

The Economist

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Who's buying luxury goods?

Brazil's mediocre economy

Iran goes to the polls

The priestly bodice-ripper

Democrat or sultan?



Erdogan and the
Turkish upheaval

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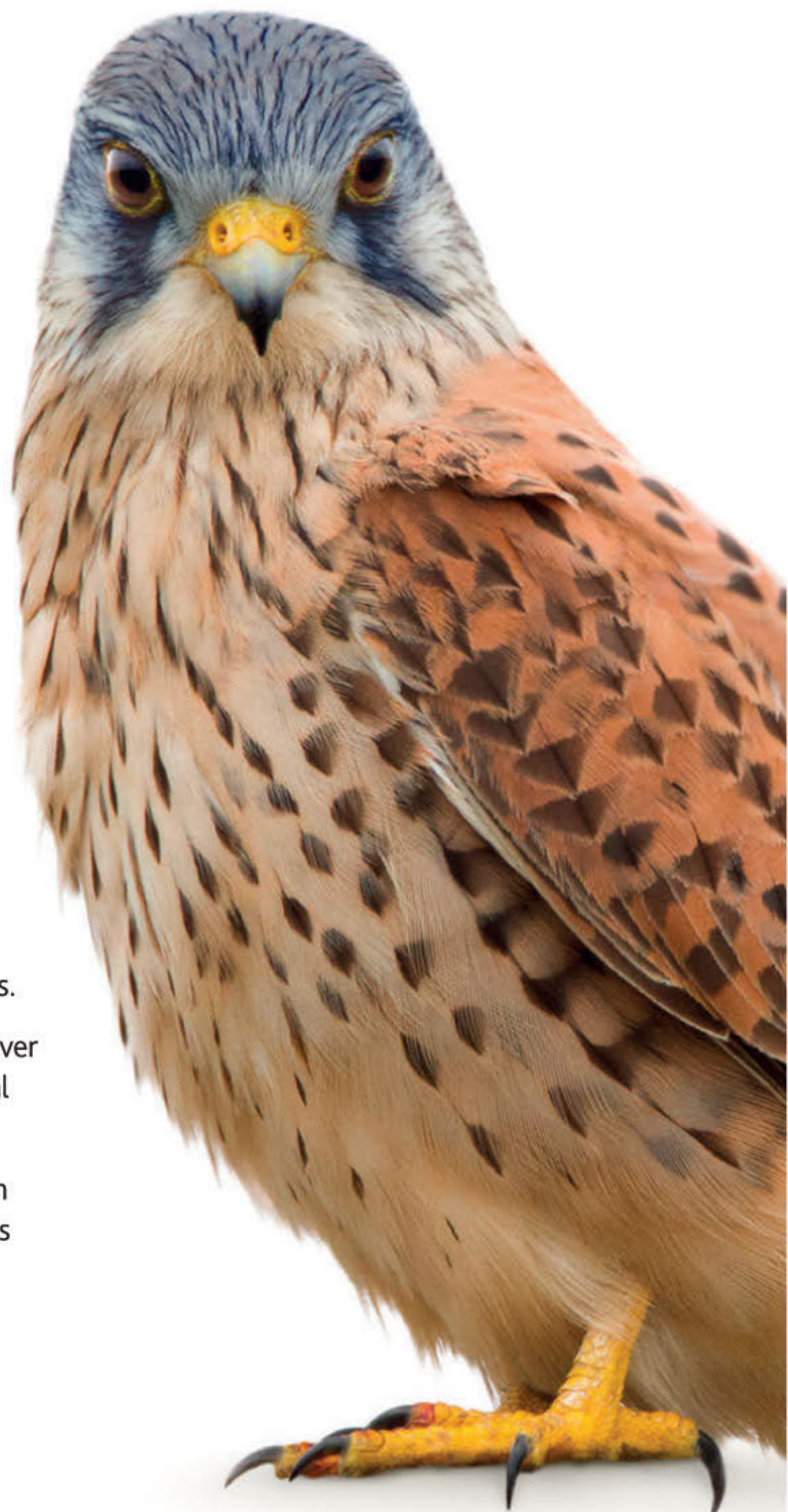
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LET'S KEEP THE LIGHTS ON WHEN SHE'S YOUR AGE.

What sort of world will this little girl grow up in? Many experts agree that it will be a considerably more energy-hungry one. There are already seven billion people on our planet. And the forecast is that there will be around two billion more by 2050. So if we're going to keep the lights on for her, we will need to look at every possible energy source. At Shell we're exploring a broad mix of energies. We're making our fuels and lubricants more advanced and more efficient than before. With our partner in Brazil, we're also producing ethanol, a biofuel made from renewable sugar cane. And we're delivering natural gas to more than 40 countries around the world. When used to generate electricity, natural gas emits around half the CO₂ of coal. Let's broaden the world's energy mix. www.shell.com/letsgo



LET'S GO.

Politics



Large protests spread across **Turkey** against the increasingly authoritarian rule of Recep Tayyip Erdogan, the prime minister. The trouble began in Istanbul when riot police used violence to end a sit-in by environmentalists who were trying to halt the redevelopment of a park. Mr Erdogan insisted that the protests were “no Turkish spring”.

The mayor of **Moscow**, Sergei Sobyenin, called an early mayoral election, two years ahead of schedule. He is a close ally of Vladimir Putin, Russia’s president, who appointed him. Direct elections for the office were only recently restored. Mr Sobyenin is expected to win September’s vote, especially with his opponents caught on the hop.

Latvia was granted permission by the European Union to join the euro. At the start of next year it will become the 18th country to use the currency, though most Latvians are unenthusiastic about joining.

Central Europe’s worst **flood- ing** in over a decade left at least 15 people dead in southern Germany, Austria and the Czech Republic. Hundreds of people were evacuated from Dresden. Thousands of soldiers were deployed to help towns and villages.

Thomas de Maizière, the **German** defence minister, faced embarrassing questions from a parliamentary committee about why he had not scrapped the Euro Hawk drone programme, even though it had been clear for months that it would not get clearance from

aviation authorities. He stopped the project only recently.

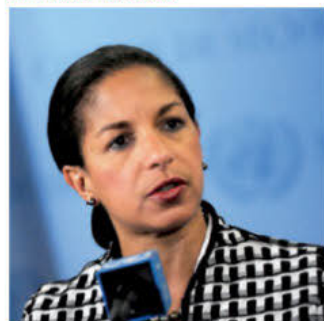
Prelude to the main event

China’s president, **Xi Jinping**, visited Trinidad, Costa Rica and Mexico before going on to the United States. Many were surprised that he called on America’s allies and ignored traditional friends such as Brazil, Cuba and Venezuela.

Venezuela released and deported a film-maker from the United States whom it had accused of spying. Timothy Tracy, a documentary-maker who speaks limited Spanish, denies trying to overthrow the government. Barack Obama had described the spying allegations as “ridiculous”.

In **El Salvador** a seriously ill woman who had been denied a potentially life-saving abortion was allowed to have a premature caesarean section. The health ministry said that it could be considered “induced birth” rather than abortion, which is banned in all circumstances. The baby died. The woman is recovering.

The **Organisation of American States** held its annual general assembly in Guatemala City. Foreign ministers were due to discuss reforms to drug laws.

A flavour of Rice

Barack Obama appointed **Susan Rice** as his national security adviser, after Tom Donilon stepped down. Ms Rice, America’s ambassador to the UN, is a close confidante of the president and was his first choice to succeed Hillary Clinton as secretary of state, but Republican senators vowed to block her nomina-

tion. The job of national security adviser is under the exclusive purview of the president and needs no Senate approval. Samantha Power, an academic and expert on genocide, gets Ms Rice’s old job at the UN.

Bradley Manning went on trial for leaking American diplomatic and military documents to WikiLeaks. As a soldier he is being tried by court-martial at an army base in Maryland. Mr Manning, who was arrested in 2010 and detained in conditions that have been criticised by human-rights groups, has already pleaded guilty to some charges but not to the most serious indictment: aiding the enemy.

Battle swings

Forces loyal to **Syria’s** president, Bashar Assad, backed by fighters from Hizbullah, Lebanon’s Shia party-cum-militia, retook Qusayr, a strategically important town near the Lebanese border. Meanwhile, France said that the Syrian regime had used sarin, a nerve gas, against its enemies.

A court in Cairo sentenced 43 **Egyptian** and foreign employees of NGOs to jail terms of up to five years for working illegally. Most of the foreign defendants, including Americans and Germans, were sentenced in absentia, but the son of a senior official in Barack Obama’s administration had refused to leave and got five years behind bars.

The **Palestinian** president, Mahmoud Abbas, appointed a new prime minister, following the resignation of Salam Fayyad in April. Rami Hamdallah, president of An-Najah National University in the West Bank, is to be a caretaker prime minister, while Fatah and Hamas, the two main Palestinian political factions, continue reconciliation talks.

Mali’s army clashed with separatist Tuareg fighters from the National Movement for the Liberation of Azawad, and recaptured Anefis, a village near the northern town of Kidal, the rebels’ last remain-

ing stronghold. It is the first time that Malian troops on their own have fought the Tuareg since French forces intervened in January.

Demonstrators took to the streets of Addis Ababa, **Ethiopia’s** capital, demanding—among other things—the release of political prisoners. The march, which passed off peacefully, was the largest opposition gathering since 2005, when claims of election-rigging sparked protests.

No regard for safety

A fire at a chicken factory in Dehui, in **China’s** north-eastern Jilin province, killed at least 119 workers. Two of the building’s three exits were locked at the time of the accident, probably as a precaution against theft. Industrial accidents are common in China, but this one is thought to be the deadliest in 13 years.

Hundreds of angry **Afghans** blocked a road near Kabul to demand that American troops be arrested and prosecuted for the torture and murder of local villagers. Several corpses had been exhumed nearby, which protesters said were the bodies of civilians who had disappeared into American custody. The Americans deny the accusations.

Singapore’s media regulator imposed new rules on websites that report on the city-state’s affairs, and perhaps on other online outlets too. The requirements imply that anyone who reports on Singapore regularly and attracts more than 50,000 Singaporean readers must be licensed, and must post a bond to do so. Some media firms say they are confused by the rules. ▶▶

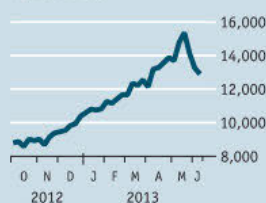
Business

A **trade dispute** between the European Union and China over solar-panel imports threatened to escalate. Some, though not all, European countries claim China's subsidies to its solar industry have choked their domestic markets, and want stiff penalties. In a compromise the European Commission imposed a temporary 11.8% tariff on Chinese panels, which could rise to an average 47.8% in August if talks fail to resolve the issue. China's response was to start an investigation into imports of European wine.

Abe normal?

Nikkei 225 stockmarket index

May 1949=100



Source: Thomson Reuters

Japan's stockmarkets recorded further dizzying losses, due in part to worries about whether the economic reforms outlined by Shinzo Abe, the prime minister, will succeed. One consequence of Abenomics has been a depreciating yen, which should boost Japanese exports. But because a weaker yen reduces the profit margins on foreign products sold in Japan, Apple decided to increase the price of the iPad there by 20%.

Brazil scrapped a tax on foreign investment in bonds, which it once described as central to its defence in the "currency wars". The tax, called the IOF, was implemented to stanch the flow of "hot" money into the country (flows that caused the real to appreciate). But with markets now speculating that America's Federal Reserve will ease its asset-purchase programme this year, the real is depreciating rapidly, threatening Brazil's efforts to tame inflation.

India's economy grew by 4.8% in the first quarter, far below government growth targets to lift people out of poverty. For the entire fiscal year to end-March 2013 GDP increased by just 5%, the slowest in a decade.

The benefits of hindsight

The **IMF** admitted that it had badly underestimated the problems facing **Greece** at the time of the country's first bail-out in 2010. An internal report concluded that a faster restructuring of Greek debt would have been better for the country but was "not acceptable" to other euro-zone members. Bondholders were eventually forced to take a haircut in 2012.

The United States International Trade Commission decided that **Apple** had infringed **Samsung's** patents in smartphones and ordered a ban on sales in America of some older versions of the iPhone and iPad. It is the first win in America for Samsung in its global patent battle with Apple, which says it will appeal.

A federal appeals court in Manhattan ordered a new trial in a long-running dispute between **Guy Hands**, a private-equity investor, and

Citigroup. In 2007 Mr Hands bought **EMI** partly on the basis of advice from a Citigroup banker in London; that advice, Mr Hands claims, overvalued the music company. He sued Citi but a jury in New York sided with the bank in 2010. However, the appeals court found that the jury was wrongly instructed by the judge.

A committee of the board at **Dell** recommended that shareholders accept a \$24.4 billion buy-out put together by Michael Dell, the computer-maker's founder. Carl Icahn, an activist investor, is leading a rival bid, which the committee said had a big hole in its financing. A shareholders' meeting will be held on July 18th.

Zynga announced that it was cutting 520 jobs, or 18% of its workforce. The firm was the darling of the social-gaming world at the time of its IPO in 2011, but it has floundered on smartphones and tablets.

Two deals underlined the growth of **cloud computing**. **IBM** bought SoftLayer and Salesforce acquired ExactTarget, as both companies expand their presence in the cloud and step up their competition with Amazon, the leading provider of such services.

Hotel room service could soon come to an end. The New York Hilton Midtown, the city's largest hotel, will no longer bring meals to rooms because guests rarely use the costly service. Hilton's boss, Christopher Nassetta, told a conference that he expects the industry soon to phase out room service in urban areas.

Infosys asked Narayana Murthy, its co-founder, who retired as boss in 2011, to come back and lead it. The Indian IT-services company's profits are being squeezed by fierce competition. Mr Murthy's return is the latest example of a troubled firm reappointing a former chief executive to the top job in the hope that he can turn its fortunes around.

Furniture designs

Ingvar Kamprad, who created **IKEA** in 1943, stepped down from the board of the furniture retailer's holding company as part of a long-planned "generational shift" of power to his three sons. The youngest one, Mathias, was appointed chairman. At 87 the elder Mr Kamprad would find it difficult to return to the helm if **IKEA** comes unstuck.

Other economic data and news can be found on pages 84-85



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Democrat or sultan?

Recep Tayyip Erdogan should heed Turkey's street protesters, not dismiss them



BROKEN heads, tear gas, water-cannon: it must be Cairo, Tripoli or some other capital of a brutal dictatorship. Yet this is not Tahrir but Taksim Square, in Istanbul, Europe's biggest city and the business capital of democratic Turkey. The protests are a sign of rising dissatisfaction with Recep Tayyip Erdogan, Turkey's most important leader since Atatürk. The rioting spread like wildfire across the country. Over 4,000 people have been hurt and over 900 were arrested; three have died.

The spark of protest was a plan to redevelop Gezi Park, one of the last green spots in central Istanbul. Resentment has been smouldering over the government's big construction projects, ranging from a third bridge over the Bosphorus to a crazy canal from the Black Sea. But only after this first protest was met by horribly heavy-handed policing did the blaze spread, via Twitter and other social media. A local dispute turned national because its elements—brutal police behaviour and mega-projects rammed through with a dismissive lack of consultation—serve as an extreme example of the authoritarian way Mr Erdogan now runs his country (see page 20).

For some observers, Turkey's upheaval provides new evidence that Islam and democracy cannot coexist. But Mr Erdogan's religiosity is beside the point. The real lesson of these events is about authoritarianism: Turkey will not put up with a middle-class democrat behaving like an Ottoman sultan.

Alighting from the democratic train

In some ways, Mr Erdogan has done well. GDP growth has averaged over 5% a year since his Justice and Development (AK) party took office in late 2002. The government also pushed through enough reforms to earn the start of membership talks with the European Union in 2005, a prize that had eluded Turkey for 40 years. Mr Erdogan has done more than any of his predecessors to settle matters with his country's 15m repressed and restless Kurds. Turkey has come to be seen as a model for nations emerging from the Arab spring.

This record explains why AK has won three commanding electoral victories, the most recent in June 2011. Mr Erdogan remains popular, especially among small-business owners and the conservative Anatolian peasantry who make up most of the millions of recent migrants to the cities. Against a useless opposition, AK may well win again.

Yet there have long been worries about Mr Erdogan. He once called democracy a train from which you get off once you reach the station. He is disdainful of the cosmopolitan bourgeoisie of Istanbul and Izmir. His party's religious roots led many to fear the Islamisation of Atatürk's proudly secular state: a new law restricting alcohol sales lent credence to those worries. Some fret that, far from being a model of Islamist democracy, AK might expose the concept as an oxymoron.

Yet there are many in Mr Erdogan's party who, like its co-founder, Turkey's president, Abdullah Gul, disapprove of the prime minister's authoritarianism and find his interpretation

of democracy too narrow; and there are many non-Muslim leaders, such as Russia's Vladimir Putin and Hungary's Viktor Orbán (see page 25), who behave high-handedly. The problem is not Islam but Mr Erdogan. He has a majoritarian notion of politics: if he wins an election, he believes he is entitled to do what he likes until the next one. Sometimes, as in defanging the coup-prone army, he has used power well. But over time the checks on him have fallen away. AK nominees fill the judiciary and AK people run the provinces; their friends win the big contracts. Mr Erdogan has intimidated the media into self-censorship: as the protesters choked on tear gas, the television networks carried programmes about cooking and penguins.

More journalists are in jail in Turkey than in China. Mr Erdogan has locked up whole staff-colleges of generals. Within his own party, people are afraid to stand up to him. His self-belief long ago swelled into rank intolerance. His social conservatism has warped into social engineering.

The risk is that he will now hold onto power even more tightly. Under AK party rules that limit deputies to three terms in the parliament, he must stand down as prime minister at the next election in 2015. He may be tempted to change the constitution so that he can become a powerful executive president, or run his party from the presidential palace, or simply change the rules so that he can stay on.

Ottomans are to be sat on, nowadays

For two reasons Mr Erdogan must abandon these ideas and prepare to pass leadership of AK, and executive power, to the more statesmanlike Mr Gul at the next election. One is that many Turks are tiring of him—just as poll-tax riots in 1990 signalled that Britons had tired of Margaret Thatcher, or the French rejected Charles de Gaulle after 1968. If Mr Erdogan stays, he may find his country increasingly ungovernable.

He also needs to preserve his achievements, which are already fragile and are at risk of unravelling. The economy has slowed sharply, partly because of recession in the euro zone, Turkey's biggest market. Talks with the EU have ground to a halt and Mr Erdogan seems to have lost interest. Negotiations with the Kurds, particularly with Abdullah Öcalan, the jailed leader of the Kurdistan Workers' Party, are on a knife-edge.

Mr Erdogan could use the promise of an orderly succession to set Turkey on the right course. The country needs a new constitution to replace the 1982 one drafted by the army; but it should be done by consensus among all parties and it should devolve rather than centralise power. Were Mr Erdogan to devote his remaining time to constitutional reform, to finding a settlement with the Kurds and to using revived EU talks to keep democracy and the economy on track, his place in Turkish history would be secure.

This week's protests have not been all tear gas and streaming eyes. Ordinary people in ordinary districts have been banging pots and pans and hanging out flags to make their voices heard. Many Turks have found a new sense of unity that in time could foster genuine, pluralistic democracy—if only the sultan would listen. Much is riding on how he treats the protesters in Taksim Square. ■

America and China

The summit

Barack Obama and Xi Jinping have a chance to recast this century's most important bilateral relationship



CHINA'S president, Xi Jinping, is unlikely to quote Thucydides when he meets his American counterpart, Barack Obama, at a summit in California on June 7th and 8th. But the spirit of the Greek historian will hover over the Sunnylands ranch. Chinese policy wonks are struck by his argument that it was the Spartans' fear of the growing power of Athens that made war inevitable. Their insistence that China wants a "peaceful rise" is intended to calm such worries in America.

The ploy is not working. China's relations with America have deteriorated in recent years, raising the spectre of conflict in East Asia. Buoyed up by its own economic success and Western stagnation, China has been asserting its claims in the region more aggressively, sending the neighbours scuttling back to the American security umbrella. Barack Obama's response has been a "pivot" towards Asia. In the absence of trust, both sides will build up their military strength and responsible defensive behaviour could spiral into conflict.

Mr Xi has got at least one thing right. Last month he told Tom Donilon, America's retiring national security adviser, that relations had reached a "critical juncture" and "a new type of great-power relationship" was needed.

Is Xi is, or is Xi ain't Mao's baby?

In 1972 Richard Nixon and Henry Kissinger astonished the world by flying to China to hold discussions with Mao Zedong, during which they agreed to overlook their differences in order to further their mutual interests. Although many formal meetings have happened since, leaders of the two countries have rarely set aside such time as this week's summit provides to hold similarly informal discussions (see page 52). They need to show the farsightedness of Nixon and Mao.

The world has changed enormously in four decades, and China even more. Buzzing with online feedback and dedicated to consumerism, some parts of China are now beginning to resemble America. Mao's personal tyranny has yielded to a more collective leadership by the Politburo, but the system struggles to contain a 21st-century society.

Mr Xi, whose father was a comrade-in-arms of Mao, enjoys more personal authority than his dull predecessor, Hu Jintao. In office for less than a year, he has quickly consolidated his power. He has launched a crackdown on corruption and official extravagance (see page 57). He talks of more economic reform. He has burnished his nationalist credentials at home in a spat with Japan over island specks. To show China's new diplomatic confidence, Mr Xi arrives in California via Mexico, Costa Rica and Trinidad & Tobago (see page 53). The message: just as America claims to be a regional power in East Asia, China can plant its flag in the Caribbean. (It is planting its flag at other ports around the world too—see page 55.)

In some ways China's new assertiveness makes co-operation harder. Powerful interests, including the People's Liberation Army, brandishing new toys, believe America is commit-

ted to containing China and thwarting its rise. Mr Xi's sabre-rattling reflects a much deeper rise in nationalist sentiment in Chinese society. Many Americans fear that China's displacement of America as the world's largest economy will swiftly be followed by its rise to the status of military superpower. Yet for both leaders, there is more to be gained from co-operation than conflict. Mr Obama has a far better chance of making headway on Iran, North Korea and climate change if America and China are working together. And Mr Xi knows that if America feels easier about China's intentions, it is likely to give him more latitude in his region.

The spirit of Sunnylands

Messrs Obama and Xi need to start by confronting the immediate causes of tension in Sino-American relations. Chinese hackers have stolen intellectual property on a breathtaking scale (see page 54), while American Sinophobes have exploited curbs on exports to China, imposed after the 1989 slaughter in Tiananmen Square, to ban the export of goods with the most distant of military associations, such as brake pads and SIM cards. Mr Xi needs to send a signal that cybertheft will not be tolerated. Mr Obama needs to push to lift some restrictions.

Sunnylands should also be used as an opportunity to plan more summits in the future. It is extraordinary that the leaders of the world's two great powers meet so rarely in this way. It is equally extraordinary that the current generation of American leaders includes no real heavyweights on matters Chinese: the Beijing leadership is still more inclined to consult Mr Kissinger than any of Mr Obama's close confidants. It is easy to mock the idea of meetings for the sake of meetings. But they can create webs of mutual trust and even friendship that leaders can draw on in a crisis—and conversations over late-night drinks can do more to draw countries together than all the diplomats in the world.

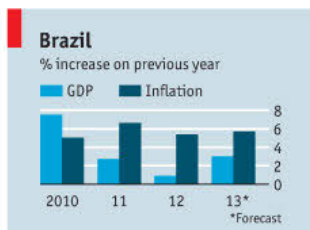
This commitment to get to know each other better must extend to more co-operation over security. Asia is China's backyard, but its neighbours want America to stay engaged. That means give-and-take. America could reduce arms sales to Taiwan in return for the withdrawal of Chinese missiles from the coast of Fujian. China could intensify efforts to stop North Korea from developing nuclear missiles in return for a commitment that, were that vile regime to collapse, American troops would remain stationed in South Korea, not on China's border.

There are plenty of good reasons for America to be nervous about the rise of a new economic giant and to be angry about cyber-attacks, obstructionism over Syria or the regime's brutality towards its own citizens. There are also plenty of reasons for China to be annoyed with America: Americans have been too willing to demonise successful Chinese companies such as Huawei or CNOOC. But the lesson of history is that everybody loses if the world allows legitimate worries to get out of hand. More than 2,000 years ago Greece was torn apart by Sparta's failure to manage the rise of Athens. A hundred years ago Europe was torn apart by its failure to manage the rise of Germany. If the 21st century is to be more peaceful than the 20th, America and China must learn to co-operate better. ■

Brazil's mediocre economy

A fall from grace

How to squander an inheritance—and how easily it could be restored



ALMOST exactly 20 years ago, in May 1993, Fernando Henrique Cardoso was named as Brazil's 13th finance minister in as many years, a seemingly hopeless job in a country trapped in hyperinflation, debt and an anachronistic economic statism. Mr Cardoso's Real Plan swiftly tamed inflation and took him to the presidency. There he laid the foundations for a new Brazil, of stability and liberal economic reform. This success was reinforced by his successor, Luiz Inácio Lula da Silva, a left-wing former union leader, whose government saw 30m Brazilians get out of poverty.

The trouble is that in Lula's second term (2007-10) and especially under his chosen successor, Dilma Rousseff, the formula behind Brazil's success has been slowly abandoned. The policy secret was simple: inflation targeting by a Central Bank operating with de facto independence; transparent public accounts; a rigorous fiscal target, which brought down the public debt; and a much more open attitude to foreign trade and private investment.

But the global recession of 2008-09 prompted Lula and Ms Rousseff to shrug at decadent liberal economics and ape Chinese state capitalism. The finance ministry wrote vast cheques to boost lending by state banks. The government gave up on market reform, and spent remorselessly. When overheating turned to stagnation (the economy grew by a paltry 0.9% last year), Ms Rousseff publicly chivvied the Central Bank to slash interest rates. When inflation neared the top of its target range (6.5%), she said she cared more about growth. She unleashed a bewildering and ever-shifting barrage of tax breaks (and tariff rises) for favoured industries but failed to balance these with spending cuts. And instead of a clear fiscal target, there are

some worryingly Argentine accounting fudges (see page 45).

The upshot is that investors have become confused about Brazil's economic policies. This uncertainty has contributed to a mediocre performance: since 2011 growth has been lower and inflation higher than in most Latin American countries.

Fortunately, Brazil still has some big strengths, including its farming and energy industries, more science and innovation than you might think and a huge, albeit less fizzy, domestic market. And whatever Ms Rousseff's mistakes, they are small compared with those of, say, Argentina's Cristina Fernández. But in any event, the going for Brazil is getting harder. A consumption and credit boom has run out of steam, the trade account has moved into deficit as Chinese demand for Brazilian iron ore slows and the imminent end of cheap money in the rich world is prompting a slide in the real. Though that will help Brazilian manufacturers, it will push up inflation.

Stay, Mr Mantega, stay

So incipient signs of a return to clearer policy in the past few weeks are welcome. To curb inflation, Alexandre Tombini, the Central Bank governor, has pushed up the benchmark interest rate (though more increases will be needed to restore lost credibility). Guido Mantega, the finance minister, has said he will no longer use fiscal policy to stimulate the economy; on June 4th he lifted a tax on capital inflows. But more change is needed if Brazil is to return to the path set by the Real Plan. Above all, Ms Rousseff's team need to curb spending and get the state out of the business of micromanaging investment decisions.

In December, when we last urged Brazil's government to stop meddling and let animal spirits roar, we called for Ms Rousseff to sack Mr Mantega. It was widely reported in Brazil that our impertinence had the effect of making the finance minister unsackable. Now we will try a new tack. We urge the president to hang on to him at all costs: he is such a success. ■

Europe's banking union

A la carte and half-baked

Why not build a new European currency on inadequate foundations? It worked so well the first time...



WHEN Mario Draghi unveiled his plan to do "whatever it takes" to save the euro, he sensibly combined carrot with stick. Countries that wanted the European Central Bank (ECB) to buy their debt in secondary markets would have to embrace a reform programme. Mr Draghi, the ECB's president, was mindful of "moral hazard": the danger that debtor countries would let discipline slip once the pressure was off.

It turns out, though, that moral hazard affects creditor countries as well. The announcement of the Outright Monetary

Transactions (OMT) programme last year helped euro-zone bond markets recover their poise. Despite short-sighted objections to the OMT programme from Germany's Bundesbank, which will be aired in a constitutional-court hearing next week (see page 66), it has been a remarkable success. But it also eased the pressure on creditor countries to push ahead with the institutional reforms required to make the euro area stable.

In June 2012 Europeans agreed to start creating a banking union to break the pernicious link between weak banks and enfeebled sovereigns. But Germany, the zone's principal paymaster, and others have since softened this commitment. The joint paper presented on May 30th by Chancellor Angela Merkel and France's president, François Hollande, is the latest evi- ▶▶

dence (see page 65). A true banking union requires three pillars: a single supervisor; a single resolution authority, with access to common backstop funds; and a joint deposit-insurance scheme. The French-German plan is to use one-and-a-half pillars and pray the edifice stays up.

Unmade in Germany

There has been some progress since last June. The ECB is preparing to become the single supervisor of the region's bigger banks next year. The central bank is best-placed to assess the health of Europe's lenders and to rise above national interests. To be effective, however, a supervisor has to be able to enforce its will. That means setting up a resolution authority that can intervene directly in failing banks, allocating losses among shareholders and creditors, and if necessary, supplying the public funds required to make good outstanding shortfalls.

The Germans, fearing their taxpayers would be liable for other countries' banking woes, have been pushing for a system of national resolution authorities that follow harmonised rules and use their own funds. That isn't enough. Before the ECB takes over, it will conduct yet another stress test of European banks. Assume it finds holes in banks' balance-sheets

that cannot be filled with fresh private capital. The German model would throw the ball to national authorities. Weak states risk finding themselves in the same position as Cyprus: tempted to ignore the problem if they can, forced to take on more debt or impose deep losses on creditors if they cannot.

Imposing losses on the creditors of bust banks is the right thing to do. But there is a risk to stability if it is seen as the only way to fill capital holes during a crisis, because it encourages short-term creditors to pull their money out of banks. Even insured depositors may think about fleeing if their government is seen as weak: Cyprus flirted with imposing losses on them.

Hence the third pillar, sadly ignored in the Franco-German plan: a joint deposit-guarantee scheme in which the costs of making insured depositors whole are shared among euro-zone members. Annual contributions from banks should cover depositors in normal years, but they cannot credibly protect the system in meltdown (America's prefunded scheme would cover a mere 1.35% of insured deposits). Any deposit-insurance scheme must have recourse to government backing. The Germans don't like that. But the banking union—and thus the euro—will make little sense without it. In this case, one-and-a-half out of three is a complete failure. ■

Iran's presidential election

Don't ignore it

Good riddance to Mahmoud Ahmadinejad. The election might just bring something better



IN THIS election, more than 700 aspiring candidates have been barred from competing by a council of crusty clerics and lawyers. They are said to have failed to live up to the required standard of revolutionary and religious zeal, leaving just eight runners deemed worthy of the mantle being relinquished by Mahmoud Ahmadinejad. That may not seem like much of a choice to citizens of normal democracies. But in Iran it is the best on offer.

