religious establishment, and their minions in the security services of the state.

It is this schizophrenic situation of Muslim governments that has dictated the western strategy in the current war. Simply put, the strategy is to destroy the Islamist fascists' ability to intimidate Islamic populations and blackmail reform-minded Islamic governments. The western military interventions in Afghanistan and Iraq have precisely this aim of destroying the Islamists' capacity to impose their values through intimidation, and in the process to introduce value systems compatible with modernization, economic progress, and globalization.

An excellent sample of how western decision makers deliberated to shape this strategy is a speech by U.K. Prime Minister Tony Blair at the Los Angeles World Affairs Council last August. The speech is worth reading in full and can be found at <http://www.number-10.gov.uk/output/Page9948.asp>. Here are the key passages:

...It is in part a struggle between what I will call Reactionary Islam and Moderate, Mainstream Islam. But its implications go far wider. We are fighting a war, but not just against terrorism but about how the world should govern itself in the early 21st century....

Ever since September 11th, the U.S. has embarked on a policy of intervention in order to protect its and our future security. Hence Afghanistan. Hence Iraq. Hence the broader Middle East initiative in support of moves towards democracy in the Arab world.

The point about these interventions, however, military and otherwise, is that they were not just about changing regimes but changing the values systems governing the nations concerned. The banner was not actually “regime change” it was “values change.”

What we have done therefore in intervening in this way, is far more momentous than possibly we appreciated at the time...

The moment we decided not to change regime but to change the value system, we made both Iraq and Afghanistan into existential battles for Reactionary Islam. We posed a threat not to their activities simply: but to their values, to the roots of their existence.

We committed ourselves to supporting Moderate, Mainstream Islam. In almost pristine form, the battles in Iraq or Afghanistan became battles between the majority of Muslims in either country who wanted democracy and the minority who realise that this rings the death-knell of their ideology.

Identifying the West’s war aims in this way provides the benchmark against which to measure progress. The perennially nagging question of “are we winning in Iraq” featured daily in the opposition press loses all meaning against this benchmark. If “regime change” were the criterion of “winning,” the West already won. But, as Blair puts it, the aim of the war is “values change,” and therefore the West has not yet “won.” Any other criterion for victory or defeat is spurious and partisan.

This war is not merely about defeating the terrorists in military terms. That is only a means to a

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further end. If it were an end in itself, it could have been done a long time ago with the application of the sufficient sheer military might. But this would have defeated the deliberately adopted war aim of “values change.” Critics of U.S. Defense Secretary Donald Rumsfeld’s choice of the size of the expeditionary force in Iraq fail to understand this.

The war is about making the Greater Middle East suitable for modernity and globalization. This takes time. “Values change” entails the creation of institutions (the physical embodiments of “values”) by Muslim populations themselves. The size of western military forces must be proportionate to what is required to safeguard the local populations’ efforts to create such institutions. If western military forces are enlarged in order to assume the role of local security and police forces, they defeat the aim of building values-embodying local institutions.

#### **THE WAR AS A RISK-REDUCTION ENDEAVOR**

Because of this choice of war aims, this is going to be a long war. For the same reason, unlike most other wars, this is a war that reduces risk. Let me qualify this: it reduces risks to the globalization process occurring in the rest of the non-Muslim world, in so far as it focuses the conflict where it belongs—between moderate and extremist Muslims.

This may seem counterintuitive, given that markets instinctively view wars as risk-enhancing. But it is true. “Taking the war to the enemy in order to keep the homeland safe” has worked. The Rand Corporation maintains a comprehensive database of every terrorist incident, making it possible to compare the number of terrorist incidents in the United States and Iraq between January 1993 and August 2006. A similar picture obtains in comparing the total number of terror incidents in all OECD countries and in all Muslim countries. The fact is that once the West “took the war to the enemy” with the invasions of Afghanistan and Iraq, the number of incidents in the Muslim world skyrocketed and those in the western world declined (though the number of deaths did not).

Also note that during and in the immediate aftermath of all three major battles of the war—the invasion of Afghanistan, the invasion of Iraq, and the Israel-Hezbollah war—the stock market was rising and the price of oil was either stable or declining. Nevertheless, market valuations as reflected in

*Continued on page 64*

*Continued from page 23*

the S&P 500 index are 30 percent below fair value benchmarked against the 10-year bond yield, reflecting a rather large war risk premium. This risk premium appeared during the harrowing debates of 2002 over the impending Iraq war, and the market has not been able to shake it off ever since. The perceived risk of that divisive debate remained, even though the risks that were feared at the time never materialized. It remains with us today as the price of national division.

#### **A LOW COST WAR**

Anti-war critics place the total “eventual” cost at \$2.6 trillion by compiling real and fictionally projected budgetary appropriations that include lifetime healthcare costs, interest payments on debt, imagined costs of an eventual demobilization, economic opportunity costs of civilian wages lost to people enlisting in the military, depreciation of military equipment, the imputed value of lost human lives (assessed at \$6 million per human being), the price of oil, the “macroeconomic effects” of the price of oil, and so forth.

A less fantasy-ridden estimate would look at the actual total defense outlays of the budget plus the non-defense reconstruction appropriations and outlays relating to Iraq and Afghanistan as a percentage of GDP. Defense outlays as percent of GDP are much lower today than they were in 1993 when the first attack against the World Trade Center occurred, and far lower than the entire Cold War period, including the Vietnam War years.

The non-defense budget costs of reconstruction were originally estimated at \$56 billion for the four-year period between 2004 and 2007. As of now, Congress has authorized \$30 billion and disbursed \$16 billion. Compare this to the Marshall Plan that restored Europe in the four-year period of 1948 to 1951. The authorization for the Marshall Plan was \$17 billion, which amounted to 6.2 percent of the U.S. GDP in 1948. If Congress ends up authorizing the entire \$56 billion estimate, it will be the equivalent of 0.4 percent of the U.S. GDP in 2006—less than 10 percent of the Marshall Plan in share of GDP equivalent. ◆