The first round of the presidential election takes place on June 14th, with a run-off a week later if no one gets a majority. The candidates, pictured before a television debate, are a glum bunch, with Saeed Jalili the apparent favourite of the hardliners and the most moderate being another former nuclear negotiator, Hassan Rohani. There is the added twist that the final say in the gravest matters of state, including the nuclear programme, is the preserve of the supreme leader, Ayatollah Ali Khamenei, who has fallen out badly with Mr Ahmadinejad in the past few years. All the same, the election is a meaningful, even menacing, event—and one whose outcome, on past experience, cannot be predicted (see page 33).

One thing to be hailed with joyful certainty is Mr Ahmadinejad's exit. To the underdogs of the world, provided they did not actually have to live in Iran, he was an engaging populist, cocking a perpetual snook at the Great Satan of America and other lesser Western devils. To nearer neighbours, including the Arab Gulf monarchies and the endlessly reviled Israelis, his absurdities, including his Holocaust denials and threats against the Jewish state, were less funny. Even allowing for his

limited role in controlling the centrifuges, the president can convey the mood of his country, especially in foreign forums, such as the United Nations, and in the corridors of nuclear negotiations. If anyone was liable to spark bonfires instead of dousing them, it was Mr Ahmadinejad.

His effect on the economy was arguably still more dire. Iranians became a lot poorer during his presidency. Inflation by some measures is above 45% a year. Unemployment, truly reckoned, exceeds 20%. Oil receipts, thanks to UN-imposed international sanctions, have plummeted. Mr Ahmadinejad did make a valiant attempt to curb subsidies. But everyone, except for the ruling elite and its ubiquitous Revolutionary Guard with its tentacular businesses, is feeling a painful pinch.

Two faces, same beard?

Guessing what the candidates might do involves decoding a lot of talk about "noble defiance" and "resistance economics". Mr Khamenei has yet to endorse anyone. But Mr Rohani, who probably has the support of much of the country's business class and more cosmopolitan types, looks a better bet than the grim-faced Mr Jalili. The chances are that Mr Rohani would be keener to open up the economy and less inclined towards wild-eyed posturing than the outgoing buffoon.

On the nuclear issue it is harder to detect differences: Iran seems ever closer to getting a bomb. Were the supreme leader to die, the president would be in a three-man temporary ruling council. But the 73-year-old Mr Khamenei seems in fair health. Four years ago Barack Obama offered Mr Ahmadinejad an unclenched fist that was rudely rejected. Whoever wins, America's president should offer fresh talks—anything that reminds the Iranian people of the enticements on the table is useful. But for the moment there is no reason to put away a big stick. ■

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- The Banker: Equities 2013 (Lonmin rights issue)
- Global Trade Review: Best Deal of 2012 (African Minerals Limited Export)
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Business indicators

SIR – Your discussion of the World Bank's "Doing Business" report flagged the benefit to policymakers of measures that summarise valuable information ("Stand up for 'Doing Business'", May 25th). There may be different motivations behind the supporters and the opponents of the reporting of those measures, but you overlooked the core analytical concern that partial indicators can mislead when used to represent a country's standing in reforms. There are two reasons why.

First, a partial indicator, such as the cost to business of regulatory policy, may be misleading because it ignores the social benefit of having some regulation, be it financial, labour market or environmental. For example, taxation or environmental protections, which carry a cost to private business, also have potential benefits to society.

Second, problems occur when various factors are aggregated and converted into a country ranking. Re-scaling the rating from a cardinal measure into an ordinal ranking may improve visibility, but this can lead to volatile changes in the overall score.

VINOD THOMAS
Director-general of independent evaluation
Asian Development Bank
Manila

SIR – You argued that "Doing Business" "spurs countries to useful reforms". Unfortunately, it also spurs countries to game the rankings and to introduce damaging deregulation that harms the prospects for small businesses in developing countries. The bank itself recognises that "Doing Business" is not a template for reform. Ten years since its launch there is limited evidence that the reforms it promotes are correlated with growth (with the exception of the length of time it takes to register a business). The report's focus on one city in a country, even in vast and diverse places such as Brazil, further reduces its usefulness.

Moreover, complaints about "Doing Business" are not the preserve of China; most countries have criticisms, as do NGOs, unions and small-business associations. An internal evaluation in 2008 by the bank found it to be flawed.

PETER CHOWLA
Bretton Woods Project
CHRISTINA CHANG
CAFOD
London

Defence entitlements

SIR – It was disappointing that your memo to Barack Obama on curtailing entitlements lacked any reference to the military (Briefing, May 25th). The Department of Defence and the Department of Veterans Affairs fund one of the largest social-welfare programmes in the world, which includes retirement pay, disability benefits and the provision of health care to active duty members, dependents and retirees. The provision of entitlements within the armed forces is not immune to inefficiencies, overutilisation and abuse.

MAJOR BRIAN MONTENEGRO, MD
Travis Air Force Base, California

England rising

SIR – In reply to your article on Englishness ("Identity parade", May 25th) I would point out that the 2011 census showed that 60.4% of people in England stated their only national identity as "English" and a further 9.1% said it was "English and British". In sharp contrast only 19.2% claimed to be "British only".

The demand for English independence is increasing in England. A ComRes survey in June 2011 found 36% support for England to be a fully independent country, irrespective of the result of the Scottish independence referendum. Since then support has grown and the demand for independence is now significantly more popular for England than for Scotland.

ROBIN TILBROOK
Chairman
English Democrats
Ongar, Essex

Stephenson Harwood

SIR – Your article on efforts to recover stolen assets in Arab countries ("Making a hash of finding the cash", May 11th) mentioned my firm as having reportedly taken a large upfront fee but producing few tangible results. Neither statement is true. In relation to the latter statement, we can confirm that positive and tangible results have been achieved over the past two years with which our client is satisfied. Egypt is facing a complex and long-term task of repatriating the misappropriated monies, with numerous institutions involved.

In relation to the former statement, like any professional law firm, we do not comment on confidential client-fee arrangements, but we can say that your statement is untrue.

Finally, though your article did not allude to it, your own research on Stephenson Harwood will no doubt have demonstrated that the firm has a long-established and highly regarded fraud and asset-tracing practice and is ranked highly by independent legal-industry directories. We have acted on a number of important fraud and asset-tracing cases and trials in recent years and won several prestigious awards recognising our dispute-resolution practice.

KAMAL SHAH
Partner and head of the Africa and India groups
Stephenson Harwood LLP
London

Better neighbours now?

SIR – The effort to renew Indo-Chinese relations ("Parsnips unbuttered", May 25th) reminds me of the "Five Principles of Co-existence" signed by Jawaharlal Nehru and Zhou Enlai in 1954. After signing the treaty India promoted the slogan *Hindi-Chini bhai-bhai* ("Indians and Chinese are brothers"). Sadly, China attacked India in 1962 in a border dispute. India should take the new relationship with a grain of salt.

THOMAS MATHEW
Coppell, Texas

Slicing Apple

SIR – It is true that Sony has failed to find synergies between its content and hardware divisions ("Goodbye, Mr Bond?", May 18th). But the example you gave of Apple's success with the iPod is a poor one. Apple succeeded because it did not own any content. It reinvented itself as a retailer (not an owner) of content. Indeed, Apple initially had the advantage in personal-computing hardware and software, but lost out to Microsoft and IBM in part because it was constrained by operating simultaneously in both areas and its competitors were not.

DAVID SCOTT
Loughborough, Leicestershire

Adult-friend finders

SIR – Prostitution is "in deep recession", you say, in part "because of the sluggish economy" ("Sex doesn't sell", May 25th). Actually, prostitution is a fading model when it comes to engaging in anonymous sex. Thanks to the internet and smartphones there are dozens of websites and apps where people—men and women, straight and gay, married and single—can load profiles and then hook up for no-strings-attached sex. Why pay?

STAN ROBINSON
Sumter, South Carolina

Historical presidents

SIR – Regarding the parallels between the presidencies of George W. Bush and Barack Obama ("W's apprentice", May 18th), though I won't be here to see it, I'll bet that when the pantheon of presidents is listed 50 years from now our two most recent incumbents will be right up there with the likes of Millard Fillmore.

RICHARD WEXELBLAT
Merion Station, Pennsylvania ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG
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The new young Turks

ISTANBUL

Protests against Recep Tayyip Erdogan, and his ham-fisted response, have shaken his rule and his country

IT BEGAN with a grove of sycamores. For months environmentalists had been protesting against a government-backed plan to chop the trees down to make room for a shopping and residential complex in Istanbul's Taksim Square. They organised a peaceful sit-in with tents, singing and dancing. On May 31st riot police staged a pre-dawn raid, dousing the protesters with jets of water and tear gas and setting fire to their encampment. Images of the brutality—showing some protesters bloodied, others blinded by plastic bullets—spread like wildfire across social media.

Within hours thousands of outraged citizens were streaming towards Taksim. Police with armoured personnel carriers and water cannon retaliated with even more brutish force. Blasts of pepper spray sent people reeling and gasping for air. Hundreds were arrested and scores injured in the clashes that ensued. Copycat demonstrations soon erupted in Ankara and elsewhere. By June 3rd most of Turkey's 81 provinces had seen protests. A "tree revolution" had begun.

In fact these protests are not just about trees. Nor is Turkey really on the brink of a revolution. The convulsions are rather an outpouring of the long-stifled resentment felt by those—nearly half of the electorate—

who did not vote for the moderately Islamist Justice and Development (AK) party in the election of June 2011 that swept Recep Tayyip Erdogan, Turkey's combative prime minister, to a third term. The most popular slogan on the streets was "Tayyip Resign". Millions of housewives joined in, clanging their pans in solidarity and belying government claims that the protests had been pre-planned rather than spontaneous.

Rainbow nation

It took 24 hours for Mr Erdogan to respond—whereupon he called the protesters "louts" who were acting under orders from "foreign powers". The wave of unrest evidently caught his government off guard. "The limits of its power have now been drawn," said Kadri Gursel, a columnist for the daily *Milliyet*. By June 5th at least three people had died and thousands of others had been hurt; students referred to their bruises as "Erdogan's kiss". The Istanbul Stock Exchange fell by as much as 12% on June 3rd, before recovering slightly the next day. Barack Obama's administration expressed "serious concerns".

Who are the protesters who have created the biggest political crisis in a decade of Mr Erdogan's rule? Many are critics of Turkey's huge urban-development pro-

jects, favoured by a government that wants to pep up the slowing economy with infrastructure spending. The schemes include a third bridge over the Bosphorus that will entail felling thousands of trees (and was to have been named after an Ottoman sultan who slaughtered thousands of Alevites); a huge new airport for Istanbul; and a canal joining the Black Sea to the Sea of Marmara. Environmentalists are appalled.

But, contrary to Mr Erdogan's efforts to portray the protesters as thugs and extremists, they cut across ideological, religious and class lines. Many are strikingly young; but there are plenty of older Turks, many secular-minded, some overtly pious. There are gays, Armenians, anarchists and atheists. There are also members of Turkey's long-ostracised Alevi minority, who practise a liberal form of Islam and complain of state discrimination in favour of the Sunni majority. Each group added its grievances to the litany of complaints.

What unites them is a belief that Mr Erdogan is increasingly autocratic, and blindly determined to impose his views and social conservatism on the country. The secularists point to a raft of restrictions on the sale of alcohol, liberals to the number of journalists in jail, more than in any other country. Thousands of activists of varying stripes (mainly Kurds), convicted under Turkey's vaguely worded anti-terror laws, are also behind bars. "This is not about secularists versus Islamists, it's about pluralism versus authoritarianism," commented one foreign diplomat.

Mr Erdogan's peevisish reaction to the tumult vindicated his critics. He accepted that the use of tear gas had been overdone, ►►

and told police to withdraw from Taksim Square. This let thousands gather peacefully a day later. But as the protests gained momentum across the country he poured oil on the flames. The national spy agency would be investigating the mischief, he vowed. He lashed out at social media, especially Twitter. These, he said, were “the greatest scourge to befall society” (in the city of Izmir, on the Mediterranean coast, 29 people have been arrested on the grounds that their tweets incited violence).

The Taksim project would go ahead, Mr Erdogan insisted. He made only a small concession, saying it might house a museum not a shopping arcade; scenting the mood, many retailers are anyway pulling out of the plan.

As for claims that new restrictions on alcohol constituted an infringement of freedom, he dismissed them as nonsense. The measures were for the public good. Besides, “anyone who drinks is an alcoholic”, he said, “save those who vote for AK.” In reply, someone tweeted that if drinking alcohol makes you an alcoholic, then being in power makes you a dictator. To many, Mr Erdogan sounded like the Turkish generals who used to meddle because they knew what was best for the people.

Divide and rule

That wasn't all. When the main opposition leader, Kemal Kilicdaroglu of the Republican People's Party (CHP), called on Mr Erdogan to resign, he threatened to unleash “a million of my people” against CHP supporters. He was “suppressing them with the greatest of difficulty”. His departure on June 3rd, on an official visit to north Africa, left some AK party officials sighing with relief. In his absence Bulent Arinc, the deputy prime minister, acknowledged on June 4th that the police had used “excessive force”. “I apologise to the environmentally conscious people who were subjected to violence,” he added, the first hint of regret from the government (but which appeared not to extend to protesters with other motives). Abdullah Gul, the president, had already declared that, in a democracy, every citizen's view deserved respect.

Mr Erdogan's response was a perfect example of the polarising manner in which he has governed in recent years. Buoyed by three successive election victories, in 2002, 2007 and 2011—his AK party taking a rising share of the vote—Mr Erdogan has elbowed all rivals aside. He has also managed to neutralise most potential checks on his power, including the army, the judiciary and the media, which he has intimidated into self-censorship.

Hints of his intolerance came during his first term, when he tried to criminalise adultery. Faced with a popular outcry (and rebukes from the European Union), he was forced to back down. But during most of his early years, he inspired hope. Sticking

to the IMF prescriptions that he inherited, he rescued the economy from the meltdown it suffered in 2001. In the past ten years GDP per person has tripled, exports have increased nearly tenfold and foreign direct investment has leapt. Turkey is now the world's 17th biggest economy.

Turkey's robust banks are the envy of their beleaguered Western peers. Although income inequality is worryingly wide, wealth that was once concentrated in the hands of the Istanbul-based elite has spread to the Anatolian hinterland, leading to the rise of a new class of pious and innovative entrepreneurs who are powering growth. Hundreds of new hospitals, roads and schools have dramatically improved the lives of the poor.

The OECD, a rich-country think-tank, and the IMF, say Turkey needs more labour-market and other reforms, not least to boost the employment rate among women. Secular Turks might argue that what the country needs is more opera houses and public sculpture. But the majority have never had it so good. This rising prosperity helped to give Mr Erdogan's government broad nationwide approval.

In his first term Mr Erdogan also embarked on sweeping domestic reforms that, in 2005, persuaded the EU to open membership talks with Turkey. He began by neutering the country's traditionally meddling generals. Their influence over institutions such as the judiciary and the National Security Council, through which they barked their orders, has ended. Meanwhile hundreds of alleged coup-plotters caught up in the so-called Ergenekon and Sledgehammer cases—including many generals and a former chief of the general staff—are in jail, awaiting trial.

All this means that Mr Erdogan has been Turkey's most effective and popular leader since Kemal Ataturk, who founded the secular republic on the ruins of the Ottoman empire. And he is not only popular at home. Unlike most of his predecessors, and supported by the foreign minister, Ahmet Davutoglu, he has embraced Turkey's Arab neighbours, opening new markets



Erdogan's image: as frayed as his temper

for Turkish contractors and drawing in Gulf Arab investors. Mr Erdogan has also struck an alliance with Iraq's oil-rich Kurds, a move that has helped pave the way for his bold and ambitious effort to make peace with Turkey's own Kurds.

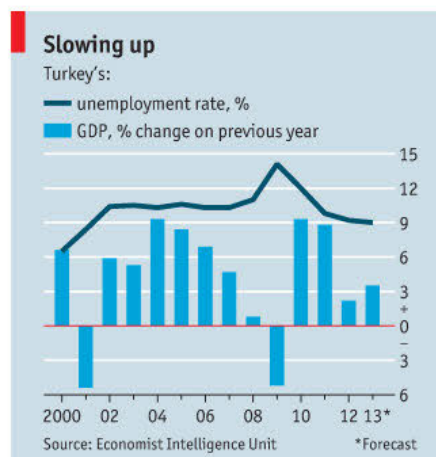
The downside

Alas the problems, some of them of Mr Erdogan's own making, have been mounting. Critics say the judicial reforms that were approved in 2010 have given the government a worryingly big say over the appointment of judges. They point to the Ergenekon case, which has put nearly every serving admiral behind bars. The trial has been dogged with allegations of fabricated evidence. Prosecutors have at times seemed more interested in exacting revenge than justice.

Turkey's foreign policy is falling apart, victim to Mr Erdogan's hubris. Even if his salvos against Israel have pleased the Arab street, they have raised eyebrows in Washington and deprived Turkey of a useful regional partner. His overt support for rebels fighting to topple Syria's president, Bashar Assad, whom he wrongly predicted would quickly fall, is growing more unpopular. In May twin car-bomb explosions ripped through the town of Reyhanli on the Syrian border, killing 51 people. Turkey said Syria's secret service was responsible; Syria denies this. But most Turks believe that Mr Erdogan risks dragging their country into war. In the ultimate irony, the Syrian government has warned people not to travel to Turkey, declaring it “unsafe”.

The economy, too, is lacklustre. Growth has fallen to 3%, and unemployment is stubbornly high (see chart). A large current-account deficit makes Turkey vulnerable to a shift in market sentiment that might easily follow the present unrest.

Mr Erdogan seems unfazed by all this. Surrounded by sycophants, he is out of ▶▶



touch. Liberals who once supported him are defecting. Secular Turks are incensed by what they see as the steady dilution of Atatürk's legacy. The introduction of Koran classes for primary-school pupils and the revival of Islamic clerical training for middle schools are examples of creeping Islamisation, they say. For some secularists the planned new restrictions on booze—it cannot be sold in shops between 10pm and 6am, and producers can no longer advertise—were a tipping point.

What angered them most was Mr Erdoğan's reference to "a pair of drunks". "Why are their laws sacred and one that is ordered by religion [Islam] deemed objectionable?" he asked in parliament. He was assumed to be referring to Atatürk and his successor as president, İsmet İnönü. "How dare he insult our national hero? Without Atatürk there would have been no Turkey," said Melis Bostanoglu, a young banker among thousands marching in Baghdad Avenue, a posh secular neighbourhood on Istanbul's Asian side.

Politics a la Turca

The protests show that Turkey's political fault lines have shifted. Scenes of tattooed youths helping women in headscarves stricken by tear gas have bust tired stereotypes about secularism versus Islam. Many protesters were born in the 1990s—reflecting the bulge of teenagers and twenty-somethings in the population. As many women as men were among them.

These people have no memory of the bloody street battles pitting left against right before the army took power in 1980, nor of the inept and corrupt politicians who drove the economy into the ground in 2001. Their views are shaped by Twitter and Facebook; they have higher expectations than their parents. "Being respected is one of them," said Fatmagül Sensoy, a student. Mr Erdoğan "tells us how many children to have [three], what not to eat [white bread] and what not to drink," Ms Sensoy complained.

Her generation cares as much about animals and the environment as about smartphones. They set up hotlines for stray cats and dogs injured in the clashes and cleared litter after each protest. They fended off vandals who sought to hijack the events. And they marched alongside "anti-capitalist Muslims", an umbrella group for devout young Turks disgusted by the government's pursuit of commercial gain at the expense of the environment, and, worse, of its Islamic credentials.

To all of them, Mr Erdoğan's grip seems as unshakable as it is stifling. This is because AK has no credible opponents. The struggle between old-style Kemalists and modernisers led by Mr Kilicdaroglu (an Alevi) continues to hobble the CHP. This may explain the perverse dismay the opposition felt when the government em-

barked on a peace process with the Kurds, who pose the only serious challenge.

The slavish media have nurtured Mr Erdoğan's sense of infallibility. Eager to curry favour, media bosses continue to fire journalists who criticise the government. The craven self-censorship plumbed new depths when the protests broke out. The mainstream news channels chose to ignore them, broadcasting programmes about gourmet cooking and breast enlargement instead. Infuriated protesters marched on the offices of Habertürk, a news channel. "Sold-out media," they shouted, as ashen-faced reporters peered out of the windows.

Mr Erdoğan intends to stick around. He has long wanted to succeed Mr Gül as Turkey's first popularly elected president next year (hitherto incumbents have been chosen by parliament). Not only that: he wants to enhance the powers of the post "a la Turca", as he puts it, enabling the president to dissolve parliament and appoint the cabinet. The protests have put a damper on what was already a fading prospect.

They may also hobble the effort to create a new democratic constitution, in place of the one written by the generals after the 1980 coup. Crucially, the new document might guarantee the rights of the Kurds. A parliamentary commission has made little progress, because the opposition parties keep throwing up new hurdles—objecting to the removal of references to Turkish ethnicity, for example, and to education in Kurdish. Even before the protests there were signs that Mr Erdoğan would defer the constitutional question until after local elections next March. He will now be even warier of alienating his nationalist base by mollifying the Kurds.

Such stalling might jeopardise peace. Abdullah Öcalan, the imprisoned leader

of the outlawed Kurdistan Workers' Party (PKK) has been co-operative, renouncing demands for independence, declaring that the days of armed conflict are over and calling on the PKK to withdraw to Kurdish-controlled northern Iraq. Organised Kurdish groups have been glaringly absent from the protests, a sign that they do not want to put the peace talks at risk. But their patience may wear thin. This week there were reports of clashes with the army on the Iraqi border, the first since the PKK announced a ceasefire in March.

Erdoğan's move

For the first time since he came to power, Mr Erdoğan looks vulnerable. This may encourage Mr Gül to make a bid for his job: under AK party rules Mr Erdoğan cannot run for the premiership again. It is no secret that he would prefer a more malleable ally for the post, to retain his control over AK and the country after he leaves it.

The protests continued as *The Economist* went to press. But, when they end, there will be many uncertainties. What if Mr Gül decides to stand for a second term as president? Both the CHP and the far-right Nationalist Action Party would support his candidacy, as would Turkey's most influential cleric, Fethullah Gülen. If he did, and stayed on, Mr Erdoğan would be left with neither of the top jobs.

Mr Erdoğan may be a natural autocrat but he is also pragmatic. Time and again he has pulled back from the brink. The Taksim rebellion is his biggest challenge so far. If he can swallow his pride and make real amends, Mr Erdoğan could yet repair much of the damage. But polarising the country is in his nature. If that continues, a decade of economic and political stability under the AK party may yet come to a pitiful or even tragic end. ■



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Black sheep in the crimson dome

BUDAPEST

Viktor Orban is once again accused of dismantling the rule of law in Hungary

WHEN Viktor Orban ran Hungary for the first time, between 1998 and 2002, he made a name for himself as the best prime minister Hungary had had since the end of Communism. He was a moderate, centre-right reformer who worked hard to get his country into NATO and the EU. Young, visionary, charismatic and incredibly dynamic, he was our John F. Kennedy, says a foreign-ministry official.

So when the *wunderkind* of Hungarian politics returned to power with a landslide victory in April 2010, expectations were high, both at home and abroad. But a different Mr Orban seems to have come back to the prime minister's office in the crimson-domed, neo-gothic parliamentary building on the bank of the Danube (pictured) in the centre of Budapest. Over the past three years Mr Orban has antagonised foreign allies, fallen out with friends and provoked alarm at the European Commission, the Council of Europe and the European Parliament. Now in his third year back in power, Mr Orban is close to becoming the pariah of the EU.

What caused this transformation of the still youthful Mr Orban? Judging from their patriotic, emotionally charged rhetoric, he and his circle of power feel they have an almost divine mission to reshape the country. Hungary never had a proper transition from Communism, they argue. It kept its 1949 constitution; its "lustration" (purging) law was weak and passed only belatedly. Moreover, Hungary was in a mess in 2010, with the economy close to bankruptcy and

a rudderless political system. "We had to save the country," says Peter Szijjarto, state secretary for foreign affairs. "We were on the edge of a cliff."

The government embarked on a legislative marathon, pushing through some 600 new laws to reform—and take control of—the media, health care, education, pensions, agriculture and the judiciary. Most controversially, it wrote a new constitution that came into force in January 2012. "We were fast and bold and did not explain enough," says Reka Szemerkenyi, Mr Orban's security adviser. "The pressure for change was strong."

Now the government's public-relations machine is trying to rectify what it sees as a giant misunderstanding of its reforms. The dizzying speed of the legislative avalanche caused consternation in Brussels, Wash-

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ington and at various international bodies. Even the pugnacious Mr Orban seemed taken aback by the flood of international criticism that followed. He has made concessions on some controversial changes, such as the premature retirement of judges. But he is ploughing ahead with others. At the end of May, parliament passed a law that increases surveillance of high-level public officials and drops the requirement of court approval for such snooping.

Mr Orban has a keen understanding of how the Communist state worked, according to Kim Lane Scheppele, a constitutional-law expert at Princeton University. In her view Mr Orban is recreating the Communist model of governance, with his increasingly intrusive party infiltrating the state. "Orban is putting his people everywhere," is a constant lament in Budapest.

Violating EU values

The EU is stepping up the pressure on its most controversial member. Last month the European Parliament released a draft report concluding that the most recent amendment to the Hungarian constitution, which parliament passed in March, violates fundamental EU values. Others echo these concerns. On May 16th Human Rights Watch (HRW), an international watchdog, said that the Orban government's changes weaken legal checks on the government and undermine the protection of human rights. HRW was especially critical of how the government has clipped the wings of the constitutional court, which lost its prerogative to review the substance of constitutional changes. "There is no clearer example of the Hungarian government's contempt for the rule of law," according to HRW.

The government justifies many of its actions on the grounds that its overriding goal is to pull the economy out of its quagmire. It has made some progress on public



finances. It has cut the budget deficit from 4.3% of GDP in 2010 to 1.9% last year, and the public debt from 82% of GDP to 79% over the same period. A ceiling for the public debt of 50% of GDP has been written into the new constitution. The economy grew by 0.7% in the first three months of this year compared with the previous quarter. On May 29th the European Commission recommended that Hungary leave the Excessive Deficit Procedure, a doghouse for profligate EU members.

But compared with the same period last year, the economy shrank by 0.9% and investment plunged by 8.7% in the first

quarter, according to the national statistics office. One of Europe's highest bank taxes, an unstable regulatory framework and exceptional corporate levies to bring down the budget deficit are scaring away foreign and domestic investors. Only 58% of adult Hungarians are employed, compared with an EU average of 65%.

As central Europe's biggest debtor, Hungary desperately needs support from foreign investors, yet they are spooked by its political risks. Continued economic stagnation will probably do more than international finger-wagging to turn the public against Mr Orbán. Polls suggest he will win

an election next spring, but is likely to lose the parliamentary supermajority that has allowed him to make radical changes.

Hungary's European partners could reach for sanctions, such as chucking Mr Orbán out of the centre-right European People's Party, the EU's biggest political family, or suspend Hungary's voting rights in the European Council. Yet those measures risk increasing support for Jobbik, Hungary's xenophobic, anti-EU party, which won 17% of the vote at the last elections. Mr Orbán's foreign critics might do better to wait for economic woes to do the work of curbing, if not ending, his rule. ■

Urban planning in France

Global ambitions v green concerns

PARIS

A fuss about the planned expansion of Roland-Garros

WHEN the finalists at the French Open take to the clay court on June 8th and 9th, they may be witnessing the end of an era at the Roland-Garros stadium. The French Tennis Federation (FFT), which organises the grand-slam tournament, is awaiting a court ruling on whether it can expand the site. But the project has kicked up a big local fuss, and exposed the rival aspirations of well-heeled locals, green activists, sporting professionals and those who want Paris to be a world city.

Other grand-slam venues have already had an upgrade. Melbourne and Wimbledon each have a retractable roof on the centre court. The US Open has the vast Arthur Ashe stadium at Flushing Meadows. On the fringe of the capital's chic 16th arrondissement, Roland-Garros has the charm of Paris on its doorstep, but sits on a cramped site. Its centre court, built in 1928, has no roof. Last year the men's final, won by Rafael Nadal, was played over two days because of rain.

Anxious to keep the French Open's status as one of the best tournaments in the world, the FFT has been seeking better premises for a while. A previous extension plan was rejected. The federation then ruled out far-fetched proposals to move outside the capital. Today's project, first approved by the Paris city council in 2011, then rejected in the courts in March this year, would expand the Roland-Garros site by 50% to 12.8 hectares (31.6 acres), with a new court in the next-door botanical garden and a retractable roof built over the existing centre court. If approved, building work would begin next year, stopping each year for the tournament, and should finish by 2018. It would cost €340m (\$444m).

Enraged local residents' groups fear worsening traffic, crowds and noise.

They deplore the prospect of "yet more concrete" on an historic site that squats on the edge of the Bois de Boulogne, one of the capital's green lungs. They say the botanical gardens, with their 1898 greenhouses, will be "vandalised" by a "new temple to sport-business". Although Bertrand Delanoë, the Socialist mayor of Paris, backs the project, the capital's influential Greens rejoiced when the court blocked the plans.

The FFT retorts that the historic greenhouses will be untouched, as will most of the gardens. Stung by losing the Olympics to London, Mr Delanoë is keen to keep Paris on the sporting map. Officials are hoping to win broader public support by stressing the need for the capital to remain a showcase for French excellence. "There are not too many things that are working well in this country," says Gilbert Ysern, the director of the French Open, with a wry smile, "and this tournament sends a positive image of our country worldwide."



A cross-court backhand?

German politics

Princeling in trouble

BERLIN

Thomas de Maizière fights for his political life

ANGELA MERKEL may be personally popular in Germany and favoured to remain chancellor after the parliamentary election in September. But she and her centre-right political camp are starting to face a different problem. No obvious talent is coming up behind her from which to draw a potential successor. One by one, her hopefuls have fallen by the wayside, failing in local elections or resigning amid scandals of one kind or another.

One of the few left is Thomas de Maizière, who became defence minister in 2011 after his predecessor, Karl-Theodor zu Guttenberg (another former princeling), resigned when plagiarism was discovered in his doctoral dissertation. Descended from French Huguenots who migrated to Prussia, Mr de Maizière embodies an untheatrical commitment to public service. His father, Ulrich, once led the West German armed forces. His cousin Lothar was the last leader of East Germany. While advising Lothar in the throes of unification, the (western) Thomas met the (eastern) Mrs Merkel, who was Lothar's spokeswoman. They have remained close ever since.

On June 5th, Mr de Maizière testified, behind closed doors, to the defence committee of parliament. At issue was his role in a deal, inherited from predecessors and cancelled in May, to buy an unmanned aircraft, or "drone", from Northrop Grumman, an American defence company, and EADS, a European firm. Modelled on the Global Hawk, a reconnaissance drone used by the American army, the German version is called Euro Hawk. In 2007 parliament allocated €431m (\$591m) for a test drone and four more to follow.

As is now becoming clear, there were concerns right from the start. The main one ►►



Will she back her loyal follower?

was safety. What would happen if a Euro Hawk lost contact with its pilot on the ground? To prevent collisions with other aircraft, it needed “sense-and-avoid” technology. Without it, the Euro Hawk would not even be allowed to take off in densely populated Europe. (The American army, enjoying emptier geography, simply blocks the surrounding airspace when launching such drones.)

But this technology was missing, as a report to Mr de Maizière’s aides in the defence ministry warned in February 2012. The same briefing estimated the additional cost of bringing the Euro Hawk into compliance at €250m-600m, with no guarantee of success.

Mr de Maizière says that he was first informed that the project was untenable on May 13th of this year, and that he pulled the plug the same day. The question is thus why it took so long for him, a master bureaucrat, to find out. He now promises “consequences”, which are to include regular updates about risky projects. Once all the details of the Euro Hawk fiasco have become clear, he said, he might fire somebody. He insists that cancelling the project was the “right decision at the right time, which came about in a wrong way”.

Whether Mr de Maizière can stay in his job will ultimately depend on whether Mrs Merkel thinks that his troubles could hurt her in the election (she is not sentimental about these things). He is due to report again to the defence committee on June 10th. For now, he is sticking to his characteristic brand of unwhining Prussian dedication to duty. In Brussels this week to address NATO, he said that Germany remained committed to pay its share for the Global Hawks ordered in an unrelated deal by NATO, because his country is a reliable ally. ■

Balkan war-crimes

Winding down with a whimper

The controversial recent judgments of a tribunal in The Hague

THE International Criminal Tribunal for the Former Yugoslavia (ICTY), which was set up 20 years ago, is winding down amid controversy. Recent judgments have shocked supporters of the tribunal and left many in the former Yugoslavia stunned. Refik Hodzic, a Bosnian and former spokesman for the ICTY, says that it is no longer “our court” and that it is now undergoing a “baffling self-destruction”.

On May 30th the tribunal in The Hague acquitted the former head of Serbia’s secret police and his right-hand man. The judgment offered great detail about the various militias they had formed, trained and financed and the crimes these had committed, but argued that there was no evidence that the accused had ordered these crimes. A day earlier six Bosnian Croats were convicted. Direct links between them and their crimes had been established.

Eric Gordy of London’s School of Slavonic and East European Studies says that the standards for convictions have changed in the last few months compared with earlier judgments. It is no longer enough “to have provided the resources to have committed a crime...you needed

specific knowledge of it”. According to a court insider, some people already jailed would not have been convicted under the court’s new doctrine. He added that the latest judgments will have consequences for the future of international justice because they have weakened the criteria for holding political leaders accountable, especially if the crimes were committed abroad.

The tribunal did not convict a single person who was an official of the Serbian or Croatian governments for a crime committed in Bosnia. Only four members of the Yugoslav armed forces were convicted of atrocities perpetrated in Croatia and no Croats for crimes committed against Serbs in Croatia. So the judicial record does not match the historical record, according to Mr Gordy.

In all, the tribunal indicted 161 people. So far, 69 have been convicted, 18 acquitted and 13 sent home for trial. Proceedings are unfinished in 25 cases. Three of them are particularly prominent ones: those of Radovan Karadzic, the wartime leader of the Bosnian Serbs, Ratko Mladic, his military chief and Goran Hadzic, a former Croatian Serb leader.

One thing the tribunal has done will be of lasting value. It has created the most complete archive of witness testimonies of any war that has ever been fought. Its archive contains 1.6m pages of transcripts. That of the prosecutors has 9m pages of documents, orders and intercepts. The testimonies of some 4,500 witnesses have been preserved for history. So the tribunal’s verdicts will not be the last word. ■

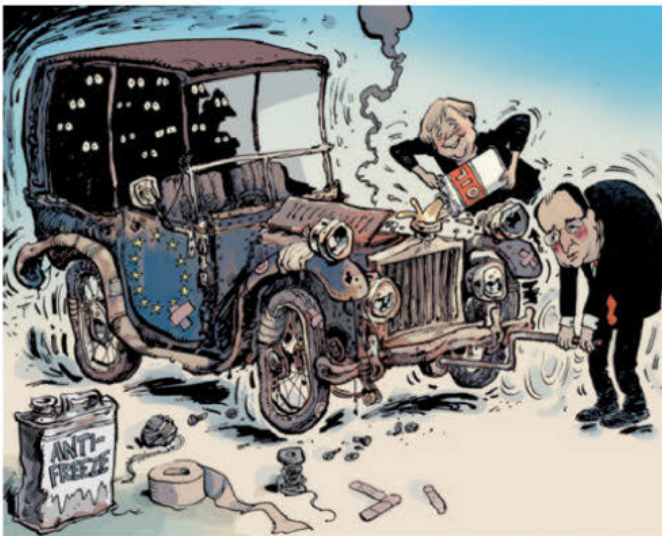


Floods in central Europe

Rising waters from the Danube and other rivers have inundated parts of Germany, including Grimma in Saxony (above), Austria, Switzerland and the Czech Republic after days of heavy rainfall. Tens of thousands of people were evacuated as the worst floods in a decade continue to cause chaos throughout central Europe. At least 15 people have died. A raging flood in the Elbe river that earlier inundated parts of Prague (its Vltava river is a tributary of the Elbe) was heading north, threatening Dresden, whose centre was only recently restored after the last flood.

Charlemagne | Crank up the motor

The Franco-German partnership has spluttered back to life. This time that may not necessarily be good



ANGELA MERKEL and François Hollande have broken the ice. Relations between the German chancellor and French president started frostily when Mr Hollande was elected last year, and became still chillier of late. They gave up the practice, common in the past, of cutting deals ahead of European summits. But now, as if to make up for lost time, they have drawn up a ten-page declaration in the run-up to the summit starting on June 27th.

Has the Franco-German motor restarted? To cynical Eurocrats, the partnership was always, in part, about hiding German strength and French weakness. With Germany unusually powerful and France unusually feeble, a long paper may provide the perfect cover. Pledges to fight youth unemployment are easy to make. But the tone of contempt for the European Commission will worry many smaller member states.

To many, the declaration is a German victory on substance and a French success on future form. Germany has delayed key moves in the creation of a banking union, especially an accord on the euro zone's rescue fund to recapitalise troubled banks, until next year, well after the German general election.

In return, France won support for stronger "economic governance". There would be more summits of the 17 euro-zone leaders; a permanent president of the Eurogroup of finance ministers; and euro-zone-only meetings of other ministers, for example, of labour, industry and social affairs. This is all part of a peculiarly French obsession with creating a smaller, more exclusive and more overtly political Europe—to the exclusion of non-euro states such as Britain.

French and German officials claim to have made a breakthrough in setting up the pillars of a banking union by the middle of next year. The aim is to stop crippled banks and weak sovereigns from pulling each other down by creating European bodies to oversee the banks and deal with those that go bust. The issue boils down to two questions: Who decides? And who pays?

A euro-zone supervisor will begin work next year. But it is of limited use unless backed up by a European "resolution" body with the power to wind up or restructure crippled banks, ideally with access to common funds (see page 65). The trouble is, Germany does not want to pay for other countries' mess. Officials say this would violate the EU's treaties and, even if these could be

bent, the German constitutional court would not wear it.

Thus a curious battle over terminology: the European Commission wanted a centralised resolution "authority"; leaders spoke of a "mechanism"; and Germany proposed a looser "network" of national resolution authorities and funds (yet to be created). The compromise drafted by Mrs Merkel and Mr Hollande speaks of a "board" involving national authorities. The declaration's next paragraph speaks of "an appropriate and effective private backstop arrangement". Here "arrangement" is in the singular, not in the plural, as in past EU documents.

Voilà! claim the French. With a single letter the Germans have crossed the Rubicon. They accept that they can be overruled by a European authority that can use pooled money (raised from the banks themselves). Not quite, reply the Germans. For a decade or more, the resolution fund will be short of money. Any bank wind-up will thus rely on the taxpayer. And the use of German cash will require a vote in the German parliament. Expect months of wrangling after the commission issues its formal proposal later this month.

And what of "economic governance"? Fiscal rules have been toughened in the crisis. The commission is charged with monitoring budgets and "economic imbalances". There are binding sanctions for rule-breakers, and the commission can recommend detailed reforms. As the recession has deepened, the emphasis has shifted from deficit-cutting to promoting structural reforms. But the commission is operating at the limit of its legal powers and of political acceptance. A plan to have countries sign "contracts" to enact reforms, perhaps in exchange for money, is stuck.

The commission's diktat

Last month France was delighted to be granted two more years to meet its deficit target of 3% of GDP. Yet Mr Hollande bridled when the commission urged him to overhaul pensions and cut spending as well as liberalise the economy. "The commission cannot dictate to us what we should do," he declared.

For the French, economic policy cannot be left to unknown technocrats in Brussels. Democratic legitimacy requires that its broad outline be debated and agreed by *les chefs*. Would pension reform be any more palatable if dictated by Mrs Merkel rather than by commissioners? Surely not. But among his peers, a French president is better able to block reforms he dislikes, or at least to trade them for concessions, such as harmonising taxes and adopting a minimum wage across the euro zone.

Most European countries dislike Franco-German stitch-ups, but are even more upset when the two cannot agree. If the euro zone is ever to be pulled out of the mire, the Franco-German motor must work. A compromise between France and Germany, because they are so different, usually wins the support of others. But not all agreements are equally desirable.

A good deal would see Germany agree to an effective banking union that pools at least some of the risks in the euro zone, while France accepts the need to liberalise its economy, deepen Europe's single market and drop barriers to international trade. The danger is that Mrs Merkel and Mr Hollande will strike a bad deal: create a half-baked banking union that fails to stabilise the euro zone, allows France to avoid necessary reforms and blunts the competitiveness of everybody else. That might be worse than no agreement at all. ■



The politics of cuts

Labour gets serious

The opposition's new spending plans leave the party tetchy, but more electable

ONE Labour Party parliamentary candidate describes a recent afternoon's campaigning with her parents in tow. A sceptical constituent asked whether she would stick to her promises if elected as an MP. "Well, she'd better," interjected the candidate's mother, brusquely. "Or I'll give her a right slapping."

Nationally, the party needs to convey a similar sort of discipline. Labour may lead the Conservative Party in the polls, but the public has gnawing doubts about it—no more so than on economic policy. When canvassed, people remember it spent too much when in government. And although faith in the Tories' economic management has tumbled since the 2010 general election, Labour has hardly gained. Rather, a growing number of people believe that neither of the major parties has a sound economic policy (see chart).

In two speeches Labour's leaders this week tried to confront this problem by promising fiscal responsibility and cuts. On June 3rd Ed Balls (pictured), the shadow chancellor, told colleagues to avoid promising new spending. Instead, they should plan to switch spending within and between the departmental budgets for 2015-16 that will shortly be set out in a Treasury spending review—one so tight that Tory ministers are howling with outrage.

The shadow chancellor left open the possibility of new borrowing, but only for investment in growth-boosting capital projects. He added that Labour would axe winter fuel payments to wealthier pen-

sioners—a small but politically totemic example of universal welfare. Two days later it transpired that the party no longer plans to reverse the government's decision to abolish child benefit for higher earners.

On June 6th Ed Miliband, Labour's leader, went even further by outlining plans to reduce the cost of housing benefits and to link welfare payments to contributions. Most startlingly, he also proposed a cap on structural welfare spending (the half of the bill that does not vary with the state of the economy). By the end of the week Labour's sacred cows—universalism, unstinting Keynesianism, the Fabian state—were, if not dead, looking peaky.

The party finds itself in an unlikely position. Against expectations of a vituperative meltdown after its 2010 election defeat—its second-worst result since 1918—the

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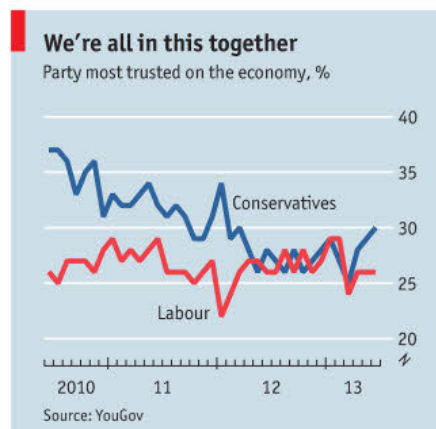
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mood has been civil. Its mid-term polling results may be mediocre given the weakness of the economy, but the party stands a good chance of forming the next government. The problem is that few know what Labour would do in power. Mr Miliband and his gurus talk grandly about a 20-year project to remake British capitalism.

Until now Labour has mostly resisted demands for detailed policies and fiscal plans. Partly it was trying to keep its options open. Partly, too, it was concerned for party unity. In January 2012 shadow ministers tentatively talked about "tough choices". Then the economy deteriorated and the unions (the source of two-thirds of Labour's donations) growled. So, until this week, it clung to safer ground, lambasting low growth and government cuts. But the public's lingering doubts—evident in polling and on doorsteps—have forced the party to demonstrate that it would grip the national purse-strings.

It will take much repetition and more detail for Labour's new message of fiscal continence to get through to the electorate. Peter Kellner, a pollster, compares the task to Mao Zedong's Long March. And the process will be fractious. Peter Hain, a former minister, voiced concerns about the party's lurch at a meeting of Labour politicians on June 3rd. He says colleagues approached him afterwards to say that they agreed. The trade unions have been less polite. The GMB, representing more than 600,000 workers, accuses Mr Balls of peddling a "fake Tory argument" on cuts.

But Mr Miliband and Mr Balls are moving in the right direction. Their speeches ought to shift the party away from knee-jerk opposition and towards a discussion about priorities: how to make tight budgets go further. Useful debates on public-service reform, infrastructure investment and a leaner welfare state will likely follow. That should make the party tetchier and less unified—but more electable. ■



Polish clinics

Another kind of health tourism

Health clinics for immigrant Poles reveal the NHS's shortcomings

THE first thing Polish immigrants brought to Britain, when the country opened its doors to eastern European workers in 2004, was an admirable work ethic. Gangmasters told stories about farm labourers picking cabbages at night, by the light of car headlamps. Then Polish delicatessens began to appear, selling herring and pierogi; then came Polish solicitors. But the Poles' most intriguing import, and the one that ought to cause native Britons to think hardest, is medical care.

Hard by the Hanger Lane gyratory, a grotty eight-lane roundabout in west London, is a quiet pioneer. The My Medyk clinic opened in 2008 and now has 30,000 patients on its rolls. The firm has opened a second branch in London and wants to open a third. Rivals are multiplying. Most of these private clinics contain dentists, general practitioners (GPs), paediatricians and gynaecologists. They have pulled off the remarkable feat of selling medical care to working- and middle-class people who could get it for nothing.

The National Health Service dominates British health care. Although private companies supply equipment, drugs and ancillary services and, increasingly, carry out medical care under contract, patients rarely enter into commercial relationships with them. Private health care is sold as a luxury for the affluent and usually only covers hospital treatment, not primary care—that is, visits to a doctor.

It is British primary care, however, that many Poles find wanting. Some prefer to see Polish-speaking doctors, although many who use the private clinics speak excellent English. More simply want better customer service than British GPs tend to provide, with their brief consultations and frustrating systems for booking appointments. And the immigrants are used to a different set-up. In Poland, as in much of continental Europe, GPs do not act as gatekeepers. Patients book appointments directly with specialists, who also perform procedures that would be classed as outpatient services in Britain.

"There was a gap in the market", explains Radek Przypys, manager of the Hanger Lane outfit. The clinics charge fixed fees, which are published on their websites, for consultations and treatments. This means that they rely on regular customers for revenue, and need to treat them well if they are to retain them. The clinics often invest in imaging and diagnostic equipment,

Posh fast food

On a roll

Britons are flipping out for fancy burgers

ON FRIDAY evenings diners seeking a table at MeatLiquor, a fashionable burger restaurant in central London, can expect to queue for an hour. For big groups the wait doubles. At nearby Patty & Bun the decor is less alarming but the queues are no shorter. Britons are in the greasy grip of burger mania.

Byron, a chain of posh burger diners, opened in 2007 on Kensington High Street, a ritzy bit of west London. It now has 32 branches and will soon open new ones in Liverpool and Manchester. Gourmet Burger Kitchen, another fast-expanding chain, has 59 restaurants from Brighton to Edinburgh.

In a slow economy few can stretch to

the finest caviar, but they can afford top-notch ground beef. Byron attracts people who would not dream of going to McDonald's, says Tom Byng, its founder.

Britons' appetite for fancy burgers reflects broader shifts. Since the financial crisis consumption of fish, fruit and vegetables has dropped; ready meals, particularly meaty ones, are up. Yet people are still eating out. It has consistently topped spending priorities after utility bills, says Helen Spicer, an analyst at Mintel, a market researcher. At restaurants people want reliable treats that are gentle on the wallet. Burgers are nostalgic and comforting, says Mr Byng. And dinner at Byron costs just £15 (\$23).

Many of the posh burger outfits started as pop-ups, allowing restaurateurs to test their products and build a customer base before renting an expensive property. Yianni Papoutsis, one of MeatLiquor's founders, started selling burgers from a van in south-east London. Even the restaurants are frugal. They have short menus, which are easier to do well. Fewer ingredients means less waste and heftier buying power. Restaurants can keep prices low while still turning a tasty profit. People eat fast, so turnover is high. Honest Burger, in London, can turn its tables as many as five times at lunch and seven or eight times at dinner. Full-service restaurants might manage one turnover at lunch and two at dinner.

Investors are now tempted by another meat, says David Campbell, head of the restaurants and bars team at BDO, a consultancy. There is little in the way of an upmarket Kentucky Fried Chicken. Might posh chicken have wings?



Southern bap test

such as ultrasound scanners (a 3-D pregnancy scan costs £95, or \$146). This is a booming business: more children in Britain are now born to Polish women than to women from any other foreign country.

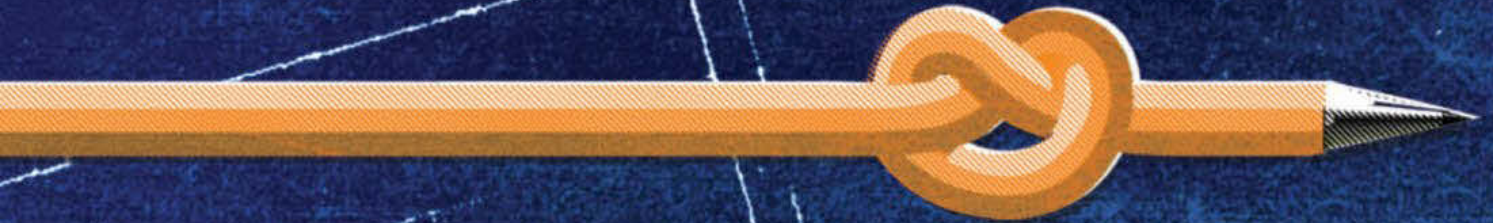
The clinics also reflect the famous Polish immigrant penchant for hard work. Krzysztof Zemlik, business development manager at the Green Surgery in central Manchester, which admits patients until 9pm or 10pm seven days a week, says that his surgery sometimes stays open until two or three o'clock in the morning. The My Medyk clinic successfully lobbied to be allowed to open on Sundays (it pointed out that taxi firms are able to do so).

Though set up to meet demand from Britain's growing Polish population, the clinics are trying to broaden their appeal.

Manchester's Green Surgery has Slovaks, Hungarians and, oddly, Portuguese on its books. Whereas the Green Surgery caters mainly to professionals, My Medyk's patients come from a broader range of backgrounds. Many of them are "people working on construction sites and cleaning people's houses," says Mr Przypys.

The clinics hope to expand by offering major procedures at private hospitals in Poland. They also believe they can convince Britons of ordinary means to pay for regular check-ups—something that is currently a lifestyle product aimed at the affluent. In short, they aim to improve British health care, doing to the medical market what Polish farm labourers did to England's fields. They may not succeed—but the attempt is worth watching. ■

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Bagehot | Gangland Britain

Britain has the gangsters it deserves, but not the police it needs



IT WAS 5am in the East End of London and the raid was about to begin. A dozen policemen hunkered tensely outside the target's address, a Victorian terraced house. There was some fidgety adjusting of visors and belt straps; then the front door was staved in. "Police! Police!" the officers bellowed as they charged inside, in full riot gear, two for each room and ready for a fight.

Word came back by radio: a young man of West African extraction, a suspected crack peddler, had been arrested. He was one of 14 alleged members of a local gang, the Maryland Bloods, being rounded up by the Metropolitan Police's anti-gang unit that morning. Two gigantic officers led him out. After trying to give Bagehot the bird—not easy with cuffed hands—he looked back and shouted: "I'll call you, mum!"

The raid was faintly thrilling and, on a warm summer morning, depressing. Your columnist was reminded of assignments in Iraq: the policemen's storm-trooper gear was much like the uniforms of the American soldiers he joined on night-raids there. Yet the police were unarmed (except for tasers) and much gentler. As the suspect was led away, they chatted to him gamely, presenting an image of the age-old kinship between coppers and crooks.

But in fact these days they have little in common. Until the 1980s London's gangsters and police were mostly white and rather traditional: crime and crime-fighting alike ran in families. A marginal class distinction—old cockney crime gangs such as the Krays and Richardsons were working-class; the boys in blue tended to be lower-middle-class—was the main difference between them. But while the coppers are much as they ever were, the criminals have changed. Britain's old-school gangsters have been swept away by prosperity, tougher sentencing and huge improvements in policing. Their successors are younger, more numerous and often black: they are the street gangsters who operate in almost every council estate and fair-sized shopping arcade. Trident, the Met's anti-gang unit, estimates there are around 250 gangs in the capital alone, selling drugs, carrying out muggings and sometimes stabbing each other. Gangsterism in Britain has become mundane.

What does this say about Britain? Some newspapers think it proves the country is going to the dogs, a thesis which any especially heinous gang-related crime tends to support. The butcher-

ing of a soldier, Private Lee Rigby, in Woolwich last month, was an extreme example: both the alleged killers are said to have been gang members at some point. The five-day riots that lit up London two summers ago were similarly blamed on gangs. Trident, a police unit formerly dedicated to fighting black gun crime, was re-assigned to gangs partly as a result.

Yet it transpired that gangs played only a small role in the riots, and in fact Britain is not going to the dogs. As in most rich countries, its crime rate has fallen sharply. This makes gang crime more conspicuous; the Met reckons it contributes a quarter of serious violence in London. But there is no evidence that it is growing.

Gang-related killings are also down, having spiked in the 1990s. That was due to a sudden influx of Jamaican gangsters, known as "Yardies", which sparked a drug war. By contrast, the street gangs are less desperate. Members of Trident seem almost keen to downplay them. At a debriefing after the raids, senior officers offered a nuanced analysis. Some gangs are organised, murderous and hierarchical—an efficient link between drug-traffickers and the street. But many are flatter, unfocused and ephemeral.

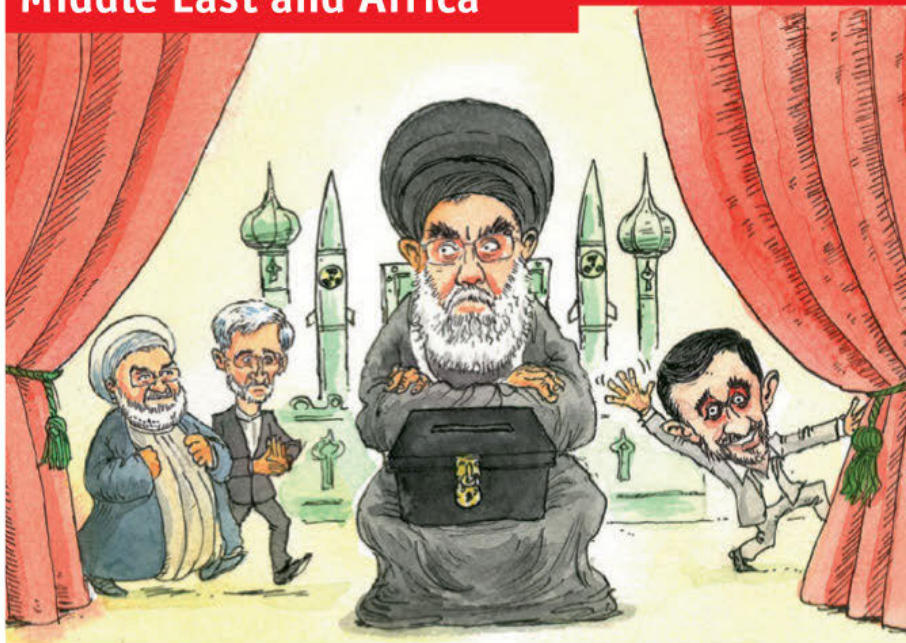
Take the Maryland Bloods, which Trident was alerted to by a nasty kidnapping case last year. It is thought to have around 50 members, but only a dozen are considered to be seriously violent. Most will probably never handle a gun. A group of alleged Bloods whom Bagehot later approached, outside a nearby shopping arcade where they were smoking cannabis, were rather unfriendly. But they were not obviously threatening. They would not have frightened the Yardies or the Krays. Transient, underemployed and culturally diverse, Britain's modern gangsters evade easy definition because they are, in fact, like a lot of British society. They are the gangsters Britain deserves.

Humdrum but nasty

This does not make it any easier for the victims of their crimes, including their own relatives. A few days after the raid, the father of the arrested man opened his broken door to your columnist. A hospital nurse, who had migrated to Britain in search of a better life, he looked as if he had not slept for a week. His son, he said, had previously been in trouble for cannabis possession and was rather secretive about his social life. Yet he was respectful to his elders and claimed to have a job. His parents had never suspected he was in a gang. "You never think", he said wretchedly, "that something like this could happen to your son."

Such everyday gangsters are also hard to police. Being identified as a gang-member can be a serious black mark, warranting a stiffer than average sentence for any crime. Yet stigmatising the gangs carries risks, of turning local louts into criminals, or petty criminals into serious ones, which the Met recognises. Its officers take pains to sort the ringleaders from the rest. Then they harry them, for serious crimes if possible; otherwise for unpaid television licences or uninsured cars. They also seek to undermine the hoodlums in other ways—including by stripping YouTube of the rap videos they post to taunt their rivals.

For all its successes, however, the Met is handicapped by its failure to keep pace with a changing society. In a city transformed by migration, 90% of its officers are still white. To tackle this problem, it is trying to persuade the government to institute an emergency and, under current law, possibly illegal positive-discrimination programme: there is talk of the Met being compelled to hire one non-white officer for every white one. In this rare case, that would be appropriate. ■



Iran's presidential election

You never know

TEHRAN

As eight carefully vetted candidates jockey for the presidency under the severe eye of the ruling clergy, it is by no means certain who will win

THE last time Iran had a presidential vote, millions took to the streets calling foul when the incumbent, Mahmoud Ahmadinejad, was declared the winner. Four years on, the Islamic Republic has not yet fully recovered from the ensuing political heart-attack. After a year of demonstrations and repression, the battle for Iran's future was won by Iran's conservative hardliners loyal to the supreme leader, Ayatollah Ali Khamenei. Their reformist rivals were sidelined: Mir-Hossein Mousavi, the thwarted reformists' favourite who claimed to have won the 2009 election, remains under house arrest, along with a fellow candidate, Mehdi Karroubi. Politics, even within the confines of the Islamic state, is as polarised as ever.

Now the reformists are pondering how to pick themselves up for another fight: the first round of the coming presidential poll, on June 14th. Eight candidates are running, following a purge of hundreds of other aspirants by the Guardian Council, a panel of clerics and lawyers, half of them appointed by Mr Khamenei. The council controversially barred a former president, Akbar Hashemi Rafsanjani, whom reformers would probably have backed, from running. Two reform-minded candidates remain: Hassan Rohani and Muhammad Reza Aref, both of whom stayed silent during the tumult after the 2009 poll. The reformists are mulling over whether to throw in their lot with one of them.

Their likelier choice is Mr Rohani. A 64-year-old clergyman who was educated partly in Glasgow, he was Iran's leading negotiator on nuclear affairs when the reform-inclined Muhammad Khatami served as president from 1997-2005. In the television debates featuring the candidates in the poll's run-up, he has criticised Mr Ahmadinejad for fiscal ineptitude and has bemoaned the country's stifling "security atmosphere". Mr Aref, educated partly in Stanford, California, shares much of Mr Rohani's world view and has said that "violations" occurred in the 2009 election. He has lambasted Mr Ahmadinejad for denigrating the protesters who called for reform as "dust and dirt".

But Messrs Rohani and Aref face formidable conservative opponents. Saeed Jalili, widely considered the front-runner, is a stalwart disciple of the supreme leader and is campaigning on the revolutionary rhetoric of "resistance" as well as traditional Muslim values. Though he lacks a base of his own, Mr Jalili, who wrote a dissertation on the Prophet Muhammad's foreign policy, is expected to win a big chunk of votes if Mr Khamenei openly endorses him. Rumours abound in Tehran that Mr Ahmadinejad may also at the last minute rally his dwindling loyalists to Mr Jalili's cause, perhaps to ensure that, if Mr Jalili were to get the job, there would be no risk of legal recriminations against the outgoing president as a result of his tempestuous

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eight years in office.

At a recent conservative rally, pious young voters inserted Mr Jalili's name into a famous revolutionary rhyme: "When Jalili comes, the scent of Velayat comes too!" That was a laudatory reference to *Velayat-e Faqih* ("Guardianship of the Jurist"), the Islamic Republic's basic tenet that assigns ultimate power to the supreme leader.

A coalition of three other conservatives includes Tehran's popular mayor, Muhammad Baqer Qalibaf, whose name has been scrawled over several of Mr Jalili's posters in downtown Tehran. A self-styled technocrat, he compares himself to Amir Kabir, Persia's modernising 19th-century chief vizier, who was killed by the ruling shah.

Mr Qalibaf is the most unpredictable of the conservative candidates; he was slow to come out against the protesters in 2009. He even said there were more than 3m of them at the silent protest held that June, a much higher figure than the official tally. But in recent months he has been faithful to the ruling establishment, imbuing his language with Islamic references and expressing reverence for Mr Khamenei. By the by, he has emphasised a need to speed up Iran's internet connections—which have been slowed down in the run-up to the election to make it harder to visit uncensored foreign news sites.

The second bigwig in the conservative coalition is Ali Akbar Velayati, foreign minister during Iran's long war with Iraq (1980-88) and a long-serving foreign-policy adviser to the supreme leader. His base is among the *motalefeh*, rich merchants from the bazaars. Since Mr Jalili registered his candidacy—rather late in the day—Mr Velayati's chances have dipped. But some say that Mr Jalili may be merely a stalking horse for Mr Velayati, the supreme leader's real choice.

The candidates have divulged only mi- ▶▶

nor details of how they would handle Iran's long-running nuclear negotiations with the West; in any case, it may not be the topic foremost in voters' minds. Mr Jalili promises to resist the big powers' demands, whereas Mr Rohani says he wants to get on better with the West without weakening Iran's negotiating stance. All the candidates are solidly behind the government of Syria, Iran's most vital regional ally, in its civil war.

The ruling establishment has yet to declare its clear preference for a candidate. On a state-run television channel Mr Khamenei said that the next president should "tenaciously resist pressure from enemies", a presumed reference to nuclear talks with the West.

Conservatives chastise Mr Rohani for having co-operated with European governments in 2003 to suspend nuclear enrichment. Mr Khamenei himself publicly deplored those concessions. When questioned on the issue in a television inter-

view, Mr Rohani hotly replied, "What you said is a lie, you know it's a lie. Maybe... the person speaking to you in your ear-piece doesn't know it, but you know it."

Because many reformists are still licking their wounds from their disputed loss in 2009, they might be reluctant to vote at all. But a low turnout would probably help the hard men. Still, the vigorous campaigns of Messrs Rohani and Aref, which seem to have been revitalised by the rejection of Mr Rafsanjani's candidacy, may be gaining more momentum than expected.

So reform-minded Iranians may turn out after all. And it is possible that divisions between the conservatives over who should bear their standard might let a reformer slip through to the second round a week later, in the event that no one gets a first-round majority. Moreover, experience suggests that it is unwise to make heavy bets on Iran's presidential poll, however assiduously the ruling circle may try to orchestrate its outcome. ■

Libya's oil

Gurgle and splutter

After an initial recovery in output, oil prospects are dipping

BOTH sides in Libya's civil war knew they would need to sell oil again fast once the conflict was over. So for the most part they took care not to ruin the energy infrastructure. For example, while fierce fighting was devastating the western town of Zawiyah, the large oil refinery to its north lay idle but untouched by war, its workers still able to have lunch in the canteen.

By mid-2012, less than a year after Muammar Qaddafi's demise, Libya's oil production, almost entirely switched off during half a year of ferocious fighting, had regained its pre-war level of about 1.5m barrels a day (b/d)—years earlier than expected. Proudly, Libya's new leaders said output could soon rise to 2m b/d or more. The oil minister, Abdelbari Arusi, promised a new hydrocarbons law and an auction of leases for unexplored territory to foreign oil companies. Libya's oil reserves, at 47 billion barrels, already Africa's biggest, could—it was said—increase by another 10 billion.

But Libya's political chaos is, alas, spreading to the oil industry. Workers and militias now often disrupt production at energy installations, forcing the government to give them money before they will switch the valves back on. In late May protesters shut down the Feel oilfield in Libya's south-west. Tobruk, Ras Lanuf, Zueitina and other ports from which oil is exported have been afflicted too. Mr Arusi said recently that protesters had cost his country \$1 billion in lost revenue.

If only the government had offered decent jobs to disaffected locals and former fighters last year, things might be better today. Now it may have to resort to force to stop the rot, which could then create even worse chaos. The government is still struggling to bring an array of unruly militias to heel.

Oil people say bureaucracy is stifling recovery, as decisions get shuffled between the state-controlled National Oil Company (NOC), the oil ministry, and Ali Zeidan, the prime minister. The Arabian Gulf Oil Company, better known as Agoco, a part of NOC that operates in Libya's east, has for 15 months been unable to replace crucial power-generation equipment at its Sarir and Mislal oilfields. Output there will probably soon drop from 380,000b/d to around 300,000b/d, says one insider: a loss of \$8m a day at current oil prices.

Foreign firms, unsettled by sporadic violence and an attack in January by jiha- ▶▶

Iran and alcohol

Wet and dry

TEHRAN

It's enough to drive you to cheaper forms of drink

THE middle-class northern suburbs of Tehran are the wet part of Iran. In no other place in the Islamic Republic are piety and conservatism less evident and alcohol consumption more so. But a run on the rial throughout 2012, set off largely by international sanctions on Iran's banking and oil, has made imported alcohol too expensive even for the better-off. Absolut Vodka, long a favourite tipple, now changes hands for three times more than it did before the currency began to slide at the start of last year.

This has been a boon for Iran's Armenian bootleggers, who distil *arak*, a cheap and heady moonshine, from raisins. Posh drinkers of the better brands of whisky and brandy, who would previously have been snooty about *arak*, are now turning to it, because its price has stayed fairly stable at around 100,000 rials (less than \$3) a litre. "Business is great right now," says an *arak* dealer. "Many of my Armenian friends have left for America but they all now say business is better here."

Alcohol is strictly prohibited for Muslims in Iran. Repeat offenders can even face the death penalty. But Iran's Armenians, who are Christian, are allowed to quaff booze, though those caught selling it in large amounts are regularly thrown into prison.

Unregulated, home-brewed drinks can be dangerous. The media often carry stories of deaths caused by imbibing industrial alcohol or the sawdust that can



Absolutely disgraceful

get into home-made stuff. "If your dealer isn't Armenian don't even think about getting it," explains a student. This week six people were reported to have died and more than 350 fell ill in Rafsanjan, a city south-east of Tehran, after drinking from a bad batch.

Abbas Ramezanijad, a prominent local imam, said that there may have been more to the incident than meets the eye. A "plot to defame" the city was connected, he said, to Iran's coming presidential poll. On the very day the victims of alcohol poisoning fell ill, Akbar Hashemi Rafsanjani, the former president who hails from the place, was controversially blocked from running for the presidency.

disturbances on a gas plant in neighbouring Algeria, close to its border with Libya, are not rushing to send their people back. BP, a British oil giant, which was ready to begin fresh drilling when the uprising started, recently withdrew more of its foreign staff. It has not said when work will begin again.

Before an auction, Libya needs to provide new geological information. But none of the oilfield-services firms that could acquire fresh seismic data is doing so. A new oil law, meanwhile, needs a consensus in the General National Congress, Libya's proto-parliament. But its speaker, Muhammad Megarief, was forced to resign last month after a law was passed to purge anyone who had served in a senior post in Qaddafi's regime—even though he defected from his post as an ambassador more than 30 years ago.

To pacify eastern Libyans, who have tended to feel done down by the country's new rulers, who hail more from the west, the government plans to move NOC's headquarters from Tripoli, the capital, to Benghazi—a city the American and British governments advise their people to avoid because of the persistent menace of uncontrolled militias there.

So the initial optimism over oil is fading. Libya will struggle to keep output stable, let alone increase it. This will disappoint oil traders who prize the country's high-quality crude. But it is much worse for Libyans. The IMF says oil and gas account for 70% of the country's GDP and 95% of its exports. Despite the resumption of oil production and a sharp rise in GDP last year, Libya's economy has yet to get back to its pre-war size. ■

Qatar

Democracy? That's for other Arabs

DOHA

Rumours of a change at the top do not include moves to democracy

IN AN emirate presenting itself as the face and financier of regional reform, Qataris could be forgiven for asking when they may taste at home what their leaders preach abroad. Political parties are banned in Qatar. So are demonstrations, trade unions and associations dealing with public affairs. Consultative-council elections first promised in 2004 and again with royal pomp a year ago have yet to happen. Almost no one in Qatar openly suggests that the council should have legislative power. When people express the sort of dissent that Qatar's state-owned Al Jazeera television channel encourages in broadcasts across the Arab world, they do so in whispers, always off the record, at home.

Many Qataris take pride in the leadership their city-state has played in the Arab awakening over the past two years. But some now question whether the emir, Hamad bin Khalifa al-Thani, is frittering their wealth away on foreign ventures. "What have billions bought us in Syria?" mumbles a Qatari official. "We've failed to bring down Mr Assad and left 4m Syrians homeless." Others in an emirate long loyal to a puritanical Wahhabist version of Islam wonder why they are helping the troublesome Muslim Brotherhood abroad.

Similar mutterings are being more often heard about where the money for the grandest public projects or foreign investments ends up. "They could have got it for half the cost," tweeted one Qatari, after the government announced it was allocating \$40 billion to a rail network in time for the football World Cup in 2022. With no public forum for consultation and no openness about the oil wealth the ruler regards as his own family's, criticism, such as it is, gets aired in the *majlis*, the gatherings held by members of the ruling family in their homes. More outspoken, however, are the comments posted online in chat rooms.

In an economy with a GDP of \$183 billion, average income is \$100,000 a year for Qatar's 1.9m people, but that includes migrant workers, mostly from Asia, many of them paid a pittance. The 12% who are citizens get far more. Qataris have—in effect—jobs for life, pay no tax, and enjoy free education at top foreign universities. They have also been getting repeated pay rises.

But the emir can break as well as make. Unlike Dubai, where the private sector has a pretty free rein, Qatar's economy is largely command-driven. The emir dishes out land to his subjects to put up shiny tower



Is the emir saying hello or goodbye?

blocks, then rents back the office space. Step out of line, and you lose your tenant.

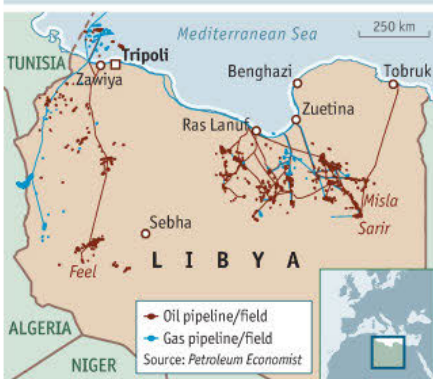
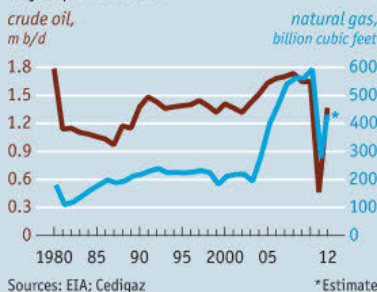
As the wind of democratic change blows across the region, Qatar, like its fellow Gulf monarchies, has grown twitchy, especially about internet bloggers and social-media posts. A book entitled "The people want reform in Qatar too" by a Qatari academic, Ali Khalifa al-Kuwari, who organised monthly salons to promote his vision of "a genuinely democratic Gulf federation", has been banned. For allegedly "inciting the overthrow of the regime", Muhammad al-Ajami, a poet, was sentenced in 2011 to life imprisonment, later reduced by the emir to 15 years. Academics and students at branches of Western universities and think-tanks opened in Qatar take care not to speak out of turn.

Now there is talk that the emir, who ousted his father in a coup 18 years ago, may hand effective power to his 33-year-old son, Crown Prince Tamim. One of 24 siblings, he already features more prominently in the official press than his cousin the prime minister, Hamad bin Jassim al-Thani. Some say the younger man may take over as premier. Others suggest the emir may formally abdicate, allowing for a constitutional succession.

It is uncertain what difference Tamim would make if he took over. Most of the other monarchs in the Gulf have frowned on the emir's fondness for the Muslim Brotherhood, which most of them regard as a menace. Qataris who know the Sandhurst-educated prince think he may be more Islamist than the prime minister. His most public act to date has been to switch the main language of tuition at Qatar University from English to Arabic. Behind the scenes he is said to be trying to boost the Muslim Brothers in Libya. Do not expect a sudden drive to democracy. ■

Swishing around

Libya's production of:



The Syrian civil war

A turning point for Bashar Assad?

The fall of Qusayr is a boost for the regime but far from decisive

THE COLLAPSE of rebel resistance in Qusayr near the Lebanese border on June 5th may not be the decisive battle of the Syrian civil war that supporters of Bashar Assad are claiming, but there is no denying its significance. The signs are growing that the regime has got a fresh lease of life by developing new offensive capabilities with its Iranian and Hizbullah allies. It may also be setting strategic objectives that it is increasingly able to achieve.

For the West, which has long assumed that however bloody and vile the conflict, there was little prospect of Mr Assad and his backers (Russia as well as Iran) prevailing, the fall of Qusayr should be a belated wake-up call. If it is not heeded, Qusayr could indeed be a turning-point.



In the first place, this was not one of those back-and-forth skirmishes that have characterised many of the clashes between armed groups on both sides. Qusayr and the area around it is of real strategic importance. It watches over the southern route through Homs province to the coast and to the regime's Alawite heartland. It has been a rebel logistics hub since falling to contingents of the Free Syrian Army last summer, enabling light weapons to flow through Lebanon's Bekaa Val-

ley and through another corridor from Tripoli, on Lebanon's northern coast. Its control by the rebels made it much harder for the regime to relieve the still fiercely contested nearby city of Homs, Syria's third-biggest, which commands the road from Damascus in the south to Tartus and Latakia on the coast.

Given the importance of its location, the regime's victory in Qusayr will give it both a psychological and a political boost, while hurting the rebels' morale. Both sides saw Qusayr as a battle that had to be won. It began in earnest nearly three weeks ago with an aerial and artillery assault on the town's 30,000 inhabitants, showing that Mr Assad's forces not only have overwhelming firepower but the command and control needed for a coherent and fairly complex military operation.

After softening up the town with a prolonged bombardment, Mr Assad's ground forces, supported by armour, began to seize ground, pushing rebel outposts into a compressed killing zone. Surface-to-surface missiles and frequent air strikes hit rebel shelters at the rear, preventing reinforcements or critical supplies, including medicine, from getting through. Out of a rebel force of 1,800 or so, at least 300 are thought to have been killed.

The new-found efficiency of Mr Assad's men may owe a lot to his Iranian advisers. Armoured units of Iran's Revolutionary Guard and other regular troops fought alongside Syria's recently formed National Defence Force, welded together from so-called "popular committees" of pro-regime paramilitary *shabiha* and trained by Iran's elite Quds Force. As well as about 6,000 regime soldiers, some 2,000 fighters from Hizbullah, the Lebanese Shia party-cum-militia that is sponsored by Iran, were thrown into the battle.

For all the West's attempts to create diplomatic momentum before the planned peace conference in Geneva, incentives for Mr Assad to compromise may diminish thanks to events on the battlefield. After the fall of Qusayr he may believe still more strongly that he can hold out and perhaps even vanquish the revolt. State media hailed the fall of the town as the first step in the reconquest of rebel-held territory. "The solution is the army, not dialogue," said Daren Nusra, a housewife in Damascus.

The rebels desperately need to start getting serious military support from the West in the form of precision modern weapons, such as portable anti-aircraft missiles and anti-tank guided weapons. Even they may not be enough unless accompanied by a no-fly zone in the north, where they could draw breath, gather strength and forge themselves into a more effective force with the help of Western military trainers. In their absence, Mr Assad, once widely deemed to be doomed, could survive for quite a time yet. ■

Churches in Israel

Christians luckier than Muslims

MAALUL

Christian Arabs who are Israeli citizens are getting some of their churches back

BLESSED are the meek. While Israel's 1.4m Muslim citizens vociferously champ for the right to return to the lands they fled in 1948, when Israel was created, the Christians, ten times fewer, have begun quietly tiptoeing back. In what was once the Galilee village of Maalul, Christians displaced to nearby Nazareth have carved a path through the forest of pine-trees that were planted to hide it, and have cleared the bracken to expose two churches, one Greek Orthodox, another Catholic, where they have begun celebrating festivals such as Easter.

Across the valley, in what was once the Palestinian village of Safuriya, renamed Tzipori by the Jews who moved in after the conquest of 1948, two Franciscan friars are renovating the dilapidated Crusader chapel of Qadissa Hanna, where they now say mass every Sunday. They hope to mend the roof to let a congregation regularly attend.

In the Arab village of al-Bassa on Israel's Mediterranean coast near the border with Lebanon, Wakim Wakim, a lawyer, has christened his children, Musa and Aden, the first baptisms there for six decades. The Archbishop of All Galilee, a Melkite Greek Catholic, has finally managed to register and thereby reclaim his church, where the farmers of Shlomi, a

Jewish town founded in 1950 on the ruins of al-Bassa, had stabled their goats. Catholics from the destroyed village of Ikriith, near the Lebanese border, have renovated their church, and continue to bury their dead in the cemetery.

Muslims complain that Israel's 125,000 Christian Arabs find it much easier to recover their holy places. Israel let the patriarchs stay after 1948, safeguarding their assets from new laws licensing the confiscation of property of "absentees" living in "enemy territory". But it confiscated Muslim religious endowments, arguing that they fell under the auspices of the chief mufti based in East Jerusalem, then under Jordan's enemy rule. Rolly Rosen, an Israeli expert on inter-communal relations, says Israelis find Christian Arabs less of a threat. "They are smaller in number and have Western backing," she says.

The army, which took much of Maalul's land including its Christian cemetery for a military base, has let Christians renovate churches and pray in them, but has prevented Muslims doing likewise with mosques. "It's a policy of divide-and-rule," says Rawan Bisharat, a Christian in Maalul. Banned from their mosque, some Muslims join the Easter service instead.

Ethiopia

Free to protest, just a bit

NAIROBI

Could political demonstrations in Ethiopia herald greater freedom?

A RARE flicker of political protest graced the streets of Ethiopia's otherwise regimented capital, Addis Ababa, on June 2nd. Demonstrators marched peacefully through the city, many carrying pictures of imprisoned loved ones. Later they gathered on Churchill Avenue, the capital's main thoroughfare, where they were told that a new struggle had begun. Yilekal Getachew, chairman of the opposition Semayawi (Blue) party, demanded the release of political prisoners and railed against unemployment and corruption.

Campaigners claim that as many as 10,000 people attended; government officials say the number was nearer 4,000. Whatever the true figure, it was the biggest demonstration in Ethiopia since 2005, when protests amid claims of election rigging were violently suppressed, leaving nearly 200 unarmed protesters dead and thousands arrested.

Since then the political opposition has been eviscerated. Its leaders have been jailed or have gone into exile, the media have been muzzled and the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) has acquired millions of new members. At the last election, in 2010, the party managed to get 99% of the seats in parliament. By the time he died last year, Meles Zenawi, who had been prime minister since 1995, had created a single-party

state in all but name. Little suggests that his system of "authoritarian development", which got the economy to grow faster at the expense of individual freedom, is now about to unravel.

Opposition numbers at the recent protest were swollen by Ethiopian Muslims who accuse the government of meddling in religious affairs. But turnout was still modest compared with the million-strong crowds of eight years ago. That may explain the government's muted reaction. It granted protesters permission to march, but with a week's delay to ensure they did not embarrass the new prime minister, Hailemariam Desalegn, while he hosted the summit that celebrated the 50th anniversary of the African Union and its forerunner. The police chose not to harass the demonstrators.

Fears that the post-Meles transition would presage instability have so far not been borne out. Some of Ethiopia's economic strains were evident in the protests, with complaints about joblessness and inflation. But the decision to allow the march to go ahead suggests confidence in the senior ranks of the ruling EPRDF rather than any concern that the regime will be swept away in a kind of "Ethiopian spring". Suggestions that the protest marks a sea-change in the country's politics may be premature. ■



Let our people out!

Driving in Nigeria

Time for a test

ABUJA

Why Nigeria's roads can be terrifying

"TRAFFICATE," says the driving instructor. "Traffi-what?" "Trafficate! Trafficate!" he reiterates, gesticulating to the left. It is a busy Tuesday afternoon in Abuja, the capital, and your correspondent is being given a lesson on how to drive—and indicate—in Nigeria.

Road accidents are Nigeria's third-leading cause of deaths. According to the World Health Organisation, the country has 1,042 deaths a year for every 100,000 vehicles, one of the highest rates of road fatalities in the world; the equivalent figures for the United States and Britain are 15 and seven.

Bad roads and poor servicing of vehicles are only partly to blame. Terrible driving is the main reason. In April 20 people were killed in the town of Potiskum in the northern state of Yobe because their bus was rushing to beat a 6pm curfew.

"Most people do not know how to drive and do not even know road signs," says the instructor, Sunday Nehemiah. Choked junctions are governed either by traffic lights that work only spasmodically, by a traffic policeman with a stick—or not at all, leaving drivers to battle it out as best they can. "Go-slows" (Nigerian for jams) can leave you stuck in traffic for hours; some drivers use the pavements to get past. Road rage is common, with drivers taking their attention off the road to glare at their opponent and issue him (more rarely her) with a menacing five-finger salute known as a *waka*. The horn is an essential feature of the Nigerian car, and drivers' thumbs permanently hover within range of it.

The Federal Road Safety Commission is at last making it compulsory for people to go to driving school and be tested before they gain a first-time licence. It was previously possible to buy one for around \$30, whether you had ever been behind the wheel or not. "Most accidents in Nigeria are caused by human error," says Mr Nehemiah. "People are always in a hurry."

As Nigeria's economy grows, the volume of traffic is expected to rise, from 8m vehicles today to 40m by 2020. Mr Nehemiah, who started in 2002 with only three students but now has the largest of the 27 accredited driving schools in Abuja, issues a booklet at the end of the lesson highlighting a section headed "Techniques of Defensive Driving". "You need to learn to drive the Nigeria way," he says breezily.



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The Mississippi Delta

Scratching a living

GREENVILLE

A shocking rate of depopulation in the rural South

THE imposing synagogue on Main Street in Greenville, with its classical portico, raised cupola and shimmering stained glass, was built in 1906 to accommodate several hundred worshippers. In a good week these days, a custodian says, 12 people show up for Friday service, and several of them are in their 90s. The four classrooms for religious instruction now cater to just three children. The rest of the Jewish community has died or drifted away to other, richer parts of the country.

It is not just Jews who have left the Delta, a fertile alluvial plain in Mississippi and adjacent parts of Arkansas and Louisiana. Since 1940, the region's population has fallen by almost half. In some counties it has fallen by much more (see map). That makes it the most glaring example of a growing trend around the country: rural depopulation. Over the past two years the total population of rural America has fallen for the first time since the Census Bureau began tracking it in the 1970s, albeit by just a fraction. The majority of rural counties—1,261 out of a total of 1,976—had shrinking headcounts.

Between 2000 and 2010 alone, Greenville lost 17% of its residents. In the poor black neighbourhoods that surround the centre of town, many of the decrepit “shotgun” houses are abandoned, their boarded-up windows and doors almost totally obscured by untended vines. The town centre itself is nearly as run-down, with more vacant shopfronts than occu-

pied ones. On the levee that protects the city from the Mississippi, the huge painted letters reading “The heart and soul of the Delta” are fading.

It is the same throughout the region. Sam Angel, a lifelong resident of Lake Village, the administrative and commercial centre of Chicot County, just across the river in Arkansas, says he can remember when the shops in town stayed open until ten o'clock at night on Fridays and Saturdays, to cater to the throngs of farm workers eager to spend their wages. Now there are not really any shops at all: just a phar-

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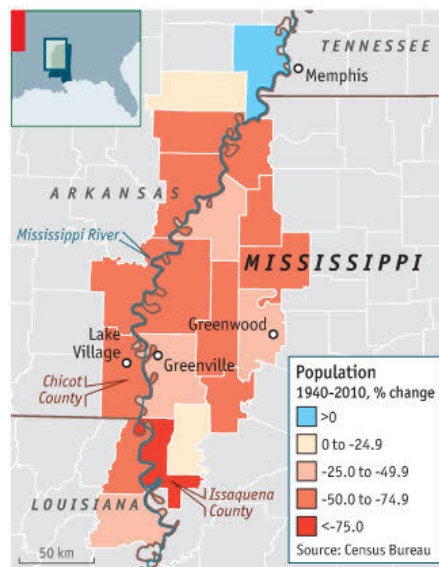
macy, two banks and a few law firms, along with the inevitable pawnbrokers and liquor stores.

The farm jobs have also disappeared, for the most part. Whereas hundreds of labourers would once have been needed to weed, pick and process cotton on the land his family owns, Mr Angel notes, machines now do almost all of that work. Mechanisation, coupled with a desire to escape back-breaking work in the fields, prompted the first wave of emigration, between the 1940s and the 1970s.

More recently local factories have been closing, overcome by foreign competition. Greenwood, another Delta town, lost piano, zipper and tyre factories, among others. Chicot County lost several catfish farms, a factory making catfish feed and another making gloves. The advent of several casinos, two on riverboats and one on dry land, brought some hope of revival to Greenville. But one of them recently closed and the others are bringing fewer visitors and less revenue into the city than residents hoped.

The Delta was already poor before these setbacks, a legacy of slavery. Issaquena County, which has suffered the most severe depopulation, had 7,224 slaves in 1860 and just 587 whites. Its total population today is 1,386. Their average income is just over \$10,000, half the level for Mississippi as a whole, and 40% of the population lives below the poverty line. The unemployment rate is 17%, more than twice the national rate. The entire county has ten private businesses (other than farms), employing just 99 people. Like the region as a whole, it suffers from low rates of education and high rates of obesity and diabetes.

“You can't out-poor the Delta,” says Christopher Masingill, joint head of the Delta Regional Authority, a development agency. In parts of it, he says, people have a lower life expectancy than in Tanzania; ▶▶



▶ other areas do not yet have proper sanitation. Persistently poor places, in turn, naturally experience high levels of emigration, says John Cromartie of the Department of Agriculture, as people leave in search of a better life. It is not just the lack of jobs, points out John Green of the University of Mississippi: even those trained in fields where openings are available, such as nursing, say they would rather move away, to provide their families with better schools and greater opportunities.

Local officials talk optimistically of reviving the Delta's economy. Mr Masingill predicts a resurgence of manufacturing, thanks to the region's cheap labour, plentiful land and bountiful natural resources. But local businessmen complain that because of poor health and education, the Delta's workers are not up to snuff. Mr Angel of Lake Village prefers to hire itinerant Mexican labourers, rather than locals, to man his cotton gin, for example. Moreover, manufacturing in rural areas has suffered an especially severe decline in recent years, presumably because it tends to be of the low-tech sort most vulnerable to foreign competition.

Others pin their hopes on tourism, tied to the many blues musicians and civil-rights activists from the region. Gus Johnson, the owner of Jim's Café, one of the few businesses still open in downtown Greenville, speaks excitedly about the relative crowds that have begun to show up for the hot tamale festival the city recently started holding each year. But the Delta's seedy and semi-derelict towns are not exactly alluring. And jobs in tourism tend not to pay well, notes Stephen King of Delta State University.

In the long run, says David Jordan, a state senator from Greenwood, education must improve dramatically for the Delta to regain its footing. But struggling Delta counties and cities, with small tax bases, find it hard to raise money for schools. Mississippi spends less per student on education than all but four other states. It has a law that directs extra funds to schools in poor counties, but has not complied with it, Mr Jordan complains, shortchanging the neediest spots by a billion dollars over the past four years. In all the states of the region and at the federal level, Mr Masingill concedes, budgets for education and development have been getting skimpier.

Mr Jordan sees a pattern of official neglect that dates back decades. It took multiple court battles, he says, to secure proper representation for the black citizens of Greenwood in city government. There are still shortcomings, in his view: a couple of years ago someone shot at his house during the night, and he is not happy with the police investigation. Then he begins to speak of his children. All four went to university, he says proudly; two are doctors. None of them lives in the Delta. ■

Our new house-price indicators

Bubble-hunting

WASHINGTON, DC

Recovering prices have yet to inflate in any big cities

JUST seven years after the biggest housing bubble in American history began to deflate, could another be inflating? Prices in a 20-city index compiled by CoreLogic Case-Shiller rose by 11% in the year to the end of March, and by more than 20% in Phoenix and Las Vegas, both cities at the centre of the housing collapse. Inventory is down: homes are selling in days, and often for more than the asking price. In Phoenix, bidding wars have broken out between would-be homeowners and investors paying cash. Americans once more see property as a winning asset.

But to qualify as a bubble, an asset must not simply appreciate; it must decouple from its intrinsic value. For houses, *The Economist* each quarter compares the ratio of prices to household income and rents against their long-run average in 20 countries. We have now done the same for the 20 metropolitan areas in the Case-Shiller index. The verdict: in most markets houses are at or near their long-run values, but none looks bubbly (see for yourself at economist.com/node/21578927).

For America as a whole and in most cities, price-to-rent and price-to-income ratios are at or near their 25-year average. (To be sure, the bubble era dragged that average up; valuations are still higher than in the 1990s.) How they got there

varies, however. Cities in Arizona, California, Nevada and Florida experienced the biggest bubbles, and in the subsequent bust values fell well below long-term averages. Price rises in Phoenix, Tampa and Miami have restored values only to their long-run averages.

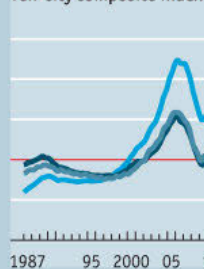
In New York prices never gave up much of their bubble-era rise, and have since recovered more slowly than in the country as a whole. Relative to rents and incomes, valuations have been flat or down slightly. Homes around Washington, DC sell for roughly double their level of the late 1990s, but that seems justified by strong gains in rents and incomes. A brisk rental market also explains the strong run-up in prices in San Francisco.

Atlanta, Dallas, Cleveland and Detroit never had bubbles to speak of, and not much of a bust. Valuations in all these cities are at or below their long-run average. Chicago's bubble was also relatively modest; valuations there still look cheap.

In Denver house prices have regained their peaks, and valuations are above their long-run average. This is the only city that, by our methodology, counts as expensive. But by the standards of recent history the over-valuation is trivial. Many things could trip up the housing recovery, from stalling job growth to higher mortgage rates. But at the moment a bursting bubble is not one of them.

Higher, not hyper

Ten-city composite index



House prices, January 2000 = 100

Chicago



Prices to rents, long-run average = 100

Denver



Prices to income, long-run average = 100

Las Vegas



New York



Phoenix



Sources: Standard & Poor's; Moody's Analytics; Bureau of Labour Statistics; *The Economist*

Interactive: Explore and compare house prices in 20 US cities over time at Economist.com/ushouseprices



Barack Obama's foreign-policy team

Action women

WASHINGTON, DC

The president defiantly picks two liberal interventionists

JUST over a decade ago Samantha Power, a journalist aghast at American inaction over genocide in Rwanda, confronted dozens of high-ranking officials about why the Clinton administration had stood by and watched the killings unfold. One interviewee, Susan Rice—then an up-and-coming staffer at the National Security Council—confessed that she had sworn a private oath: if ever faced with such a crisis again, she would “come down on the side of dramatic action, going down in flames if that was required.”

On June 5th Barack Obama, a president with a deep wariness of entangling military actions abroad, named Ms Rice (second from right, above) as his national security adviser, promoting her from her current post as America's ambassador to the UN. The national-security job makes Ms Rice the president's foreign-policy briefer, gatekeeper, troubleshooter and chief broker in inter-agency wrangles over foreign policy and security. For good measure, he named Ms Power (right, above), until recently a presidential adviser on multilateral affairs and human rights, as America's new UN ambassador.

Ms Rice will replace Tom Donilon, a courteous master of the Washington bureaucracy known for caution, ferocious loyalty to the president and attention to the domestic political implications of foreign-policy crises. Mr Donilon (left, above) will step down in early July after overseeing the informal summit between Mr Obama and President Xi Jinping of China. Like his mentor, Warren Christopher, an-

other thoughtful sort, he will leave detractors as well as admirers in Washington, after clashes with the Pentagon and other agencies; in 2009 he pushed for a much smaller number of American troops in Afghanistan than the generals wanted.

The appointments of Ms Rice and Ms Power were long-trailed, but were announced with unexpected suddenness. They place two liberal interventionists at the heart of a White House machine which was known, until now, for resisting calls to intervene in such crises as the civil war in Syria. The two women proved to be effective allies in Mr Obama's first term; they were credited by diplomats with dramatically shifting American policy over Libya in the direction of the NATO-led air strikes that helped topple the Qaddafi regime.

Members of Mr Obama's inner circle have been making more hawkish noises about the dangers of inaction in Syria, fretting that a prolonged fight between the Assad regime and disparate rebels could see chemical weapons and other nasties falling into the hands of extremist factions, some loyal to al-Qaeda. The secretary of state, John Kerry, is said to be among those who would like to see more help, including military kit, sent to more moderate figures in the Syrian opposition.

The departure of Mr Donilon removes a voice of caution from White House debates on Syria. Yet his retirement, on its own, cannot be decisive in shifting Syria policy: the president remains in the room, and his personal caution runs deep.

A forthright sort, Ms Rice has rowed in

the past with such prominent Republicans as Senator John McCain of Arizona. Since September 2012 she has been caught up in partisan crossfire, accused by Republicans of misleading the American public by delivering a false account of deadly attacks on American missions in the Libyan city of Benghazi. Although Ms Rice was reading talking points drafted by others, Republican anger was enough to make her withdraw from consideration as secretary of state to succeed Hillary Clinton. Her new post as national security adviser does not require Senate confirmation. A dilemma for Republicans is that Ms Rice could be an ally for a more interventionist world view. Mr McCain said that he disagreed with Ms Rice's appointment, but would make “every effort” to work with her.

Ms Power will require Senate confirmation and has been tagged as “dangerous” by conservatives, who cite her enthusiasm for UN-led interventions and criticisms of some Israeli policies. Though the administration is said to be confident that she will be confirmed, it may be bumpy.

Announcing his new team, Mr Obama gave little away about whether they signalled a shift in policy. He hailed Ms Rice and Ms Power for combining moral passion with pragmatism, and for believing in America's indispensable leadership while being “mindful” that power must be exercised responsibly. Ever the law professor, Mr Obama admires balance, even in foreign policy. The world, a messy place, may have other ideas. ■

Judicial appointments

A lesson in packing

NEW YORK

Barack Obama's court nominations set up a bigger fight over the filibuster

ONE of the most popular sports in Washington is the partisan flip. When the White House or congressional chambers change hands, the two parties swap aggrieved accusations that the other is playing unfair. Exactly that has happened with the Senate minority's habit of filibustering or delaying the president's judicial nominations. On Tuesday June 4th Barack Obama nominated three judges for the court of appeals for the District of Columbia Circuit—a very important court, second only to the Supreme Court, which hears many cases touching on government or national security. In doing so, he all but dared the Republicans to filibuster them, thus setting up a showdown over the filibuster itself.

Republicans have dragged out or stopped the confirmation of many of Mr ▶▶

► Obama's judges. Although he confirmed about as many judges in his first term as George W. Bush did, he had many more vacancies to fill. As a result, the number of vacancies climbed. They rarely reached 50 during Mr Bush's tenure, but were regularly around 100 in Mr Obama's first term. Meanwhile, according to the Judicial Conference, a panel of senior judges that oversees court policy, 33 "judicial emergencies" exist in the country: courts where the volume of annual case filings, numbering in the hundreds, is out of control.

Democrats, when in the minority, filibustered some of Mr Bush's nominees to the high courts, just as Republicans have done to Mr Obama's. The difference, according to Caroline Fredrickson of the liberal American Constitution Society, is that Republicans have slowed or stopped confirmation of ordinary trial (district) judges. These do not have nearly the influence the appeals-court judges above them have, but only 85% of Mr Obama's district nominees have reached the bench, compared with 98% for Mr Bush.

Mr Obama has been inexplicably slow to nominate judges. But when he has, Republicans have used filibuster threats or, more quietly, have arranged that the judge's home-state senator fails to return the so-called "blue slip" approving the judge. By Senate tradition, that omission amounts to a veto. So Democrats have a fair complaint that Republicans have taken the traditional skulduggery over judges to a new level.

That is the background to Mr Obama's unusual decision to nominate three judges at once to the DC court of appeals. All three have impressive credentials; indeed, with lifetimes of writing and client advocacy behind them, Republicans could doubtless find some ground to object to any one of them. To object to all three, however, would make them appear to be obstructing for obstruction's sake.

Before the nominees were announced, Charles Grassley, the ranking Republican on the Senate Judiciary Committee, accused Mr Obama of "packing" the court. He has instead proposed a bill cutting three judgeships from the court, distributing two to other busy appellate circuits. He and other Republicans cite the lower caseload numbers for the DC circuit. But the other circuits are heavily burdened with drug and immigration cases; the complexity of the DC circuit's cases makes it unique. Each party howls that the other wants to "pack" the courts, but it is Mr Grassley's bid to eliminate three vacancies which Mr Obama would otherwise fill that looks most like an attempt to rig a court in an unashamedly partisan direction.

If Republicans filibuster Mr Obama's nominees, a showdown over the filibuster itself will follow. Harry Reid, the Democrats' leader in the Senate, has threatened

Crime and genetics

Won't hurt a bit

ATLANTA

The Supreme Court rules that police can collect DNA from anyone they arrest

FOR six years Alonzo King got away with rape. But on April 10th 2009 Mr King pointed a shotgun at a group of people. He was arrested, charged with assault and, pursuant to the Maryland DNA Collection Act, had a DNA sample taken from the inside of his cheek. His DNA was found to match a sample taken from an unsolved sexual assault in 2003. He was found guilty of rape and imprisoned for life without parole. Maryland's Court of Appeals overturned his conviction, finding that the DNA swab was an unreasonable search.

The Supreme Court heard the case last February and issued its ruling on June 3rd. The question before the court was not whether DNA testing itself is constitutional. All 50 states collect DNA from some convicts, and the FBI stores that genetic material in a national databank. The question was whether states can collect DNA from people who have merely been arrested, as laws in 28 states require to varying degrees, and use it to solve a crime unrelated to the one for which the arrest was made. In a 5-4 ruling, the court held that they can.

The court divided along unusual lines. Stephen Breyer, generally considered a liberal, sided with the more conservative John Roberts, Samuel Alito and

Clarence Thomas, along with perpetual swing-vote Anthony Kennedy, to form a majority. Antonin Scalia, the court's most vocal conservative, led a liberal bloc with Sonia Sotomayor, Elena Kagan and Ruth Bader Ginsburg in opposition.

The dissent argues that, in previous court rulings, warrantless searches have required a motive unlinked to investigation. Railway employees can be searched, for instance, for safety reasons, as can people at state schools. But the minority argued that no such motives existed in this case. Instead, Mr Scalia saw the court's ruling as the first step towards DNA swabs after any arrest—rightful or wrongful—for whatever reason, the entry of everyone's DNA into a national database and the construction of a "genetic panopticon".

But Maryland's law requires that the DNA analysis must not reveal pertinent medical information, and the sample must be destroyed if the suspect is not convicted. The majority held that the state's interest in proper identification—an interest it already expresses through constitutionally approved steps such as fingerprinting and mugshots—outweighs the slight incursion into the suspect's already diminished expectation of privacy. Swab away, boys.



to use his majority to end the filibuster for presidential nominees. (A filibuster needs 60 out of 100 votes to defeat it; an ordinary vote just 51.) This would probably cause the Republicans, in retaliation, to wreak havoc in all other areas of Senate business.

A legal think-tank close to the president's party has published a paper suggesting that filibustering judicial nominees is unconstitutional. It was written in 2003 by four scholars affiliated with the conservative Federalist Society, defending Mr Bush's right to an up-or-down vote on judges. Then, it was Republicans threaten-

ing to "go nuclear" and eliminate the filibuster. Today Carrie Severino, the head of the conservative Judicial Crisis Network (and affiliated with the Federalist Society herself), says that in principle each judge should get an up-or-down vote, if both parties play by the same rules. But she will not go as far as to call for an end to the possibility of a filibuster. Neither party can bear to give it up when it is in the minority.

In 2005 a "Gang of 14" moderate senators found a compromise to end the impasse. It is not clear that there are 14 moderates left today. ■

Energy

Blown away

CHICAGO

Wind power is doing well, but it still relies on irregular and short-term subsidies

ON A breezy day in October last year the governor of Kansas, Sam Brownback, took a tour of his state's flourishing oil- and gas-exploration industry. But as the bus travelled across the open plains it was difficult not to notice a new phenomenon in Kansan energy: wind turbines. Lots of them. Last year the state doubled its wind-power capacity; this now provides 11% of its electricity. But a weatherbeaten oil man, looking up at one inactive turbine, remarked that the thing did little more than suck up government subsidies.

Thanks to these subsidies, wind power did well in 2012. A record 6,700 turbines were installed that year, and \$25 billion of private capital was invested. This brings wind capacity to about 3.5% of the country's electricity supply: enough to power 15m homes. The Department of Energy reckons that, by 2030, 20% of America's electricity demand could be met by wind.

According to the American Wind Energy Association, an industry group, it took 25 years to get to 10 gigawatts (GW) of wind-power capacity—but a mere five months, last year, to jump from 50GW to 60GW. The greatest growth came from the Midwest and the Plains. Iowa and South Dakota each produce more than 20% of their electricity from wind; seven other states produce more than 10%.

Iowa aspires to be the nation's leading producer of wind power per person, generating 39% of its electricity that way. Mid-American Energy, based in Des Moines, plans to invest \$1.9 billion in new wind farms. Iowa's governor, Terry Branstad, says it is the largest investment for economic development in the history of the state. This decision also helped persuade Google and Facebook to agree to spend \$700m on building and expanding their energy-hungry data centres there.

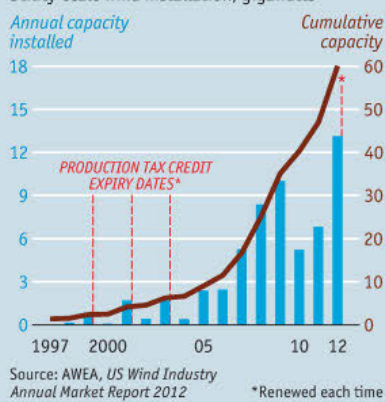
The effervescence of the wind industry last year, however, was partly because the main federal tax credit for wind power was going to expire in December, and companies raced to qualify before the deadline. The Production Tax Credit (PTC) gave producers 2.2 cents per kilowatt-hour for electricity generated during the first ten years of a turbine's life. In January another year of the PTC, worth \$12 billion, was wrung out of the deal by which the federal government avoided the fiscal cliff, and this spurred the new investments in Iowa.

Questions, though, are being asked about this subsidy. Some power and utility



Gale force

Utility-scale wind installation, gigawatts



companies whose margins are being squeezed by cheap wind power would like to see the PTC eliminated. Energy companies that use fossil fuels are griping too, perhaps forgetting how handsomely they have been subsidised in the past. But even the wind industry wonders whether a credit that expires every few years, causing cycles of boom and bust, is helpful.

Analysts at a recent wind conference in Chicago felt that the industry was not making sufficient long-term investments in R&D and domestic manufacturing to bring the price of its power down. Both the federal government (in a 2011 report) and the World Resources Institute, a green group, agree that uncertainty over the PTC is caus-

ing underinvestment, with the institute pointing out that America remains a net importer of wind equipment.

Some technical improvements have, in fact, been notched up. Since the late 1990s rotor diameters have increased by around 90% and the average height of a turbine "hub" has gone up by 45%. More than 1,000 turbines installed last year were on towers of more than 100 metres (330 feet). Today's turbines have, on average, a technical capacity eight times larger than they had in 1990, and generate 17 times more power. Yet without the PTC wind is uncompetitive with other forms of energy.

The PTC also has strong political support on both sides of the aisle. Democrats like it as a subsidy for green energy. Some Republicans like it because it brings jobs and development. Wind energy is distributed in a highly partisan fashion, with a rich band of gustiness running through the Republican Midwest from the Dakotas and Nebraska, through to Kansas and the western corners of Oklahoma and Iowa.

Some of the most enthusiastic Republican supporters of the PTC do not even acknowledge that climate change is happening. Karl Rove, a former adviser to George W. Bush, and Charles Grassley and Steve King, respectively Iowa's senior senator and fifth-district congressman, have all campaigned for the wind-energy credit but have expressed opinions about climate change ranging from ambivalence ("The science is confusing") to downright hostility ("Climate is gone"). A number of other groups, such as the US Chamber of Commerce, support the credit but lobby against climate-change legislation.

The fact is that wind power generates many well-paying, desirable jobs in rural places with not much else going for them. New energy sources also allow these states to diversify their economies. This alliance of green and red politics helps keep the industry going at a time of low wholesale electricity prices—the result partly of cheap shale gas, and partly of a drop in demand because of the sluggish recovery.

All would not be lost if the PTC disappeared. Without it, there will still be a trickle of demand for new turbines. Concerns about the intermittent supply of energy from wind are dying down. It turns out that with enough wind farms sited in enough places, the supply evens out. The wind is always blowing somewhere. And a solid majority of Americans continue to favour alternative, clean power sources over traditional fossil fuels.

Private insurers say that last year was the second-most-expensive in American history for disasters related to climate change, costing them \$139 billion. But private insurance paid only a quarter of these costs, leaving taxpayers to cover the rest. By comparison, funding renewable energy properly seems rather cheap. ■

Lexington | The China syndrome

American grumblings about their geopolitical rival are not about power, but other things



TO THE ham-lovers of Smithfield, Virginia, it is American weakness that explains why Chinese tycoons may soon own the giant pork producer that dominates their home town. Local hams, made from peanut-fed pigs and then hickory-smoked, first earned fame in colonial times. In Smithfield images of hogs vie with American flags as a badge of pride, adorning shopfronts, school sports kit and the town water tower. Yet if a multi-billion-dollar takeover goes ahead, Smithfield Foods—the world’s largest pork processor, based in the town—will become a subsidiary of a Chinese butcher, Shuanghui International.

News of the bid broke shortly before a summit between the American and Chinese presidents in California, set for June 7th and 8th. If approved, it will mark China’s largest investment in America, and more will surely follow. That raises questions about relative economic power, and about who holds the upper hand as the two rivals embark on a new stage of interdependence. That interdependence is all the more remarkable because it co-exists with knotty economic disputes about market opening and cybertheft of trade secrets—not to mention philosophical differences about democracy and the rule of law.

In Smithfield, specific questions about China’s rise and intentions could hardly be more urgent: Smithfield Foods is by far the largest employer. But on a muggy recent morning on Main Street, China’s intentions were not mentioned much.

Instead, stunned locals talked about their American bosses. The company has vowed that jobs are safe. How can managers promise anything, townsfolk scoffed, after selling out to foreigners? The nature of those foreigners was not much discussed. The talk was instead of sadness at seeing an American firm falling to outsiders. A woman suggested it was a moment for soul-searching. In the Bible, she advised, Isaiah says that foreigners will take over the lands of those who fail to serve God. Given the Chinese takeover, Americans were “evidently” falling short.

Nobody predicted strikes or called on the government to declare ham (like French yogurt) a strategic industry. There was a mood of resignation. Some endeavoured to sound cheery. The deal seems a sound one, ventured the mayor, Carter Williams: China needs cleaner food and America needs global markets. With luck Smithfield will have to build a new factory as exports

to China boom. In any case, the mayor added, there is not a thing in the world that we can do about it.

If Mr Williams’s realism is admirable, some other Americans tend towards excessive gloom. A 2012 survey on global attitudes by the Pew Research Centre found Americans almost evenly divided on the question of whether China or America was now the world’s economic leader. Chinese respondents were much likelier to say (correctly) that America is still top dog. Among Barack Obama’s foreign-policy and economic aides, sources report “mystification” that so many Americans think that China is now richer. The government has, at times, attempted to push back against such pessimism. The vice-president, Joe Biden, gave a chin-jutting speech to students in Chengdu in 2011 in which he hailed America as still “the wealthiest nation in the history of the world”, with an education system and society set up to promote creativity and innovation (ie, unlike some he could mention).

The CEO of Smithfield Foods, Larry Pope, puts forward a similarly confident argument about his own enterprise. America is world-beating when it comes to producing good pork efficiently, he argues. His new Chinese partners want to feed their people, not take over the world. Nonetheless, he worries that Americans are scared of China.

He may be putting it too strongly. Americans, though far more mindful of China than Europeans are, have not had a “Japan moment”, suddenly waking up to a newly brash bully next door. They have not even had a “Sputnik moment”, when some piece of Chinese technological wizardry has shown up the United States as second-best and China as top nation. Policymakers in Washington worry more with each passing year about China’s military power. But polling shows the American public rather unfussed by it. In short, much American grumbling about China seems really to be about something different.

The perils of parochialism

Often “China” is an avatar for globalisation. For many on the left, it stands for the supposed greed of American bosses who consciously choose to ship jobs elsewhere, rather than stand by their workers. Mr Obama has told aides that for most Americans, “China” stands for lost jobs, especially in manufacturing. In his first term, the president repeatedly sought a China policy that might help reclaim millions of jobs by prodding companies to keep or create positions in America. No such magical China policy exists, as Mr Obama has tacitly acknowledged by pragmatically pursuing economic engagement.

Republicans on the other hand, when polled, most powerfully associate the “China” threat with America’s public debts. They accuse Mr Obama of buying the votes of the feckless poor with welfare and other gifts, running up debts that leave America at the mercy of foreign creditors.

In these cases, political debates about China resemble the discussions on Smithfield’s Main Street: they are mostly arguments about America and its perceived internal weaknesses. Chinese politicians play a similar game in reverse, sometimes using a hard-to-recognise caricature of “America” as an all-purpose test of China’s development and resolve. But if the two geopolitical rivals are to co-exist, as they must, they need to get beyond caricatures and self-absorption and strive to understand each other. They have grown too big, and too close, to try anything else. ■



Brazil's disappointing economy

Stuck in the mud

BRASÍLIA

Feeble growth has forced a change of course. But the government's room for manoeuvre is more limited than it was

FAILING to meet low expectations is becoming a habit for Brazil's economy. Figures published on May 29th showed that in the first quarter of this year it grew by just 0.6% (2.4% annualised), well short of the recovery analysts had expected. For the first time in years the country is running a trade deficit. Its primary fiscal surplus (ie, before interest payments) is shrinking and government debt is growing. Other emerging economies are also cutting growth forecasts, as China slows and the euro zone slumps. But Brazil's woes started earlier than most and seem to be home-grown. Inflation close to 6.5% despite low growth suggests domestic rigidities are the main problem, rather than weak foreign demand.

After becoming president in 2011, Dilma Rousseff sought to stimulate growth by hiking public spending and the minimum wage, and forcing state-run banks to lend more. The resulting inflation was tackled not by raising interest rates but by cutting sales taxes and holding down the price of items with a big impact on the inflation index, including food, petrol and bus fares. Until recently voters reacted favourably, though the economy did not. Polls in March gave Ms Rousseff a record-breaking 79% approval rating, making her the clear favourite to win next year's presidential election and allowing her to put off economic adjustments until a second term.

But stagnant growth is now hitting Bra-

zilians in their pockets. After successive wage rises, this year's pay deals barely outpace inflation. Already indebted, households are reining in their spending. Consumer confidence is falling and more people say rising prices are their biggest economic worry.

The swift deterioration in the economic data and public sentiment seems to have forced the government's hand. Despite the weak growth figures, the Central Bank surprised markets by raising the base interest rate from 7.5% to 8%, making Brazil the only big economy currently tightening monetary policy. The bank's governor, Alexandre Tombini, said the move had Ms Rousseff's "full support". It went some way to restoring the institution's inflation-fighting credentials, badly dented by the president's determination to push down rates even as inflation rose.

The bank will have to raise rates again to bring inflation nearer its 4.5% target. On June 4th the government scrapped a tax on foreign purchases of bonds, in order to encourage currency inflows and slow the weakening of the real, which has fuelled inflation by making imports pricier. The finance ministry will be scrutinised for signs of a return to rectitude, after using creative accounting to hit its primary-surplus target last year. The departure of Nelson Barbosa, a senior official who reportedly opposed the fiscal fiddles, worries many analysts.

Most keenly awaited is evidence that

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For daily analysis and debate on the Americas, visit Economist.com/americas

the government is serious about its promise to stop trying to boost consumption and instead encourage investment, currently just 18.4% of GDP. During the first quarter investment picked up, but mostly because of a recovery in sales of heavy-goods vehicles, which were depressed last year by stricter rules on emissions.

Ms Rousseff has exhorted businesses to invest more. But the government's own actions are one reason they have failed to heed her call. Holding down petrol prices to slow the rise in inflation weakened the balance-sheet of Petrobras, the state-controlled oil giant, and played havoc with the sugarcane-ethanol industry, which competes directly with petrol at the pump. A delay in introducing new mining laws and a row about how to share oil royalties have put exploration and development on hold in both industries.

In August the government said that early in 2013 it would start to auction road and railway concessions to the private sector. But its unwillingness to allow a competitive return put investors off, and the auctions were delayed. Clumsy interventions in the electricity and banking industries completed the picture of a heavy-handed, anti-business administration.

Pork and persuasion

Engineering an investment boom will mean breaking at least some of these logjams. A successful drilling-rights auction last month and plans to sell a vast new field off the coast of Rio de Janeiro in October have raised hopes that investment in the oil industry will soon pick up. And in recent weeks the government has accepted that it must offer juicier returns to lure bidders to its road and rail concessions. A string of successful sales would go a long way to boosting business confidence and private-sector investment—and to provid- ▶▶

ing the upgrades Brazil's outdated infrastructure needs if growth is to pick up.

But just as the room for economic manoeuvre is diminishing, the political landscape is becoming harder to navigate. Though the governing coalition controls 80% of Congress, its members include everyone from communists to evangelical Christians, and many unprincipled power-seekers. A former bureaucrat with no previous experience of elected office, Ms Rousseff has proved ill-suited to the shuttle diplomacy required to coax her so-called allies into backing her plans. Brusque and impatient, she rarely talks to congressmen. They regard the proxies she sends as arrogant and sometimes incompetent.

Last month a truculent Congress nearly blocked a much-needed new law that will increase competition and private investment in the country's crowded, outdated ports. Passing the bill took all-night sessions in the lower house, arm-twisting in the Senate, and the promise of a billion reais (\$500m) in pork-barrel spending. The Party of the Brazilian Democratic Movement, Ms Rousseff's largest coalition partner, is now threatening to support the party of Eduardo Campos, a likely presidential challenger, in some state races next year and to field its own candidates in others. This is probably just a bargaining ploy. But it suggests that Ms Rousseff will have to pay a high price for getting her infrastructure plans off the drawing board. ■

Abortion in Latin America

Miscarriages of justice

A brutal farce in El Salvador highlights a regional failing

BY ITS fifth month, Beatriz's pregnancy had become dangerously complicated. Scans showed that the fetus was developing without parts of its brain and skull and would not survive more than a few hours outside the womb. Beatriz (not her real name) was suffering from kidney problems and lupus, an autoimmune disease, which had become so acute that her doctors said she risked death too. With the backing of El Salvador's health ministry, she decided to terminate the pregnancy.

Not so fast, said the Supreme Court, ruling on May 29th that the constitution's protection of all citizens "from the moment of conception" meant that abortion could not be permitted in any circumstances. Hours later, the Inter-American Court of Human Rights ordered that the government should give Beatriz's doctors access "without interference" to whatever measures were necessary to save her life.



Get your rosaries out of our ovaries

A compromise was reached: rather than have an abortion, Beatriz could undergo a premature caesarean section. Since she was already past 20 weeks of pregnancy, the operation could be considered an "induced birth", not an abortion, the health ministry said. This seemed to satisfy the courts. On June 3rd the baby was delivered, and died a few hours later. Beatriz was in intensive care as *The Economist* went to press.

This sorry story and its face-saving solution is typical of the ineffective abortion regime present in most of Latin America. At the urging of the Catholic church, abortion is banned under all circumstances—including rape, and where the mother faces death—in Chile, the Dominican Republic, Haiti, Honduras, Nicaragua and Suriname, as well as in El Salvador. In most other countries it is highly restricted. Only Cuba, Guyana, Puerto Rico and Uruguay offer abortion on demand (so does Mexico City, unlike the rest of Mexico).

The past decade has seen some liberalisation. Mexico City and Uruguay both legalised abortion in the first 12 weeks of pregnancy, while Argentina, Brazil and Colombia made it possible in certain cases including rape and to save the mother's life. A bill before Brazil's Congress would allow abortion on broader terms.



But already there is a backlash. More than half of Mexico's states have changed their constitutions to define life as beginning at conception since abortion was legalised in the capital in 2007. Even in countries where abortion is permitted, ambiguous laws and stigma lead doctors, judges and government officials to obstruct the procedure, according to Lilian Sepúlveda of the Centre for Reproductive Rights, a New York-based pressure group.

Beatriz is by no means unique. Last year in the Dominican Republic a teenager with leukaemia died when her doctor delayed chemotherapy for fear of being accused of terminating her pregnancy. In 2011 a 12-year-old Nicaraguan girl who had been raped by her own stepfather was forced to give birth. More than 1,000 women in the region die and 1m are hospitalised every year owing to complications resulting from backstreet abortions, according to the World Health Organisation.

The strict laws do not make abortion rare. The Guttmacher Institute, a reproductive-health organisation, estimates that the region sees about 4.4m abortions a year, equivalent to 32 abortions per 1,000 women of child-bearing age. (In Cuba, where abortion is legal, the rate is about a third lower.) That is a higher rate than in any other region in the world (see chart). Latin America's strict abortion policies are certainly not pro-choice—but their results are hardly very pro-life either. ■

Latin America's Venezuela problem

Ostrich diplomacy

CARACAS

Venezuela's neighbours studiously ignore the crisis unfolding next door

FOR Latin American presidents of all political persuasions, a knock on the door from Henrique Capriles is a far from welcome sound these days. Not that the leader of Venezuela's opposition is a particularly boring or obnoxious guest, despite the strenuous efforts of President Nicolás Maduro to portray him as a "murderous fascist". It's just that having Mr Capriles round for a cup of tea can get you into all sorts of trouble, as Colombia's Juan Manuel Santos found out to his cost.

On May 29th a shirtsleeved Mr Santos held a private meeting of about an hour with Mr Capriles, which provoked a barrage of invective from the Venezuelan government. The Colombian president had "put a bomb under" relations between the two countries, said Diosdado Cabello, the speaker of Venezuela's National Assembly. Venezuela would have to "review" its support for Colombia's peace talks with the

leftist FARC guerrillas, added Elías Jaua, the foreign minister.

To top things off, Mr Maduro said certain Colombian institutions “at the highest level” were plotting with the Venezuelan opposition to inject him with a poison that would lead to a slow death. Mr Santos said this was “crazy”. His foreign minister declined to engage in microphone diplomacy. Colombia and Venezuela, whose governments are poles apart ideologically, have enjoyed a friendship of convenience in recent years after a very rocky decade.

The reason for all the huffing and puffing is that Mr Capriles, who came within an ace of winning a snap presidential election on April 14th, has challenged the result in the supreme court and is seeking to persuade the region’s governments of his case. Mr Maduro is the chosen successor of Hugo Chávez, who died of cancer in March, five months after being re-elected. He heads a weak administration beset by political and economic problems and desperate to hang on to the international support that Chávez built up over more than a decade of oil diplomacy. With the Chávez charisma gone, the new president’s legitimacy in doubt and the money running out, bluster is one of the few resources not in short supply.

This week was to have been Peru’s turn to receive a visit from Mr Capriles. But such was the panic in Ollanta Humala’s government at having to decide whether to receive him that the trip was postponed. Peru currently chairs the South American Union (Unasur), one of several regional bodies failing to deal with the Venezuelan crisis. Unasur held an emergency meeting on the eve of Mr Maduro’s inauguration to insist on an audit of the election result. But although the opposition says the partial audit now under way is insufficient, Unasur has failed to pursue the case. Peru’s foreign minister stood down—officially for health reasons—shortly after he had the effrontery to say publicly that a fresh Unasur summit on the subject was being mooted.

Most Latin American and Caribbean governments are either ideologically close to the *chavista* regime, dependent on its oil-fuelled largesse, or simply disinclined to incur its wrath. The Organisation of American States (OAS), whose annual assembly began on June 4th in Guatemala, is bound by treaty to monitor its members’ democratic credentials. But the OAS’s Democratic Charter, launched in 2001, has so far been used only to protect presidents (including Chávez) and to bludgeon puny countries such as Honduras and Paraguay. Brazil, which has the muscle to take on a country the size of Venezuela, seems more concerned with protecting its businesses, which are making billions from trade with its northern neighbour.

Ahead of the OAS meeting its secretary-general, José Miguel Insulza, said the “at-

Public broadcasting in Canada

Commercial break

OTTAWA

And now an unwelcome message from our sponsors

UNLIKE its counterparts in Britain and Australia, the state-owned Canadian Broadcasting Corporation (CBC) carries advertising on its television networks, which are sometimes hard to distinguish from their private-sector rivals. But public radio has been ad-free since 1975 and has won a loyal following. A recent independent survey to determine what audiences liked most about the CBC drew 11,000 responses, almost all of which mentioned radio.

But on May 28th when renewing the CBC’s broadcast licence, the Canadian Radio-television and Telecommunications Commission decided to allow two of its four over-the-air radio networks to carry advertising. The CBC says the move is necessary in order to preserve the quality of programming. Not everyone is convinced. Tom Pentefountas, the dissenting vice-chairman of the commission, said the “crazy pursuit” of carrying ads on public radio would destroy the CBC’s brand and erode public support. Ian Morrison, who runs a lobby group representing listeners and viewers, says the decision has put the corporation on the path to further commercialisation.



Too good to interrupt

Like public broadcasters in other countries, the CBC is being asked to do more with less money. When the government announced last year that the CBC’s annual subsidy of about C\$1 billion would be C\$45.4m (\$43.9m) lower by 2015, the corporation made plans to cut staff and programming, sell properties and end satellite and short-wave transmission of its international service.

It was already scrambling to raise money. Costumes accumulated since its founding in 1936 are available for hire, as are its mobile studios. Its archives have been mined for books, DVDs and audio recordings. A CBC shop sells everything from mouse pads to lunch bags emblazoned with the corporation’s logo.

Even before the current crisis it was not generously funded. A study of public broadcasters in 18 countries in 2009 found that Canada’s had the third-lowest subsidy (after New Zealand and the United States). The CBC was propped up to the tune of C\$34 per person, whereas public broadcasters received the equivalent of C\$78 in France, C\$111 in Britain and C\$164 in Norway, the highest.

The CBC suffered swingeing budget cuts in the 1990s under a Liberal government. But this episode feels more personal. Members of the Reform Party, a forerunner of the ruling Conservative Party, called for the CBC’s privatisation when they were in opposition. The rhetoric softened when the Conservatives came to power in 2006. But the introduction of radio advertising has made listeners wonder if the old Reformers may eventually get their wish. “When the public broadcaster resembles a private broadcaster, the argument that it does not provide an essential service becomes stronger,” Janet Lo of the Public Interest Advocacy Centre told the commission at one of its hearings. Radio ads will help the CBC’s bottom line in the short term, but in time may weaken the case for maintaining its public subsidy.

mosphere” was not conducive to a discussion of the Venezuelan crisis—a diplomatic way of saying no one was prepared to pick up the hot potato. Mr Insulza himself has in the past admitted that Venezuela is in breach of the Democratic Charter. Among other things, it requires an independent judiciary and guarantees recourse to the inter-American human-rights system. Venezuela has announced that it will abandon the system later this year.

The ostrich approach may not work for ever. For one thing, the Venezuelan opposition’s campaign across the region is putting presidents under pressure from their parliaments and civic groups to support democracy. Second, Venezuela’s political fragility and Mr Maduro’s weakness threaten instability which the region may be unable to ignore. Shutting the door in Mr Capriles’ face could prove a short-sighted policy, as well as a shameful one. ■



Pakistan's electricity crisis

Long, hot summer

LAHORE

The first task for Pakistan's new prime minister is to keep the lights on

LIKE most Pakistanis Mohammad Husain complains bitterly about the paltry few hours of electricity available each day during the sweltering summer. Life for the 43-year-old labourer, already pretty miserable in the Lahore slum where he lives, is more unbearable without a fan to cool him at night or a pump to guarantee water.

Like many of his countrymen, he has never paid a rupee towards the cost of the dribble of electricity used by his wife and five children, who all live in a one-bedroom flat. Their building is illegally connected to the city's power grid by a metal hook attached to a nearby electricity line.

Every now and then officials from the Lahore Electric Supply Company (LESCO) launch a "crackdown". Officials phone ahead, giving everyone ample opportunity to remove their hooks. They then go door-to-door collecting bribes, organised on a careful tariff basis. Households with just a fan pay \$5. For slightly beefier "air coolers" the fee is \$10 and for the lucky few who can afford air conditioning the cost is \$15. These charges are a fraction of LESCO's official tariff, but none of the money goes into the coffers of a collapsing electricity system anyway.

Not charging consumers for electricity has created a big problem for Pakistan. At the end of 2012 the country's stock of energy-industry debt was \$9.1 billion—about 4% of GDP—according to a report funded

by the United States Agency for International Development (USAID) and carried out by the national Planning Commission.

The shortfall in revenue has a knock-on effect along the electricity supply-chain. Without being paid by consumers the distribution companies cannot pay the private electricity generators, who in turn cannot pay their fuel bills, forcing them to shut down or run at low capacity. That creates ever more "load shedding", the local term for blackouts.

The same USAID-backed report claims power shortages retard economic growth by at least 2% a year. The situation is deteriorating as the debt mountain grows. Riots break out each summer in protest.

Power surge

Freeing consumers and industry from this misery is the priority of Nawaz Sharif, Pakistan's new prime minister, who was inaugurated on June 5th. He owes his victory to public fury at the failure of the outgoing government of the Pakistan Peoples Party to solve the energy crisis.

If the system is to be fixed it is not just people in the slums who will have to cough up, but the rich and the powerful too, including the industrialists who enthusiastically supported Mr Sharif in last month's election.

Government departments are also some of the biggest defaulters, owing as

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much as \$2 billion, and the armed forces see little reason to fear being cut off if they do not pay. The finance ministry is often behind on paying its own subsidies into the system. Such cash injections are meant to make electricity more affordable, but they are not targeted at the poor and have soared to levels unaffordable for the government as world energy prices have risen.

The price supposedly charged to consumers for electricity is now nowhere near its cost of production. Mr Sharif hopes to improve the situation immediately by paying off a big chunk of the debt. With more money flowing through the system consumers should feel an instant relief.

"It's a reset of the system so we can start off on a clean slate," says Fariel Salahuddin, a power-sector specialist. "It doesn't mean the debt goes away, it just comes off the books of private-sector entities." Where such sums will come from is another matter. There has been talk of raising money through the sale of government bonds. Pakistan will also have to begin bail-out negotiations with the IMF soon if it is to avert a balance-of-payments crisis.

Hopes are pinned on multi-billion dollar aid from Saudi Arabia, probably in the form of deferred oil payments. The Saudis have long had cordial relations with Mr Sharif, whom they hosted during part of his time in exile from Pakistan. They provided similar help to the last government Mr Sharif headed in 1998.

"It is like you have a patient who is haemorrhaging: you have to give him a blood infusion to stabilise him," says Omar Malik from PIRCO, an energy consultancy. "But that won't be sufficient if you don't stop the bleeding."

That means finding ways to generate electricity far more cheaply. Currently Pakistan has some of the most expensive ►►

energy in the region, not least because half of its power comes from burning gas and oil, most of which are imported. That is eating into the country's already seriously depleted foreign-exchange reserves, pushing Pakistan even further towards a balance-of-payments crisis.

Coal-burning power stations could be built relatively quickly or existing ones converted, says Mr Malik. But Pakistan has been slow to exploit its own coal resources and most would have to be imported.

The country has huge potential for hydroelectricity, the cheapest form of energy, but dams can take the best part of a decade to build. Perhaps the best Mr Sharif can hope for in the coming years is that the rest of Pakistan might become a little more like Karachi, the southern city where electricity-industry managers have succeeded in keeping the fans and the lights on by cutting off completely any customers who don't pay. That means regular electricity for the rich. And even less power for slum dwellers like Mr Hussain. ■

Timor-Leste and Australia

Bugs in the pipeline

SINGAPORE

Timorese leaders push for a better deal from their offshore gas fields

THE future finances of the young, poor nation of Timor-Leste, formerly East Timor, have become embroiled in allegations of skulduggery by Australia nearly a decade ago. Timor-Leste has taken its big, wealthy neighbour to arbitration over a 2006 agreement on the exploitation of oil and gas in the sea between them. Speaking on a visit to Singapore this week, Timor-Leste's oil minister, Alfredo Pires, claimed to have "irrefutable proof" that, during negotiations in 2004, Australia's secret services had illegally obtained information. His lawyer claims the Timorese prime minister's offices were bugged.

Whatever the truth, leaders in Timor-Leste feel Australia took advantage of them. In 2004 the tiny nation was still recovering from the devastation that followed its vote for independence from Indonesia in a UN-organised referendum in 1999. The Indonesian army and supporting militias had sought revenge in a rampage of killing and destruction.

Ever since, Timor-Leste's hopes of prosperity have rested on offshore oil and gas reserves. But most are located in the Timor Gap, under waters also claimed by Australia. Cash-strapped and desperate for revenue to start flowing, leaders saw no option but to agree to treaties with Australia that many in Timor-Leste see as unfair.



In all, three linked treaties covering the Timor Gap were signed, but the maritime boundaries were never agreed upon. The first, the Timor Sea Treaty, signed in 2002, gives Timor-Leste 90% of the revenue from a Joint Petroleum Development Area (JPDA). This meant that revenues could start flowing.

The JPDA was a compromise between Australia's insistence the maritime boundary be the deepest point as agreed with Indonesia in 1972, and Timor-Leste's hope to use the "median line", halfway across the sea. Only 20% of one of the largest fields, Greater Sunrise, is within the JPDA.

Then another treaty was signed in 2006, after two years of tortuous negotiations, during which the alleged spying took place. This one gives each country an equal share of revenue from Greater Sunrise on condition that they waive their rights to assert sovereignty, or pursue any legal claim over the border, for 50 years.

It is this treaty that ruffles with the Timorese. If the median line were the border, Greater Sunrise and many other fields would fall in Timorese waters. Mr Pires says that the uncertainty about the maritime boundary makes it hard to plan for the long term or to attract investment.

Despite its growing oil wealth (its petroleum fund already contains \$13 billion) Timor-Leste remains one of Asia's poorest countries. It is pinning its hopes on the Tasi Mane project, an ambitious plan to build a gas plant to process gas from Greater Sunrise, and a refinery and associated petrochemical industry. That is a gamble as long as the sovereignty issue is unresolved and an impasse persists over the route of a gas pipeline from Greater Sunrise. Timor-Leste wants a pipeline to Tasi Mane to bring jobs and income. Australia wants a pipeline to Darwin.

The bugging allegation and arbitration proceedings seem intended to force Australia to the negotiating table. Leaders in Timor-Leste hope to break the logjam and perhaps to win a better deal. ■

Tamil Nadu

A successful show begins to pall

CHENNAI

Can eccentric politics continue to deliver prosperity?

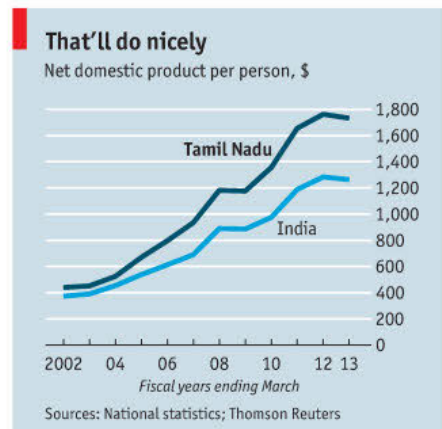
IMAGINE a place run by film stars—vain, power-hungry, paranoid, adored. Imagine they had been in charge not for the duration of a reality television series but for decades in a territory containing 72m people and one of the world's largest cities. It would be a disaster zone, wouldn't it? Think again, and welcome to Tamil Nadu, one of India's great success stories—and a state run by actors. It is the ultimate celebrity experiment.

Tycoons and foreign bosses are infatuated by Gujarat, a hard-charging western state where the trains run on time. Policy wonks admire Bihar, an eastern badland that is getting its act together. But India's most consistent economic performer is in its deep south (see chart). Tamil Nadu has the third-biggest GDP of any state and has grown faster and richer than most.

It is as industrialised as Gujarat—Hyundai, Ford and Renault, among others, churn out a third of all cars made in India there, while the state's looms dominate the national textile industry. It is also as socially progressive as famously leftist states like Kerala. Compared with the Indian average, more people can read, fewer babies die, and fewer folk are poor in Tamil Nadu.

Those achievements sit alongside a political scene that makes Brazilian soap-operas look prim. The personality cults seen across India today, which lead some to despair, gripped Tamil Nadu decades ago. Power swings between two parties: the DMK and its offshoot, AIADMK.

They have roots in a hardline secessionist movement in the 1930s that disliked north India, defied high-caste Brahmins and rejected the Hindi language (Tamil is the local tongue). In an election in 1967 Tamil Nadu became the first big state to ▶▶



▶ boot out the dominant Congress Party in favour of local groups.

Time has taken the edge off its politics. Tamil culture is now celebrated more than asserted. Few want to split from India any more. Politicians now give rhetorical support and not guns to fellow Tamils in neighbouring Sri Lanka.

Amateur dramatics

But as it has mellowed, the Tamil political scene has got seedier and sillier. Most bigwigs are ex-luvvies of some kind (see next article). Parties are little more than fan clubs. The props of office include theatrical arrests of opponents, censorship, defamation suits and giveaways to voters. The chief minister, now in her fourth term, is a Brahmin starlet turned autocrat called Jayaram Jayalalitha, leader of the AIADMK party. She has faced several corruption investigations—all unjustified, she insists. “In India the party needs a charismatic leader,” argues Cho Ramaswamy, a confidant who says he both seduced and murdered her on stage in his acting days.

Those looking for a mainstream alternative will struggle. The opposition DMK is run by an 89-year-old playwright and four-times chief minister, M. Karunanidhi, and his son, Stalin. A former DMK minister in the central government is being prosecuted for a telecoms licensing scam in 2008.

“Tamil Nadu is the first state in India that has decoupled politics from economic progress,” declares a big Indian business figure. Like many he argues that the state’s economic success is down to two factors. First, good genes. Tamils have traded across Asia for centuries. The state capital, Chennai, then called Madras, was a hub for assembling tanks and artillery during the second world war, giving it an industrial edge, says S. Muthiah, a historian. A knack for administration dates back to colonial times, when Madras ran south India. Brainy Tamil Brahmins no longer dominate the bureaucracy—they are more likely to be in Silicon Valley. But the civil service still works, say businessmen. It is probably why the public finances look passable.

Second, when they weren’t checking their hair, the politicians did some good in the 1970s and 1980s. Free school lunches raised enrolments. Affirmative action in state-run higher education broke down caste hierarchies and inadvertently “created a new ecosystem of private colleges and universities,” says Lakshmi Narayanan of Cognizant, one of the many IT firms that like the state for its education. The work ethic, loyalty and trust many firms say they find in Tamil Nadu owes something to policies from decades ago that spread the benefits of growth.

Some hope that all this has given Tamil Nadu a self-sustaining momentum and that its politics are but a side show, as relevant to progress as Broadway is to Wall

Politics in Tamil Nadu

Lights, camera, election

CHENNAI

Why are so many Tamil politicians ex-film stars?

WHEN the film “Parasakthi” was released in Tamil Nadu in October 1952, it played for over 100 days to rapt audiences. Yet “Parasakthi” was not your usual all-singing, all-dancing Indian hit: it was a propaganda vehicle for a new political party, written by M. Karunanidhi, who would go on to enjoy four stints as the state’s chief minister. The film marked the start of cinema’s starring role in Tamil politics.

During the past 50 years, five of Tamil Nadu’s eight chief ministers have been film stars or scriptwriters. To this day, power still ricochets between Mr Karunanidhi’s party, the DMK, and the AIADMK, a breakaway faction started by M.G. Ramachandran, another film star. Jayaram Jayalalitha, the 65-year-old current chief minister, was one of Mr Ramachan-

dran’s former leading ladies.

Some of the state’s newer parties have starry credentials too. Vijayakanth, a former action hero nicknamed “Captain”, launched a party in 2005 that now has the second-largest showing in the state assembly. R. Sarath Kumar, a body-builder turned actor, has an assembly seat and a small party.

South Indians’ devotion to their film stars forms a good base for any aspiring politician. “The first thing is the recognisability of the face,” says the mustachioed Mr Kumar. His and Mr Vijayakanth’s tens of thousands of fan clubs have been converted into party branches. Tamil stars, who command millions of dollars per film, also have the cash to bankroll their entry into politics.

While Tamil Nadu’s “Kollywood” industry produces politicians (the K comes from Kodambakkam, the suburb where most films are made), television is increasingly the medium for propaganda. Rising incomes and party freebies mean even many poor families own a goggle-box. The main parties (or their supporters) all run their own channels too. But biased news bulletins do not rouse the public like the old films.

Ms Jayalalitha has other ways to try to ensure favourable coverage. One is defamation cases. She has filed several against her critics. Another tactic is perhaps more surprising for an ex-film star: making herself inaccessible to the press. “It’s my democratic right,” she said in a rare interview in 2004 with the BBC. “I don’t have to answer every question you put to me.”



Next stop City Hall

Street. But decades of eccentric governance are catching up with Tamil Nadu.

Graft is endemic. Infrastructure, with its long-term benefits, has been neglected—the state has been spending about 5% of GDP a year on it compared with 7-8% in India as a whole. Carmakers must truck new vehicles through Chennai at night to get to its cramped port. A new airport terminal is opening, a metro is being built and new ports are being readied. But this is all a little late. Most worryingly, electricity supply is 20-30% less than peak demand. Small firms without political clout suffer most.

Political neglect is hurting the economy. Tamil Nadu’s share of manufacturing investment has dropped. GDP growth slowed to 4.6% in the year to March 2013, below the Indian average. Ms Jayalalitha has launched a furious campaign to build

power stations and attract investment.

But her eye may also be on a bigger stage: national politics. Tamil parties ally opportunistically with national ones (in March the DMK withdrew from India’s ruling coalition after disagreements over policy on Sri Lanka). Ms Jayalalitha may ally her AIADMK with Narendra Modi, the chief minister of Gujarat, and a likely candidate for prime minister for the opposition Bharatiya Janata Party in the election due by 2014. She may even dream of a leading role herself in a national coalition.

That is unlikely, but it won’t prevent Ms Jayalalitha trumpeting her state as an example to the rest of the country. Tamil Nadu is one of India’s most prosperous places. But it also shows how the neglect of long term problems can catch up with you. Even an actress cannot hide that. ■

Banyan | Mr Joko goes to Jakarta

An honest man looks hard to beat in Indonesia's presidential election next year



IT IS hard to picture Susilo Bambang Yudhoyono, Indonesia's dignified if slightly pompous president, clad in a leather jacket over a T-shirt advertising a rock band. Yet that is how the man who is already the favourite to succeed him appeared on May 31st, to sing at a concert in Jakarta by the British group Arkarna. Joko Widodo, Jakarta's governor, has only been a national figure for a year or so. But already conversations about his future have turned from speculation about whether he nurtures presidential ambitions to questions about what can possibly thwart him in an election due in July next year.

Mr Joko, known to all by his nickname, Jokowi, is not yet a declared candidate, and when asked, stresses his duty to Jakarta, where he was elected only last September. Congested, flood-prone and scarred by squalid slums, Indonesia's capital sorely needs the competent and honest administration he has promised. He turns 52 this month, and some advisers are urging him to defer a presidential bid until the next election in 2019. But recent opinion polls put Jokowi so far ahead of rivals for 2014 that pressure is mounting on him to desert Jakarta and run. He has told friends that three political parties have already approached him as a potential presidential candidate, and another two want him to fill the vice-presidential slot.

Nothing so far hints at disloyalty to his own party, the opposition Indonesian Democratic Party of Struggle (PDI-P), led by Megawati Sukarnoputri, the daughter of Indonesia's first president and who herself held the job in 2001-04. Becoming president is a two-stage process. A parliamentary election next April precedes the presidential poll. Candidates in that have to be nominated by parties. In the system used in the previous election in 2009, which is unlikely to be changed for 2014, to nominate a presidential candidate, parties or coalitions need at least 20% of the seats or 25% of the popular vote in the parliamentary election.

Miss Megawati, defeated in 2004 and 2009 by Mr Yudhoyono, who is known as "SBY", may yet want to have another tilt at the presidency. Or more likely she realises that Jokowi is the stronger candidate but, by deferring an announcement of his candidacy until nearer the election, hopes to protect him from a pre-emptive onslaught by his opponents. She must be aware that Jokowi, who stalwartly spends his weekends campaigning for PDI-P candi-

dates in local elections, has other options.

Of the reasons for his phenomenal popularity, the biggest is that, in a country where "politician" has become almost a synonym for "crook", he is seen as honest. So was Mr Yudhoyono—a big reason for his election wins in 2004 and 2009. But the president has failed to curb rampant corruption. Indeed, partly because an active anti-corruption commission (the KPK) is constantly unearthing new scandals, it is easy to believe the problem has worsened. The nearest Jokowi has come to being accused of graft is in accepting a gift of a bass guitar signed by a member of Metallica, a heavy-metal band (he has a penchant for loud rock music). The KPK confiscated it, and is to exhibit it in a museum.

Second, Jokowi is in some senses the "anti-SBY". Mr Yudhoyono is tall, handsome, orotund, aloof and, say Indonesians, "presidential". Jokowi is small, friendly, chatty yet rather inarticulate and, in the words of Eep Saefulloh Fatah, a political consultant, "everybody's neighbour". Everyone has an anecdote about Jokowi's fundamental decency—or, to the cynic, his deeply ingrained political instincts. A journalist following him through a gruelling day when Jakarta flooded in January tweeted his urge to give him a hug. Noticing he looked tired, Jokowi had called the man's editor to suggest he send a replacement.

Jokowi is also the "anti-candidate". The most popular of the other likely contenders is Prabowo Subianto, who leads his own party, Gerindra, and is seen as a decisive leader, in contrast to the consensual, dithering SBY. He headed the special forces under Suharto, the dictator overthrown 15 years ago, to whose daughter he was once married. Mr Prabowo is accused of human-rights abuses, such as kidnapping student activists in the dying days of Suharto's rule. Mr Yudhoyono, also a Suharto-era general, is struggling to find a candidate for his Democratic Party. Favourite for now seems to be Gita Wirjawan, the trade minister, a former investment banker with little popular following. Golkar, the party that used to give Suharto a veneer of democratic legitimacy, is likely to nominate Aburizal Bakrie, a wealthy but unpopular businessman. Miss Megawati herself was fighting and losing elections even when Suharto was ordaining the outcome.

Indonesian liberals and foreign experts on the country are also enthused by Jokowi. Nobody thought that Indonesia would become a model democracy overnight. The hope, however, has been that after a drastic political decentralisation in 2001 it would start producing grass-roots politicians with a record of efficient and honest administration who would progress to national politics. Jokowi is the proof that democracy works. After a successful career as a self-made businessman selling furniture, he became mayor of the central-Javanese town of Solo, and did a good job, providing a launch-pad for his Jakarta campaign.

Ahok ahoy!

Jokowi's other appealing trait is that, although an observant Muslim in an overwhelmingly Islamic country, he seems prepared to take risks for a secular, pluralistic future. His running-mate in Jakarta was Basuki Tjahja Purnama, known as Ahok, a Christian and a member of the ethnic-Chinese minority, which has suffered discrimination and at times persecution. If Jokowi does forsake his municipal duties for the presidency, Ahok will take over. During Jokowi's campaign for governor, some of his opponents, attempting to appeal to voters' prejudices, warned them that he might not finish the job. But Jokowi's fans would surely forgive his abandoning the capital for the biggest political prize of all. ■



Relations with America

Here we go again

BEIJING

President Xi Jinping shows interest in reviving ties with America. How far is he prepared to go?

AFTER his historic meeting with Mao Zedong in 1972, Richard Nixon wrote in his diary of what he called “probably the most moving moment” of the hour-long encounter: the chairman clasping the American leader’s hand for about a minute as they sat talking. Such sparks of personal chemistry are what China’s new president, Xi Jinping, and Barack Obama may be hoping to recreate during an informal summit on June 7th and 8th.

As *The Economist* went to press Mr Xi was winding up a week-long visit to Latin America and the Caribbean (see next article) before heading on to meet Mr Obama at Sunnylands, an estate in the desert town of Rancho Mirage, California, that once belonged to Walter Annenberg, a publisher. Never before has such a prolonged informal encounter between the two countries’ leaders been scheduled (dress code: “no neckties”). Its rarity and its timing so early in Mr Xi’s presidency suggest a recognition by both countries that their relationship badly needs new zest.

Relations have become increasingly strained by American allegations of Chinese government involvement in the widespread hacking of American computer systems (see article in this section) and signs of greater assertiveness by China in its maritime disputes with American allies in the western Pacific. China is worried by America’s security “pivot” towards Asia.

American officials are encouraged, however, by Mr Xi’s willingness to engage

in such freewheeling diplomacy. His predecessor, Hu Jintao, shunned it, preferring to stick to formal agendas. Before Mr Hu, Jiang Zemin pressed for, and eventually secured, an informal summit with George W. Bush at his ranch in Crawford, Texas. But that meeting in 2002 was much briefer, and Mr Jiang was just days away from stepping down. For the newly installed Mr Xi, the decision to engage in unscripted discussions spread over two days shows unusual confidence in his political grip and his mastery of a vital and highly complex area of foreign policy.

Mr Xi has been quick to take up the political reins—he became commander-in-chief of the army at the same time as assuming leadership of the Communist Party last November, instead of having to wait another two years as Mr Hu did. Unlike Mr Hu, a dour apparatchik, he has the poise and confidence of one born to power: his father was one of Mao’s comrades-in-arms. He “fills the room with his presence”, says a Western diplomat.

But it has not been easy for Western officials to make out how Mr Xi plans to wield his power; hence the importance (as the Americans see it) of the summit in California. There have been mixed signals. Mr Xi has called for a “new type of great-power relationship”, implying that China’s rise will pose no threat to America—unlike the rise of other powers in history and the conflicts they caused. But in the months leading up to his assumption of power Mr Xi

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was already in charge of a new push in the East and South China Seas to assert long-standing Chinese claims to islands controlled by Japan and the Philippines, both American allies. These efforts, involving patrols by civilian law-enforcement vessels, persist despite widespread alarm in the region. On June 1st America’s defence secretary, Chuck Hagel, told a regional security conference in Singapore that America was “firmly against any coercive attempts to alter the status quo” in the two seas. China does not appear to be listening.

Mr Obama will be encouraged by Mr Xi’s seeming willingness to tackle tough economic reforms that Mr Hu, as president, lacked either the courage or the conviction to deal with. Chinese officials have also been talking more enthusiastically about the Trans-Pacific Partnership. This proposed free-trade arrangement among Asia-Pacific countries is supported by America. In the past Chinese officials often described it as an effort to marginalise China economically by setting high barriers to entry. Now some see it as a useful tool for promoting economic reforms. China is also sounding more eager to work with America on climate change and on bringing North Korea into line.

Some things stay the same

At the same time Mr Xi has shown no sign of willingness to reform China politically. Controls on the internet and other media remain just as tight, heavy security measures remain in force in Tibetan areas and academics complain of stepped-up efforts to ensure ideological conformity on campuses. During a visit to Australia in 2011 Mr Obama said, in apparent reference to China, that prosperity without freedom was “just another form of poverty”. There are few signs that Mr Xi has taken that message on board. Yet some analysts see grounds for optimism that Mr Xi could yet ►►

▶ bring new warmth to the relationship.

One glimmer of hope concerns ties between the two countries' armed forces. These have long been troubled: subject to fits of Chinese rage over American arms sales to Taiwan and other perceived transgressions. But Bonnie Glaser of the Centre for Strategic and International Studies, a think-tank in Washington, says that in the weeks before November's handover of power in China a "change of tone" became evident among Chinese military officials in their talks with American counterparts: less confrontational and more committed to keeping military-to-military relations on an even keel. In October China appointed a new deputy chief of staff, Lieut-General Qi Jianguo, to handle such discussions. Ms Glaser says Pentagon officials have found him "a breath of fresh air".

There were hints of this at the conference in Singapore, which was organised by the International Institute for Strategic Studies, a London think-tank. Asked about China's dispute with Japan over islands in the East China Sea known as the Diaoyus in China and the Senkakus in Japan, General Qi repeated the views of Deng Xiaoping, who said in the 1970s that the problem could be shelved and possibly resolved by the next generation. A member of his delegation also confirmed that China had been sending ships on reconnaissance visits to waters within 200 nautical miles of American territory. He did not say where, but the Pentagon said in

May that Chinese vessels had been making such approaches to Guam and Hawaii. China had long regarded similar American behaviour off China's coast as unlawful. It may now have changed its mind.

Pessimists might point to remarks made by General Qi in January in an article in a party newspaper, *Study Times*. In it he said that over the long term the shared interests of America and China would outweigh their differences. But he called for vigilance against what he called a strategy of "infiltration and subversion" by the West and for efforts to prevent "interference by outside powers" in the South China Sea. In other words, America has no right to get involved in disputes affecting a sea traversed by half the world's annual tonnage of maritime trade. Mr Obama begs to differ.

Optimists would call such statements ritual nods to party orthodoxy. If Chinese leaders are to embrace America, they need to protect themselves at home by presenting themselves as nationalists and party believers. Xie Tao of Beijing's Foreign Studies University suggests a comparison with Nixon, whose diplomatic breakthrough with China in 1972 was helped by Americans' belief in his anti-Communist credentials. In the two powers' relationship, however, both optimists and pessimists have been proven wrong before, and muddling through has often been the norm. ■

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Mr Peña and Mr Xi unfix bayonets

increasing and its distance from the United States hurting its competitiveness, may now be looking for export platforms to target America.

Mr Xi's singling out of Mexico for special attention was his most surprising move. Last year Mexican academics complained that the bilateral relationship had reached its lowest point since diplomatic relations restarted in 1972, hit by tiffs over Mexican H1N1 flu in 2009 and a presidential audience with the exiled Tibetan leader, the Dalai Lama, in 2011. With government-to-government ties strained, finicky trade disputes all but closed the Chinese markets to Mexican goods such as tequila and pork. China's investment in Mexico has been minute.

However, two months ago, Mexico's new president, Enrique Peña Nieto, met Mr Xi at a forum in China, and the two hit it off. José Antonio Meade, Mexico's foreign minister, says that Mr Xi made an "express offer" to increase China's imports from Mexico. Given what the Mexicans see as a ten-to-one trade imbalance in China's favour, this was music to their ears.

There are big hurdles to overcome, though. The first is that the two countries do not see eye to eye on the size of the trade imbalance. Many Chinese exports to Mexico come indirectly, via America, so China does not count them, says Sergio Ley, a former Mexican ambassador in Beijing.

A second problem is a Mexican private sector that believes trade is unfairly stacked in China's favour, and so keeps its eyes fixed on the American market. Third, Mexico is hitched to an American-led free-trade juggernaut, the Trans-Pacific Partnership, that has until now been anathema to China. For all the tequila that Mexico persuades China to buy, it will take more than fancy footwork by Mr Xi and Mr Peña to turn relations from rivalry to revelry. ■

Xi Jinping in America's backyard

From pivot to twirl

MEXICO CITY

The Chinese leader tries a smooth move in America's backyard

LIKE a veteran salsa dancer, Xi Jinping, the Chinese president, has responded to the United States's "pivot" to Asia with his own twirl south of the Rio Grande. A month after a re-elected Barack Obama paid calls on Costa Rica and Mexico, Mr Xi followed in his footsteps, visiting San José and Mexico City from June 2nd to 6th.

He spent the previous weekend in Trinidad and Tobago, arriving in America's *mare nostrum* four days after Joe Biden, America's vice-president. As a welcome, the 280-strong Chinese entourage was greeted with the sound of "Ah Feel to Party", a calypso classic, and China further enhanced the mood by promising \$3 billion in (unspecified) soft loans to the eight Caribbean heads of government who trailed through to meet Mr Xi. Mr Biden, by contrast, got an earful of complaints that America no longer cared about the region.

Ahead of his planned meeting with Mr Obama in Southern California, Mr Xi's choice of destinations looked to some like an intriguing "shot across the bow" to America, possibly in response to Mr Obama's courting of countries in China's orbit, such as Myanmar. On this trip, his first to Latin America as president, Mr Xi did not visit Brazil, China's biggest trading partner in the region, nor ideological allies Cuba and Venezuela. Instead, he chose two free-trade partners of America, one of which, Mexico, is so tightly bound to its northern neighbour that it sells to America in eight days what it sells to China in a year.

There was more than superpower politics in play, though. Costa Rica and Mexico are not the commodity exporters that China has tended to court. Mexico, in particular, is a rival low-cost manufacturer, raising the possibility that China, with its wages

Cybercrime

Admit nothing and deny everything

BEIJING

Barack Obama says he is ready to talk with Xi Jinping about Chinese cyber-attacks. That makes one of them

XI JINPING'S first meeting with President Obama as head of state on June 7th is also the first such summit to feature prominently the issue of alleged Chinese cyber-attacks on American companies and interests. It has taken a long time for the issue to take centre stage in diplomatic relations between the two countries. After years of ineffectual and perhaps overly discreet grumbling about Chinese hacking, American officials are finally forcing the issue.

The prospects for effective public diplomacy on hacking appear grim. The Americans have placed some hope in “naming and shaming” China for hacking, and in recent months there has been no shortage of that. Senior American officials, big Western news media and Mandiant, a security firm, have issued a series of detailed reports and accusations of widespread Chinese hacking: of defence industry technology, of energy companies, of blueprints for American infrastructure, and of the e-mail systems of American officials and journalists. Mandiant's report in February traced many attacks to the area around a People's Liberation Army facility in Shanghai.

In recent weeks came two more incendiary salvos from America. On May 22nd an independent commission—led by Dennis Blair, a former director of national intelligence, and Jon Huntsman, a former ambassador to China—issued a report accusing China of being responsible for the theft of 50-80% of all American intellectual property that is stolen, including a significant but unknown quantity from cyber-intrusions. On May 28th the *Washington Post*, citing in part a confidential assessment made for the Pentagon, reported that “many of the nation's most sensitive advanced weapons-systems have been compromised by Chinese hackers”, including missile-defence technology and combat aircraft. All the accusations have met with angry denials by Chinese authorities, who have complained of being the victim of American hacking.

Chinese officials have at least agreed to talk about the issue. John Kerry, the American secretary of state, said in Beijing in April that the two sides would establish a working group on cyber-security. But it will be hard for Americans to discuss hacking productively with their counterparts. China goes by what three American authors in a new book, “Chinese Industrial Espionage”, call a philosophy of “admit

nothing and deny everything”.

In addition, experts accuse China of making no distinction between hacking to steal intellectual property and the traditional pursuit of foreign military secrets. All is fair game. They don't believe Americans who tell them that “America does not conduct espionage on behalf of our companies,” says James Mulvenon, an expert on the Chinese army and one of the authors of the new book. In the Chinese system the two types of cyber-espionage are being conducted by the same people and organisations, he says, and the commercial proceeds are distributed to state-owned enterprises and other national champions.

Who benefits?

So far, none of the investigations that trace hacking to China has named or shamed (publicly, at least) a single Chinese company that has received the fruits of cyber-attacks. If it is indeed the army that is responsible for much of the hacking, as American security firms and government officials argue, that makes it difficult to see which companies are the ultimate beneficiaries. It also makes it impossible to estimate the total commercial value of Chinese hacking.

“Part of the problem is that we don't fully understand how much of it is being used and how effectively,” says Dmitri Alperovitch, a co-founder of CrowdStrike, a cyber-security firm. “When someone

steals the designs for the latest automobile, that automobile is not going to roll off the assembly line in China the next day.”

The lack of transparency complicates strategies for dealing with hacking. If American investigators had specific information about Chinese companies which are benefiting from stolen technology, then legal or trade actions, or the threat of them, might have an impact. Security experts say that businesses must protect themselves anyway by increasing their layers of security and their vigilance against the most common types of attacks, such as spear-phishing with infected attachments and web links.

In addition, Mr Alperovitch and Mr Mulvenon both suggest a standard counter-intelligence measure known as “poisoning the well”. By planting “honey nets” and false leads, Mr Mulvenon argues, America could force the Chinese to become more selective about their approach. “The goal of our policy should be to transform the Chinese system so it is as hard to get a [cyber-operation approved in their system as it is in ours,” he says.

Mr Obama could also try to persuade Mr Xi to be more selective by stressing the damage to China's reputation. American officials began publicly acknowledging alleged Chinese cybertheft as early as 2006 (according to the new book); in 2010, Google publicised an attack against its systems. The recent barrage of negative publicity has had a bigger impact, playing into fears of China as an aggressive rising power.

Hacking has in the past six months moved to “the top of the list” for business executives' meetings with Chinese officials, says James McGregor of APCO Worldwide, a consultancy. And also, it appears, for Mr Obama's meeting with Mr Xi. Putting the issue at the top of Mr Xi's list will apparently take more doing. ■



The death of Chen Xitong

IT IS somehow fitting that news of the death of Chen Xitong, at the age of 82, leaked out on June 4th, the 24th anniversary of the violent crackdown on demonstrators in Tiananmen Square. As mayor of Beijing at the time, Mr Chen was one of the most prominent hardline voices in support of the government's actions. After Tiananmen, however, he was jailed for 16 years for corruption (see picture) though many believed he was the victim of a power struggle with the then president, Jiang Zemin. Last year, in a book published in Hong Kong, Mr Chen said his role in 1989 had been misunderstood. He admitted events were handled improperly but claimed that he was not involved in the decision-making. Discussion of Mr Chen's death was censored on Chinese microblogs. Perhaps most of today's youth had never heard of him anyway.



China's foreign ports

The new masters and commanders

COLOMBO

China's growing empire of ports abroad is mainly about trade, not aggression

FROM the ground, Colombo's port does not look like much. Those entering it are greeted by wire fences, walls dating back to colonial times and security posts. For mariners leaving the port after lonely nights on the high seas, the delights of the B52 Night Club and Stallion Pub lie a stumble away. But viewed from high up in one of the growing number of skyscrapers in Sri Lanka's capital, it is clear that something extraordinary is happening: China is creating a shipping hub just 200 miles from India's southern tip.

The old port is cramped and stuffed full of containers. To its left, a vast new breakwater curves into the ocean. Alongside it a Chinese ship has just delivered three giant Chinese cranes (see picture) to a new container terminal built by a Chinese company and run by an entity controlled by another Chinese firm. The terminal opens in July and will be complete in April 2014. The old port took centuries to reach its present capacity. China will have almost doubled it in under 30 months. Operated at full capacity, it would make Colombo one of the world's 20 biggest container ports.

This development has split opinion in Sri Lanka. At a gathering of Colombo's old salts, the mood is optimistic. Tales of Chinese domination are "just scaremongering" says one captain. The port will push

Colombo into the big league, says the boss of a repair yard. A few are nervous, though. The Chinese have a hidden agenda, says someone close to the ports authority.

For India's hawks, there is no ambiguity. The port is part of a Chinese plot. Colombo is a "transshipment" hub for India: big ships unload containers there and feeder boats take these to India's often crummy ports. About 13% of India's container traffic travels via Colombo. If the new terminal ran at full capacity and dedicated itself to transshipping containers to India, that could rise to 28%, leaving the country dependent on a foreign-run choke point.

Worse, critics argue, Sri Lanka has become ever chummier with China since the end of its civil war in 2009. On May 29th Mahinda Rajapaksa, Sri Lanka's president, met Li Keqiang, China's premier, in Beijing. Loans and declarations of "profound friendship" were secured. China is also developing roads, airports and another port, Hambantota, on Sri Lanka's south coast. Chinese warships have stopped at Colombo on the way to Pakistan and to anti-pirate operations in the Gulf of Aden.

In the eyes of some Indians, Colombo is part of a "string of pearls"—an American-coined phrase that suggests the deliberate construction of a network of Chinese built, owned or influenced ports that could

threaten India. These include a facility in Gwadar and a port in Karachi (both in Pakistan); a container facility in Chittagong (Bangladesh); and ports in Myanmar.

Is this string theory convincing? Even if the policy exists, it might not work. Were China able to somehow turn ports into naval bases, it might struggle to keep control of a series of Gibaltars so far from home. And host countries have mood swings. Since Myanmar opened up in 2012, China's influence there has decreased. China love-bombed the Seychelles and Mauritius with presidential visits in 2007 and 2009 respectively. But since then India has successfully buttered up these island states and reasserted its role in the Maldives. Besides, China's main motive may be commerce. C. Raja Mohan, the author of "Samudra Manthan", a book on Sino-Indian rivalry in the Indian and Pacific Oceans, argues that China's port bases partly reflect a desire to get easier sea access for trade to and from west China.

A load of old rope

State-owned firms are in charge of most of China's maritime activity, and their motives are at least partly commercial. There is certainly not much talk of invading India in the offices of Tissa Wickramasinghe, the general manager of CICT, the firm that runs Colombo's new terminal. It is 85% owned by China Merchants Holdings International, a Hong Kong firm that is ultimately controlled by China's government.

Mr Wickramasinghe says the port aims to take advantage of a new global pattern of trade. Trade by poor countries will rise. More containers will be used (only 22% of Indian cargo is containerised—half the world average). The shipping corridors be- ▶▶

▶ tween East Asia, Europe and Africa will get even busier. A new generation of huge ships that are almost half a kilometre long will dominate them. The ports that service these vessels will prosper.

China's maritime interests already reflect its status as the world's largest exporter and second-largest importer. Many of the world's biggest container ports are in China. It controls a fifth of the world's container fleet mainly through giant state-owned lines. By weight, 41% of ships built in 2012 were made in China.

Japanese and Korean firms built a presence in Californian ports in the 1980s and 1990s. Now China's muscle in trade and shipping is being mirrored in ports too. At first this was about building. China Harbour Engineering Company has constructed projects around the world. In 2012 its state-controlled parent firm had orders of \$12 billion for construction deals abroad.

The next step is to own and run ports (see map). Hutchison Whampoa, a buccaneering, privately owned Hong Kong conglomerate, has long had a global network of ports. The pioneer among mainland firms was Cosco Pacific, an affiliate of state-owned Cosco, China's biggest shipping line. In 2003-07 it took minority stakes in terminals in Antwerp, Suez and Singapore. In 2009 it took charge of half of Piraeus Port in Greece. It has invested about \$1 billion abroad. China Merchants Holdings International, a newcomer, has spent double that. It invested in Nigeria, as well as Colombo, in 2010. Last year it took stakes in ports in Togo and Djibouti. In January it bought 49% of Terminal Link, a global portfolio of terminals run by CMA CGM, an indebted French container line.

The pace is quickening. In March another firm, China Shipping Terminal, bought a stake in a terminal in Zeebrugge in Belgium. On May 30th China Merchants struck a multi-billion deal to create a port in Tanzania. Even the more cautious Cosco Pacific is thinking about deals in South-East Asia and investing more in Greece.

What explains this surge in investment? The slowdown in trade has dulled prospects in China and lowered prices abroad from the heights of 2007-08, says Jonathan Beard of ICF GHK, a consultancy. The focus on Asia, Europe and Africa is partly because America may be out of bounds. China Shipping Terminal has small stakes in facilities in Seattle and Los Angeles, according to Drewry, a consultancy. But the experience of Dubai's DP World suggests that America would not roll out a red carpet. In 2006 DP abandoned plans to buy American ports after a political backlash. Some Americans worry that China wants to take over the Panama canal.

Chinese firms may also subscribe to a supersized vision of the industry in which an elite group of ports caters to a new generation of mega-vessels. These will be

more fuel-efficient and link Asia and Europe (they can just squeeze through the Suez Canal). After a decade of hype these behemoths are now afloat. In May CMA CGM received the *Jules Verne*, the world's largest container ship. It can handle 16,000 containers and has a 16-metre (52-foot) draft. In July Maersk, a Danish line, will launch an 18,000-container monster. It has ordered 20 from Daewoo, in Korea. China Shipping Container Lines, the country's second biggest firm, has just ordered five 18,400-container vessels from Hyundai.

Some ports may struggle to cater to these ships. Some of China's new terminals may try to exploit that. Cosco Pacific is building a dock at Piraeus that can handle mega-ships. Colombo is deep enough for ships with an 18-metre draft. Its cranes can cope with ships 24 containers wide. Nothing in India compares with that.

Darling can't you hear me, SOS

There are risks to China's port strategy. The world economy may not recover quickly. Today's slow growth lowers demand for containers. It also means many shipping lines are losing money, making them nervous about raising capacity by launching lots of new mega-ships. That in turn allows smaller ports to stay competitive.

The immediate outlook is tough for Colombo's new terminal, in part because of India's woes. India's container traffic, having grown at a blistering pace, declined by 4% in April compared with the same month last year. "We never imagined this situation," says an Indian port boss. Then there is competition. Vallarpadam, a port in the Indian state of Kerala owned by DP World, is only a third full. India's bureaucrats have relaxed their fiddly rules to help it compete. Ports in Mumbai and Mundra, in west India, already get lots of direct calls from global lines. Other ports such as Chennai are slowly winning more, too.

The age of the mega-ship might secure Colombo's position, but it is some way off.

The initial schedules for the new Maersk and CMA CGM vessels do not include stops in Colombo. Local agents hope other lines will try the port this year. Some expect that patriotic Chinese shipping lines will shift their business to Colombo from other big Asian ports. But that is a stretch. They are losing money and may not want to subsidise Sri Lanka. In 2012 Aitken Spence, a local firm, sold its stake in Colombo's new terminal, arguing that it was not profitable. Some reckon it will take 15 years for it to break even.

Yet the port industry is about strong nerves. Eventually a recovery will materialise. In fact, the long-term challenge for China's port operators may be commercial success. If they do create hubs for other countries, these firms' association—unfairly, or otherwise—with China's strategic interests will be a liability. Colombo is an example. India's security grumbles are partly posturing. China is its biggest trading partner, and India's main state-owned shipping firm gets its vessels repaired in China. But should Sri Lanka ever succeed in dominating India's trade while being a close Chinese ally, India would surely improve its ports enough to be independent.

Experiences elsewhere offer no clear-cut guide. After political tensions in the South China Sea, China Merchants has withdrawn from a port project in Vietnam. But Cosco's Piraeus investment, once controversial, is a success, with profits rising and the firm winning plaudits for investing and creating jobs for Greeks.

China's port strategy is mainly motivated by commercial impulses. It is natural that a country of its clout has a global shipping and ports industry. But it could become a flashpoint for diplomatic tensions. That is the pessimistic view. The optimistic one is that the more it invests, the more incentive China has to rub along better with its trading partners. This, not deliberate expansionism, is what the locals are betting on in Colombo. ■

String of Chinese pearls





Luxury goods in China

Beyond bling

SHANGHAI

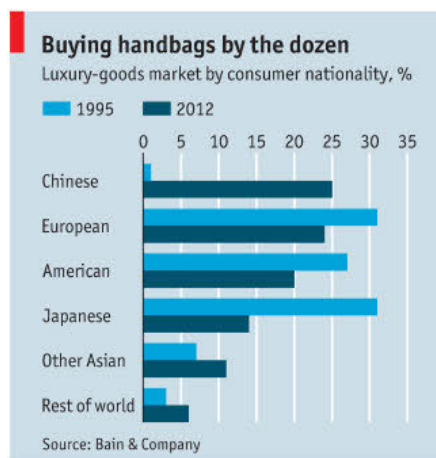
Life is getting harder for purveyors of luxury in China, but the growth prospects are still fabulous

“IT WAS an amazing golden age,” reflects Guillaume Brocard of Qeelin, a Chinese jeweller. From 2007 to 2011 many luxury-goods firms enjoyed double-digit annual growth in China, which became their most important market. The first blows came last year, with an economic slowdown and jitters about the political transition. Now, a crackdown on corrupt gift-giving and a populist backlash against ostentation have added to the woes.

The outlook for luxury-goods firms appears to have dimmed. Internet users have posted incriminating pictures, for example of poorly paid bureaucrats wearing suspiciously pricey watches, which have caused heads to roll. Mobs have also disrupted banquets deemed to be too lavish, on occasions forcing officials to their knees to beg for forgiveness.

This has traumatised some purveyors of conspicuous consumption. Beijing Xiangeqing, an upmarket catering outfit that is usually highly profitable, plunged into the red last quarter. Sales of shark fin, the key ingredient of a soup served at fancy dinners, are down by around 70% year-on-year. Imports of bottles of Bordeaux costing more than \$800 have collapsed.

But look beyond the lavish public banquets and a more complicated picture emerges—and not just because devious officials are now throwing their extravagant parties in private. It is true that some luxury-goods firms are grappling with slowing



demand in China: imports of Swiss watches, for example, fell 24% year-on-year in the first quarter of 2013. But Andrew Keith of Lane Crawford, a high-end department store that first opened in Hong Kong in 1850, reports no slowdown at his stores there or in Beijing. Burberry, a British fashion brand, enjoyed sales growth in China of about 20% in the year to March. Sales of private jets in China are still soaring.

So what is really going on? It seems that China remains the biggest prize in the luxury industry, but the low-hanging fruit is gone. Luxury firms must now venture beyond the coastal cities where they have made easy fortunes, cultivate new types of customers and market niches, and experi-

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ment with new business models. It will be worth the effort. Despite the recent troubles, Bruno Lannes of Bain & Company, a consultancy, insists that “Chinese have become, and will remain for a long time, the most important luxury consumers.” His firm estimates that luxury sales in greater China (which includes Taiwan, Hong Kong and Macau) will grow by 6-8% this year, to exceed \$35 billion, making it a luxury market second only to America.

But even that does not tell the full story. China’s rich are travelling more and farther, and do lots of luxury shopping on their travels, especially in Europe, whose weak currencies encourage Chinese visitors to splash out. Measured by the nationality of the buyer, China is now the world’s biggest luxury market, and growing fast (see chart). Last year mainland Chinese took 83m foreign trips, up 18.4% on 2011. Global Blue, a big tax-free-shopping firm, says its refunds to Chinese shoppers shot up by 58% last year to more than 24 billion yuan (\$3.9 billion).

To make the most of this trend, firms need to rejig their shops worldwide. They need Mandarin-speaking assistants, VIP rooms big enough to accommodate large tour parties and payment systems that can handle Chinese credit cards. Philippe Léopold-Metzger, who runs Piaget, a Swiss watch and jewellery brand, says he regards the firm’s outlets in China itself more as showcases than profit-earners: half of his global business comes from mainlanders, but they mostly buy while on foreign trips.

That said, there are still plenty of opportunities to expand sales inside China. Kent Wong, managing director of Chow Tai Fook, the world’s largest jeweller, with over 1,700 sales outlets on the mainland, says their takings are continuing to grow. Any weakness is seen chiefly in coastal cities exposed to China’s struggling exports. ▶▶

Luxury in the Arab world

Would Sir like his goat wrapped?

BEIRUT

How the rich are different in the Middle East

DUBAI'S rich will soon have yet another way to flaunt their wealth, when the Burj al-Arab hotel starts selling its guests custom-made 24-carat gold iPads. The Middle East's big spenders still do much of their shopping on foreign jaunts, as they have done since the oil money started flowing in the 1970s, but now they also have plenty of places back home to splash their cash. And the Gulf's malls are drawing foreign shoppers from Russia, India and Africa, too. Bain & Company reckons that luxury spending in the region grew by 10% last year, to just over \$8 billion, a bit less than half the amount spent in mainland China.

As elsewhere, wealthy Arabs like to wear famous brands. But they are especially keen on one-upmanship and novelty. According to Patrick Chaloub, boss of Chaloub Group, a luxury retailer, customers increasingly know just what they want, and want something different. Selina Dixon of the Abu Dhabi office of Quintessentially, a "lifestyle management" company, says: "It's like: 'You have a Maserati? OK, I ordered a Bentley four-by-four.'" For younger consumers, the

more exotic the better, explains Ms Dixon: "People say: Can you get me a Bengali tiger for decoration [at a party]. Or, I need a pygmy goat as a present—and it has to be this height and colour."

Muslim women usually wear a long coat or *abaya* (cloak) over their clothes, so external accessories like handbags and sunglasses (and perfumes) are popular. In the five years to 2012 sales of accessories grew by 74%, and watches and jewellery by 65%, in the United Arab Emirates, says Euromonitor, a research firm.

The conservativeness of Arab society also drives demand for custom-made entertainment. Bain found that worldwide the rich increasingly want to spend their money on experiences rather than objects. But nowhere is that more so than in Gulf countries, where places to fraternise in the evening are limited. So wealthy Saudis will pay dearly to have a famous footballer make a guest appearance at their parties, or a chef from a renowned restaurant give a cookery demonstration. In the Arab luxury market, then, brands like Beckham can be as valuable as Cartier, Gucci or Rolls-Royce.

▶ In the interior, where locals are not yet used to foreign shopping jaunts, "middle-class incomes are still rising."

Luxury firms are having to adapt to this fragmentation in the Chinese market. Whereas flashy "bling" still sells to the new money in smaller, interior towns, globe-trotters from the coastal cities are returning from their travels as more knowledgeable and demanding shoppers. Armando Branchini of Fondazioni Altgamma, the Italian confederation of luxury brands, says such customers look for more subtle and modern designs.

Digitally challenged

Over two-thirds of Chinese use the internet to research brands, but most luxury firms have pitiful digital strategies. One study found that luxury websites take four times as long to load in China as elsewhere (because most firms do not put servers inside China's Great Firewall, which slows access to foreign sites) and rarely offer yuan prices or purchasing options. Mobile commerce is growing in China, but few luxury firms' websites are optimised for mobile devices.

As the tastes of rich Chinese evolve, business models combining local flavour and global savvy are emerging. Qeelin, recently bought by Kering, a French luxury

house formerly known as PPR, is one example. Another is Shang Xia, a homeware label inspired by local crafts, launched in 2010 by Hermès, also of France. Under orders from the government in Beijing, foreign carmakers and their Chinese joint-venture partners are creating new, local brands: BMW will produce cars with the Zhinuo badge, and Mercedes will market new models under the Denza brand.

So far, Chinese luxury buyers, especially of cars, have turned up their noses at domestic brands. But the hybrid brands may prompt them to reassess the "Made in China" label, says Michel Gutsatz of the China Europe International Business School. At a conference the school recently held, He Haiming of CCTV, China's dominant national broadcaster, pointed out that "Made in Germany" and "Made in Japan" were also once derided, but are now marks of quality. As Europe's luxury-goods firms grow from low-volume exclusivity to semi-industrial scale—thanks in large part to China's voracious appetite for their wares—Mr Gutsatz argues that they "must think of economics" and consider manufacturing in China itself instead of mainly exporting to it. The business of getting wealthy Chinese to open their wallets is bound to go on evolving, but the opportunities for growth make it irresistible. ■



Patent reform

Obama goes troll-hunting

NEW YORK

The president proposes a new round of intellectual-property reform

THE solitary, lumbering trolls of Scandinavian mythology would sometimes be turned to stone by exposure to sunlight. Barack Obama is hoping that several measures announced on June 4th will have a similarly paralysing effect on their modern incarnation, the patent troll.

According to this saga of intellectual-property misanthropy, these creatures roam the business world, buying up patents and then using them to demand extravagant payouts from companies they accuse of infringing them. Often, their victims pay up rather than face the costs of a legal battle. In one much-cited example last year, MPHJ Technologies and dozens of associated shell companies sent letters to thousands of small businesses demanding \$900-1,200 per employee for using scanners which they claimed infringed patents. Vermont's attorney-general is now suing MPHJ, accusing it of breaking state consumer laws.

Mr Obama first declared war on the patent trolls in 2011 when he signed the America Invents Act. It was supposed to reduce the number of lawsuits but has not even slowed the growth rate. The trolls now account for perhaps half of the 4,000 or so patent cases a year in America. The president's new proposals are intended in part to scare them off. Courts would gain powers to impose penalties on anyone bringing what they deem to be frivolous patent litigation. The ultimate owner of the patent involved in a lawsuit would have to be disclosed, preventing trolls from hiding behind anonymous shell companies. Those bringing cases would also have ▶▶

to be clearer about how their patent is supposedly being infringed.

Mr Obama's powers to push through such changes by "executive order" are limited, so most of his proposed reforms will mean persuading Congress to pass new laws. He insists he has no desire to stop legitimate efforts to enforce intellectual-property (IP) rights. But his proposals have outraged those who see beauty in the beast. Troll-lovers argue that in buying and enforcing patents, they create a vibrant market in invention that maximises its financial rewards and thus encourages it. The Software Alliance, which represents some (but not all) big software firms, including Microsoft, said the proposals could "inadvertently put at risk innovation for many industries that rely on software, from manufacturing to biotech."

Nathan Myhrvold, a wealthy former Microsoft executive, is regarded by his critics as the king of the trolls. His firm, Intellectual Ventures, describes as "misguided"

the requirement to name the ultimate owner of a patent in court: he argues that doing so might reveal the owner's commercial strategy to its rivals. Besides, as one of Mr Myhrvold's partners put it last year, "The owner of the IP is irrelevant; the fact of the IP is what matters." Yet even Intellectual Ventures concedes that, "Some of the president's current proposals could help alleviate some of the issues that persist in the current patent system."

One thing is clear: no one is entirely happy with how the patent system works. Trolls are not the only ones bringing big patent-infringement cases with far-reaching consequences. For instance, on June 4th America's International Trade Commission found that Apple had infringed patents held by Samsung Electronics, and it banned several Apple products from being imported into America. Whether this sort of thing is good for consumers, or will encourage more Americans to invent things, is not patently obvious. ■

Zambeef

A rare meat success in Africa

LUSAKA

A fast-growing food firm is looking beyond its home country for customers

THE patrons of Manda Hill, a shopping centre in a posh part of Lusaka, Zambia's capital, like their beef and chicken extra lean and in big portions. The meat on sale at the mall's branch of Shoprite, a South African supermarket chain, comes in trays with up to a dozen cuts. Meat is delivered three times a week. Cutting, trimming, seasoning and packing is done to strict guidelines in a glass-walled room behind the display cabinets. The visible butchers are like a badge of freshness for prosperous Lusakans, who shop here in droves. The store is said to be the busiest in the whole Shoprite empire.

The butchery is run by Zambeef, a fast-growing food company based in Lusaka. It operates meat counters at all 20 Shoprite stores across Zambia as well as in the chain's newer outlets in Ghana and Nigeria. Zambeef's eggs, milk and yogurt drinks are stocked by Shoprite and other local supermarkets. Zambeef has around 100 shops of its own, making it one of the biggest chains in the continent outside South Africa. It is thus well placed to serve a burgeoning class of consumer between the well-heeled shoppers of Manda Hill and the majority that just scrape by.

Beyond South Africa there are few big indigenous firms that serve the continent's middle class, which the African Development Bank reckons has swollen to more than 325m. Yet as their numbers keep increasing, demand for meat and other luxury foods will surely grow, because Africa has much scope to catch up with the rest of the world (see chart). Nigeria has Dangote Flour and UAC Foods. But most of the country's big consumer firms are rich-world offshoots.

Zambeef is also unusual in that it ▶▶

Semiconductor makers

Bend me, shape me

TAIPEI

Intel wants much more than fitter, more supple personal computers

ASUSTEK, a Taiwanese computer-maker, has a penchant for unusual, even wacky, ideas. At Computex, a trade fair in Taipei, its home city, this week, ASUSTEK was at it again. It showed off the Transformer Book Trio, which has two operating systems: the detachable screen is an Android tablet; once clipped to the keyboard it becomes a notebook PC, running either Google's Android (for play—think of all those apps) or Microsoft's Windows 8 (for work).

Yet ASUSTEK's dual device says as much about the ambitions of Intel, the world's biggest maker of semiconductors, as about its own. Intel makes the chips powering both of the Trio's systems. It has dominated the market for the processors that power desktop and laptop PCs for decades. The Trio contains the latest version of its Core processor, known as Haswell, which Intel launched at Computex on June 4th. The screen contains an Atom, Intel's mobile chip: this week Intel demonstrated the next version, for devices due to go on sale later this year. For Intel it is vital that both these new chips succeed.

That is because PC sales have been plummeting—by 14% in the year to the first quarter, says IDC, a research firm—and because Intel has struggled to get its chips into tablets and smartphones. Intel hopes its power-efficient Haswell chip will help revive PC sales, making possible thinner, quieter and faster ma-

chines, and allowing laptops to run for 50% longer. Just as important, Intel is pushing PCs that double as tablets. On stage in Taipei were "two-in-one" machines of many varieties, by many manufacturers, with touchscreens that detach, swivel or fold behind the keyboard.

Better performance and greater flexibility may persuade some people to replace their PCs with younger, suppler models, and might even invigorate the hitherto droopy demand for Windows 8. But they will not relieve Intel of the need to succeed in smartphones and tablets. These are mostly powered by chip designs licensed from ARM, a much smaller, British firm, whose energy-efficient designs are ideal for mobile devices.

Intel has been closing the power gap—though ARM, unveiling its own latest designs in Taipei, says it is still in the lead. This week Intel chalked up a notable victory when Samsung chose Atom for a new Android-powered tablet. Ian Drew, ARM's chief marketing officer, notes that Samsung has long used multiple suppliers. "We've always said that Intel will win sockets," he says, but, "It's a different business to the laptop business." Whereas Intel, with Microsoft, could call the shots in PCs, the Android market is more competitive: to make his point, Mr Drew lays out three cheap seven-inch tablets, each with a chip from a different supplier. The Atom may not be minuscule, but it is just one among many.

Who gets the lion's share?

Meat consumption, kilograms per person, 2009



Source: FAO

reaches down to lower-income groups. Its outlet in Mtendere, a short drive from Manda Hill, sells fatter meat in smaller portions as well as beef liver and chicken's feet. The store's tiled floor and hair-netted staff stand out in Mtendere's ragged street market. It turns over a tidy \$30,000 a week.

The hub of the business is 50km (30 miles) north of Lusaka at Huntley Farm in Chisamba. Its boss, Francis Grogan, came from Ireland in 1991 to manage a struggling meat factory just as Kenneth Kaunda, who had ruled for a generation, was ousted in Zambia's first multiparty elections. State-owned firms were leaking cash but the economy was close to its nadir. Mr Grogan was soon joined by Carl Irwin, returning to his native Zambia from London to run his family's firm. The pair turned it around and in 1994 founded Zambeef, with a staff of 60. It now employs 5,000.

An early expansion into retailing proved a shrewd move. Shoppers paid cash for beef but cattle could be bought on credit. In 1995 Shoprite took over eight stores from the Zambian state and asked Zambeef to run the meat counters. It was a big break for the fledgling firm. "We clicked with Shoprite," says Mr Grogan. To keep growing, Zambeef has gone back up the production chain. It acquired Huntley Farm in 1996 for its abattoir, roughly halfway between Lusaka and the copper belt. It has since bought farmland nearby to supply grain for feed. Cattle are fattened here for 60-90 days before slaughter.

A shortage of cattle is a long-standing problem, which in part is why the firm started producing chicken. Mr Grogan will send lorries to Tanzania or Namibia to top up the supply. The quality is variable. Meat from the well-fed cattle at Huntley Farm provides steaks for Shoprite and for the fancy hotels springing up all over Lusaka. Lower grades go to Zambeef's own stores. "Our retail chain gives us the markets for all of the animal," says Mr Grogan. The head, hooves and organs are sold. Offal is also imported from richer countries where there is little taste for it.

Zambeef is listed in Lusaka and London and has twice raised capital in recent years to boost capacity. The purchase of a 45,000-hectare (111,000-acre) soya farm and a crushing plant secured the supply of feed needed to produce more chickens. Zambeef's Novatek brand of soya-based chicken feed is the market leader in Zambia just three years after its launch. Its sales were 15% of Zambeef's revenues of \$255m last year. Zambeef now sells soya cooking oil under the Zamanita brand. It will soon generate more revenue than beef.

The firm's farm-to-fork model is at odds with the investment-analyst dogma that says companies should stick to a core business and hive off other tasks to specialists. But Zambia's economy is not so developed that there are firms which could be relied



From beef to chicken to yogurt drinks

on to supply all that is needed to keep Zambeef's stores fully stocked. The company has its own fleet of 78 refrigerated lorries. "There are no cold-chain logistics in Zambia," says Mr Grogan, "We had to develop it ourselves."

Not that Zambeef is averse to working with others. It recently formed a joint venture with Rainbow Chicken, a South African producer. It already exports animal feed to Zimbabwe and is looking at other markets. Its operations in Nigeria are still small: it has five Shoprite counters as well as four of its own stores. But Shoprite has plans for 20-30 stores. The downside for Zambeef is the demands on its managers. "We had to send three or four of our top guys to Nigeria," says Mr Grogan. But the potential in a market of 167m people is great. "We couldn't ignore it," he says. ■

Airlines in Africa

Not quite ready for take-off

NAIROBI

FastJet, an African low-cost carrier, struggles to establish itself

THESE days going home from his university job in Kenya's capital, Nairobi, means 45 minutes on a plane for Walther Onyango. Getting to the lakeside city of Kisumu used to require a bone-shaking eight-hour bus ride for the engineering professor. Now he pops back for the weekend. He says the bus is for "people who have nothing to do" and that when you factor in time, it is cheaper to fly.

A one-way bus ticket is \$15, but the arrival of Fly540, a budget airline, means he can fly for \$110. Previously tickets with the state carrier, Kenya Airways, were nearer

\$200. On a crowded Friday morning flight there are lawyers in suits, a big-hatted wedding party and mourners on a day trip to a funeral. The return flight in the afternoon is popular with tax collectors. Until recently many of them would have rattled along the potholed highway.

In Cape Town this week IATA, the international airlines' group, opened its annual meeting with a call for African governments to liberalise air routes and cut their often onerous taxes on fuel and tickets, to make the most of air travel's ability to boost growth. "Nowhere is the potential for aviation greater than on the African continent," said Tony Tyler, IATA's chief.

Don Smith, the chief executive of Fly540, is also convinced that a wider African market is waiting for low-cost carriers like his Kenyan-based airline, whose annual turnover has grown from \$12m in 2007 to \$32m last year. The speed of this growth encouraged one of its main shareholders, Lonrho, a London-based conglomerate, to roll out the Fly540 brand in Ghana, Angola and Tanzania, flying to destinations more accustomed to receiving aid deliveries than commuters.

One of the carrier's best-performing routes in Kenya is between Nairobi and Lodwar, a desert outpost close to the "Jade Sea" of Lake Turkana. Many passengers are Lodwar traders who get off at Eldoret, a stopover en route, making a 1,000km (620-mile) round-trip to stock up at their nearest supermarket. Meanwhile flights to the coastal city of Mombasa and to Zanzibar in neighbouring Tanzania are filling up with the new middle class, Mr Smith says.

This was the potential that a European low-cost pioneer, Stelios Haji-Ioannou, and his former management team at easyJet sought to buy into last year. Lonrho agreed to inject its interest in Fly540 into their investment vehicle, which was then rebranded as FastJet, with Ed Winter, a former easyJet executive, as boss. The plan was that the Fly540 name would be phased out as its planes were replaced with bigger ones in FastJet livery.

Calling itself the first pan-African low-cost carrier, FastJet chose as its symbol the long-lived grey parrot, famed for its intelligence. Seven months on, the parrot looks less clever. FastJet has been embroiled in lawsuits and losses. Mr Winter blames the protectionism and corruption he has found in Africa and admits that things are taking "longer than expected". Joining the dots of its separate divisions in east, west and central Africa has proved harder than envisaged. Permissions from Kenya to fly into and out of Nairobi have not been forthcoming. To date the FastJet brand has operated only as a domestic carrier in Tanzania. It has set no date for its first international flight.

Moreover, its Ghana and Angola services, which are still branded as Fly540, are ▶▶



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▶ now operating at a loss. Its relationship with Mr Smith, who kept a controlling interest in the Kenya operation, deteriorated into a public spat. The two sides are now in talks to settle their disputes. FastJet has also run into turbulence in South Africa, where the local press has poured scorn on its announcement, in April, that it would join forces with Edward Zuma, the South African president's son, to take over a bankrupt local carrier, 1time.

Europe's budget-airline boom came only after hard-fought battles for "open skies" treaties in the 1990s. An African equivalent has existed on paper since 1988 but little has been done to enact it. Christos Shepherd, an African-aviation expert with a London-based consultant, Mango, says the problems for new airlines on the continent go beyond protectionism and murky politics. There is demand for low-cost flights, he says, but low-cost airlines "cannot operate because the costs are not low."

Besides high fuel and ticket taxes, Afri-

can airlines have to pay more to lease planes than carriers in other regions. A five-year-old Boeing 737 might cost a Nigerian carrier up to \$400,000 a month to lease, compared with \$180,000 in Europe, because of local carriers' poor safety record and the courts' sluggishness in dealing with previous bankruptcies. Insurance costs for African carriers can also be stratospheric, says Mr Shepherd. What would help bring down those costs is a partnership with an established international airline. Emirates, Dubai's giant, has discussed a possible tie-up with FastJet to feed passengers into Emirates' 24 African routes.

FastJet's struggle to turn a profit will soon get harder when Kenya Airways launches its own low-cost carrier, Jambo Jet (it has not yet set a date). As competition increases, ticket prices are likely to continue falling. This will be worrying news for shareholders but will delight the millions of Africans who are still dreaming of their first trip by plane. ■

sian bureaucrats.

For his focus on smaller, less prosperous markets, Mr Galitsky is often compared to Sam Walton, the late founder of Walmart, who built a business empire selling to budget-minded Americans. Yet in one way Magnit has beaten Walmart, at least on its own turf. The American giant opened an exploratory office in Russia in 2008, only to pull out of the country two years later without opening any stores.

Mr Galitsky has his roots in logistics—or what Justin Leverenz of Oppenheimer Funds (which owns around 4% of Magnit and is its largest minority shareholder) calls the vitally important but "unsexy back end" of the retail business. The Rubik's Cube challenge of moving goods around a huge and unforgiving country, says Mr Galitsky, suits his personality of always wanting to "make things a bit better, a bit more perfect."

In the 1990s he started out as a shuttle trader, importing cosmetics and cleaning products from Dubai. Later he and his partners became the sole regional distributors for Procter & Gamble. In 1998, at the height of Russia's financial crisis, he opened his first retail location. Magnit grew organically, with Mr Galitsky opening up one new store at a time and building up the company's in-house IT system and logistics network at each stage of growth. As Mikhail Terentiev of Otkritie Capital says, that meant Magnit has had "no need to catch up with its size" even as it opened new and bigger stores. In its early years Magnit largely stayed out of Moscow and St Petersburg. Instead it expanded in the provinces, where sites were plentiful, modern retail was often nonexistent, and the lack of competitors meant it was relatively easy to develop presence and loyalty.

This strategy contrasts with that of ▶▶

Russian retailing

A Magnit for investors

KRASNODAR

A retailer doing well in a business-unfriendly country

STANDING in front of a bank of display screens in Krasnodar, Alexander Barsukov, an executive at the Russian grocery chain Magnit, can see that a hypermarket in Nizhnekamsk, a town of 230,000 people 1,900km (1,200 miles) away, is running low on "Group A" products—ones such as bread and milk that account for 20% of stock but 80% of sales. Mr Barsukov has the store manager notified to restock the shelves; a "control call" will follow up in 40 minutes. The point is to "catch mistakes fast," he says.

It is this combination of advanced IT systems and efficient logistics that has propelled Magnit to the top of the Russian food-retail industry, a fast-growing, \$300-billion-a-year market that is now Europe's largest. In April, for the first time in its 15-year history, Magnit bested its competitors by posting \$4.3 billion in quarterly sales. Long the underdog, Magnit has become an investors' favourite: its share price has nearly doubled over the past 12 months.

The company's success is largely an expression of the obsessive attention to detail of its 45-year-old founder and chief executive, Sergei Galitsky. He has made his \$8-billion personal fortune by catering to the needs of price-sensitive shoppers in the country's regions. That makes him not only the rare Russian oligarch whose wealth has nothing to do with natural re-

sources, but also the only one who does not make his home in Moscow or in one of Europe's fancier cities but in Krasnodar, a regional capital in south-western Russia. That food retailing is an unglamorous low-margin business that requires constant attention may have helped Magnit avoid the unwelcome intrusions of rapacious Rus-



Always low prices! You can trust us!

▶ Magnit's largest competitor, the x5 group, owned by a banking magnate, Mikhail Fridman. Over the past decade x5 has gone after consumers in Russia's largest cities, where incomes may be higher, but attractive locations are hard to find and competition is tight. At the same time, x5 sought to grow through mergers and acquisitions, which may have pleased investors for much of the mid-2000s but allowed inefficiency to build up in its operations.

By 2010, when x5 bought the Kopeika chain, adding 700 outlets and 20% to its size, it was struggling to manage ordering and distribution across its network of stores. Natalia Smirnova of Deutsche Bank says x5 failed to consolidate its portfolio of brands, and is now left with "a bunch of separate chains that never actually integrated." Among other things, that means x5's IT systems are disjointed or even non-existent—some of its stores do not have bar codes on their shelves. Magnit, in contrast, has had its tills hooked up to its distribution centres for a decade.

Magnit is also rolling out more nuanced uses of technology. After executives noticed that cashiers were getting sick in winter months, Magnit put temperature sensors near the exits of its hypermarkets that give warning if it is too cold at the checkouts. Air-quality monitors, meanwhile, check for bacteria near the meat aisle and tell store managers if it needs cleaning.

To Russia with lorries

Although it has an attractive and growing consumer market, Russia can be an unforgiving place for retailers. The country is notable for its huge distances, low population density and horrible roads. Options for outsourcing logistics are scarce, so like Zambeef (see earlier story) Magnit has had no choice but to do much of the work itself. It has a fleet of almost 4,500 lorries, making it Russia's largest shipping company.

Despite rising wages, the average Russian consumer still puts 40% of the household budget towards food costs, double the EU average. That makes shoppers highly price-sensitive. Mr Galitsky says that when Magnit lowered the price of bananas by one rouble (\$0.03), it sold 100 tonnes more each day. Then again, the chain's focus on everyday basics is helping to insulate Magnit from Russia's current slowdown.

Magnit still has plenty of room to grow. It has just 6% of the Russian food market, far less than, for example, Tesco's 30% share in Britain. Modern grocers have only about half of Russia's food-retailing sales; open-air markets and neighbourhood *produkty* shops make up the rest. Mr Galitsky says he wants to have 17,150 shops by 2018, up from around 7,100 today.

One day Magnit will have to think about other revenue streams, whether from online ordering, loyalty cards or supplementary businesses such as credit and

insurance. It will also need to expand its non-food offerings—now less than 10% of its business—and do more to make shopping in its stores enjoyable. But those decisions are five years off, if not more.

Mr Galitsky is a football fan and owns a local team, FC Krasnodar. He has invested in a gleaming new youth-football academy to develop a new generation of players for the squad. In football, as in retailing, Mr Galitsky favours organic growth: he has no interest in buying high-priced stars; rather, his dream is to field a championship team made up of youngsters who came up through his academy. ■

Deluded bosses

Who's behind me?

The powerful overestimate the support of underlings

HISTORY is littered with powerful people undone by hubris. Julius Caesar should have ignored the cheers of the Roman crowd and paid heed to the soothsayer. The late Steve Jobs overplayed his hand at Apple as a young man and was kicked out of the company he founded. And then there was Jimmy Cayne.

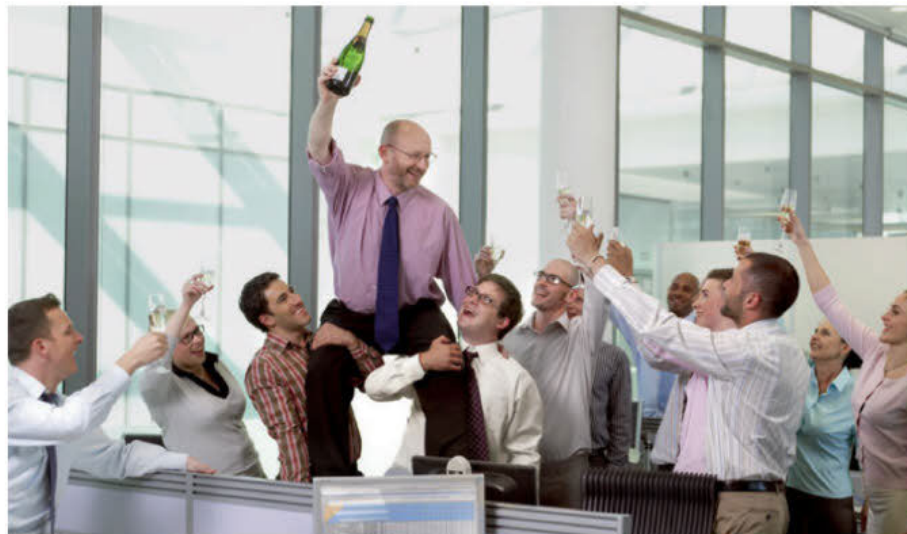
When Mr Cayne walked out of Bear Stearns for the last time, having been eased out as boss of the ailing bank, he claimed there wasn't a dry eye in the house. Through the tears, he wistfully recalls, heart-broken bankers sent him on his way with a standing ovation. This is not how his staff remember it. So disliked was he that according to "House of Cards", a book by William Cohan, underlings would ask in meetings: "Is Jimmy staying on? [Because] we're not coming back for another

year of this shit."

After reading Mr Cayne's tale Sebastian Brion, a professor at IESE, a business school, decided to test whether the powerful overestimate the strength of their bonds with subordinates. The results, published in *Organizational Behavior and Human Decision Processes*, will come as a shock to business big cheeses, but to no one else. In one experiment, he randomly assigned people in work groups with positions of high or low power, or to a control group. Questioned afterwards, those primed with high power were convinced the others were on their side; a view not shared by those being bossed. In another he found that lowly participants would form alliances against the powerful, even when it was not in their financial interest to do so. The mighty were blissfully unaware of the forces working against them.

So not only do bosses set too much store by their strengths, as our Schumpeter column notes on the next page, they also habitually overestimate their ability to win respect and support from their underlings. Somehow, on reaching the corner office, they lose the knack of reading subtle cues in others' behaviour: in a further experiment Mr Brion found that when a boss tells a joke to a subordinate, he loses his innate ability to distinguish between a real and fake smile.

At the very least, bosses might improve their chances of staying on top by being aware of this bias. Some might feel that it just goes to show how Andy Grove, a founder of Intel, was right to say that "only the paranoid survive". However, besides watching his back Mr Grove also instituted a scheme in which employees stood nose-to-nose with bosses and shouted their honest advice into their faces. Maybe that is going too far, but some sort of mechanism for letting underlings speak truth unto power may be sensible, even if Mr Cayne might not have relished it. ■



Et tu, Brut?

Schumpeter | Too much of a good thing

Leaders need to learn to beware of their strengths



IT IS only natural for leaders to try to make the most of their strengths. The theory of comparative advantage directs people, as well as countries and firms, to focus on what they are good at. Management experts have tended to concur: one of the bestselling business books of recent years is called “Now Discover Your Strengths”, by Marcus Buckingham and Donald Clifton. When business schools (and indeed business columnists) profile bosses, they often assume that more is better. But is this right? Three more recent books express some doubts. In “Fear Your Strengths”, Robert Kaplan and Robert Kaiser argue that “what you are best at could be your biggest problem.” Forcefulness can become bullying; decisiveness can turn into pigheadedness; niceness can develop into indecision.

Managers who rely too much on their strengths may become hammers that see every problem as a nail. Over-forceful bosses can turn their subordinates into patsies; consensus-obsessed bosses can institutionalise dithering. It is not difficult to find examples of strengths-turned-weaknesses in politics. Barack Obama’s talent for lofty rhetoric has distracted him from the nuts and bolts of policymaking. François Hollande’s passion for being Mr Normal has rendered him too small for his grand office.

As they rise in an organisation, people often become comfortable practising the skills that have got them thus far, and fail to ask how useful these are when working at a higher level. Thomas DeLong of Harvard Business School and his daughter Sara DeLong, a psychiatrist, dub this “the paradox of excellence” in a 2011 article. One result is that leaders end up micromanaging their subordinates (particularly those doing the job that they used to do) and neglecting the big picture. It often makes bosses choose to do the wrong thing well rather than the right thing poorly. One reason for the 2007-08 financial crisis was that the heads of big investment banks and brokers had often made their reputations as traders, rewarded for taking big risks rather than managing for the long term. Examples include Dick Fuld of Lehman Brothers and Jimmy Cayne of Bear Stearns.

Among the solutions offered by Messrs Kaplan and Kaiser is for bosses to create feedback mechanisms that tell them when they are going over the top (one “over-talker” got a friend to hold up a sheriff’s badge if he was talking too much in business meet-

ings). They have also designed a Leadership Versatility Index that assesses whether leaders are overplaying their strengths.

In “From Smart to Wise”, Prasad Kaipa and Navi Radjou argue that the strengths that today’s leaders are most likely to overuse are what Americans called “smarts”. These are the sort of skills managers pick up studying at business school or working in consultancies, such as the ability to spot patterns in a mass of data, or to use sophisticated financial instruments.

Messrs Kaipa and Radjou point out that some of the worst business scandals of recent years have involved some of the smartest people. Jeffrey Skilling put so much emphasis on smarts when he was boss of Enron that he ignored good character and common sense. Rajit Gupta’s obsession with showing how clever and well-connected he was led him into trading inside information. In his younger, pre-philanthropic incarnation, Bill Gates was bent on displaying his IQ, and did his company no favours by coming across as arrogant and condescending during Microsoft’s antitrust trial in 1998-2001.

In “Tipping Sacred Cows”, Jake Breeden goes further, arguing that many so-called management virtues are just as likely to be vices in disguise. Consultants encourage leaders to create a culture of organisational excellence. But today innovation often depends on rapid prototyping and “good enough” innovations, so those taking the consultants’ advice risk letting the best be the enemy of the good.

Debunking the debunkers

These three books are all valuable exercises in iconoclasm. But the trouble with iconoclasm when you apply it to the analysis of leadership is that you can go on for ever. Many successful leaders are successful precisely because they push their strengths to the limit. Richard Branson has turned Virgin into a global brand by relentlessly exploiting his two biggest strengths: his ability to take on “big bad wolves”—firms that are overcharging and underserving the public—and his talent for infusing Virgin with a counter-cultural personality. The very over-the-topness of his stunts, whether it is crossing the Atlantic in a power boat or parading around in drag, is vital to his success.

Leadership skills are context-dependent. Margaret Thatcher was undoubtedly a nightmare to work for. In 1981 her closest advisers were so exasperated with her that they produced a memo that criticised her for breaking “every rule of good man-management”, including bullying her weaker brethren, criticising her colleagues in front of officials and refusing to give praise or credit. It warned her that she was “likely to become another failed Tory prime minister sitting with [Edward] Heath”. But her abrasive style was exactly what Britain needed in the 1980s.

The word that is too often missing from leadership studies is “judgment”. Everybody involved in the business is desperate to appear scientific: academics because they want to get research grants and consultants because they want to prove that they are selling something more than just instinct. But judgment is what matters most, and it is hard to measure. It takes judgment to resist getting carried away with one quality (such as decisiveness) or one measure of success (such as the share price). It takes judgment to know when to modulate your virtues and when to pull out all the stops. Unfortunately judgment is in rather shorter supply than leadership versatility indices. ■



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Europe's banking union

Till default do us part

A half-hearted banking union raises more risks than it solves

PENNY-PINCHING lovers can always turn to Las Vegas, where wedding-chapel packages start at just a couple of hundred dollars (wedding music included, rose bouquets extra) and annulments are fast and cheap. The architects of the euro zone's banking union are planning something similarly cut-price.

Almost a year ago, as the euro crisis raged, Europe's leaders boldly pledged a union to break the dangerous link between indebted governments and ailing banking systems, where the troubles of one threatened to pull down the other. Yet the agreement that seems likely to emerge from a summit later this month will be one that does little to weaken this vicious link. If anything it may increase risks to stability instead of reducing them.

Almost everyone involved agrees that in theory a banking union ought to have three legs. The first is a single supervisor to write common rules and to enforce them uniformly. Next are the powers to "resolve" failed banks, which is a polite term for deciding who takes a hit; these powers also require a pot of money (or at least a promise to pay) to clean up the mess left by bust lenders and to inject capital into those that can get back on their feet. The third leg is a credible euro-wide guarantee on deposits to reassure savers that a euro in an Italian or Spanish bank is just as safe as one in a German or Dutch bank. National insurance schemes offer scant reassurance to

savers when sovereigns are wobbly and insured deposits make up a big chunk of annual GDP (see chart).

Judged against these three requirements, Europe's new plan is a miserly one. Its outlines emerged in a joint paper released on May 30th by France and Germany. The minimalism of the paper suggests the summit will offer little more than the establishment of single supervisor and a promise to set up a vaguely defined "resolution mechanism".

If a pot of money is pledged it will prob-

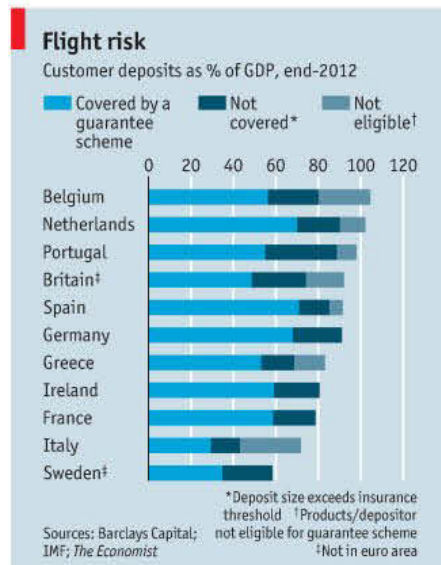
ably be a small fund raised through a tax on banks and without the backing of governments. If Europe's bail-out fund, the European Stability Mechanism (ESM), is referred to it is likely to be only as a last resort to recapitalise lenders after ailing countries have already bankrupted themselves standing behind their banks. A euro-wide deposit insurance fund is so controversial it isn't polite to mention it.

The reasons for this paltry progress are partly political and partly legal. Creditor countries such as Germany are understandably reluctant to have their taxpayers cough up for the mistakes of bank supervisors abroad. The politics are seen as especially toxic when it comes to deposit insurance because, in the words of one official, "it is close to people's pockets". He dryly notes that Germany couldn't even force its own savings banks to join its national deposit-insurance scheme.

The legal challenges are also enormous. Each country in the euro has its own bankruptcy code. A change in the treaties governing the European Union would probably be needed to give a new resolution authority the power to seize bank assets and impose losses on creditors.

Events outside the negotiating room have also reshaped the scope of a banking union. The "bail-in" of Cypriot banks earlier this year dipped into the savings of uninsured depositors in order to recapitalise lenders. Repeating that tactic would risk deposit flight from peripheral banks and a sharp increase in banks' funding costs. But rather than committing public funds to shore up banks elsewhere, some politicians would doubtless prefer to hit uninsured depositors again.

Given these legal and political constraints to banking union, it is tempting to applaud any sort of progress. Putting the European Central Bank (ECB) in charge of



▶ the region's biggest banks should end the cosy relationship between banks and regulators that allowed Irish and Spanish banks to keep lending during property bubbles and the likes of Deutsche Bank to run with so little capital. If the ECB proves itself an effective supervisor, Europeans may become more inclined to take further steps. Germany, for instance, has indicated that it would in time be willing to allow the ESM to inject capital directly into banks.

A strategy of incrementally moving towards a full banking union might have worked in normal times. Doing so in the middle of a crisis is risky. Over the coming year the ECB will have the unenviable task of assessing the health of the banks it is about to supervise. Its root-and-branch examination may well reveal gaping holes at a number of big banks. Yet without ready access to a pot of money to fill these holes, the ECB could be reluctant to force banks to come clean. "It is madness to expose capital shortfalls if you don't know where new capital is going to come from," says one bank supervisor.

Even if the ECB has the nerve to tell banks to raise capital, it may lack the legal authority to push them into resolution if they refuse. Those subject to its writ may have cause of their own to complain. "If you wanted to challenge a decision, where would you go to court?" asks the head of a European bank regulator.

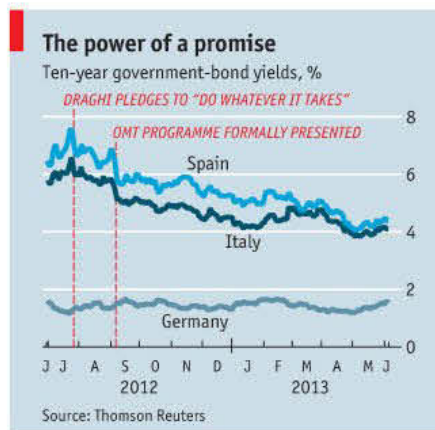
A separation between the power to supervise banks and the responsibility for paying for supervisory mistakes is also a worry. Taxpayers in a country whose banks were allowed to take on too much risk would justifiably be irked that they have no way of holding the supervisor accountable. "The ECB is the last credible institution in Europe," laments the same regulator. "This could destroy it." ■

The European Central Bank's deterrent

Bench press

The legitimacy of the doctrine that calmed panicky markets is challenged

THE falls in global bond markets in May also reversed a long rally in southern European debt. Yields on ten-year Spanish government bonds rose by 30 basis points over the month. There may be worse to come. Investors remain nervous about how soon America's central bank will slow its bond-buying programme. Adding to the worries, Germany's constitutional court will hold public hearings on June 11th and 12th about the legality of policies undertaken by the European Central Bank (ECB), above all the initiative that



stemmed the rout in peripheral euro-area debt last summer.

That policy, called "Outright Monetary Transactions" (OMT), gave flesh to the "whatever it takes" pledge to save the euro made by Mario Draghi, the ECB's boss, in July 2012. What made OMT so potent was that for the first time the ECB committed itself to making unlimited bond purchases (in secondary markets). That had not been the case with its previous bond-buying, which it had done sporadically since the euro crisis first erupted in 2010.

The threat of unlimited purchases tamed speculators who had been betting on a break-up of the euro (see chart). Indeed OMT has been so successful a deterrent that it has not yet been put to the test. But now the doctrine is being examined by judges rather than investors.

The German court is considering ECB policies, including OMT, together with a case on Germany's participation in the euro area's rescue fund (which it sanctioned in a preliminary ruling last September). The judges will tread carefully: OMT is expected to survive unscathed when they reach their verdict later this year. But the hearings will nonetheless expose a deep rift at the heart of the ECB.

That rift is embodied in the two Germans on the ECB's 23-strong council: Jörg Asmussen, an ECB board member, who backs the policy, and Jens Weidmann, president of the Bundesbank, who opposes it. Mr Asmussen will argue that the ECB is acting squarely within its legal mandate. But it is Mr Weidmann who is likely to grab attention at the hearings, not just because he heads the biggest of the 17 national central banks that implement ECB decisions but also because the Bundesbank remains revered within Germany. His views will have a particular resonance ahead of the federal election on September 22nd.

A leaked document has already disclosed how deeply the Bundesbank dislikes OMT. The submission, which was requested by the court, contests the whole rationale for the policy. Mr Draghi had argued it was vital to eliminate the "reversibility risk" that had caused bond yields to

soar in southern Europe on fears that the euro area might break up. But the Bundesbank argues that it is not the job of a central bank to keep a currency union together, since that is a prerogative of the member states and their citizens. The emergence of reversibility risk in bond yields therefore does not justify unlimited purchases.

Another airing of such fundamental doubts raises the question whether OMT would prove to be so formidable a weapon if it ever actually had to be used, not just threatened. The ECB's commitment to make unlimited purchases is already restricted to bonds of up to three years' remaining maturity. The policy is also tied to countries accepting tough conditions imposed by the euro area's rescue fund. But it is the unrelenting opposition of the Bundesbank that may prove most unsettling, by shaking investor confidence in just how unlimited bond purchases might turn out to be in practice. ■

EU-Chinese trade

Outlook: cloudy

A spat over solar panels

EARLIER this year Europe seemed to be putting the era of banana wars and beef battles behind it. Fresh from settling several long-running farm disputes, the European Union announced plans to begin negotiating a broad transatlantic free-trade agreement. But souring relations with China may presage another debilitating round of trade rows.

In May the European Commission said it intended to investigate Chinese telecoms firms over allegations of "dumping", or flooding foreign markets with below-cost ▶



Hitting Europe where it really hurts

goods to steal market share. The move came despite protestations from European companies such as Ericsson, a Swedish telecoms giant, that nothing good would come of a fight.

On June 4th Karel De Gucht, the EU's trade commissioner, fired another salvo, saying that the EU could slap punitive tariffs of up to 68% on Chinese-produced solar panels. Europe takes around 80% of China's exports of solar panels. The new duties will kick in at 12% and begin rising after two months if no settlement with China is reached.

The commission is again acting despite

opposition from key member states. Germany in particular is annoyed by Mr De Gucht's belligerence. Although Germany is home to large manufacturers of solar panels, its economy is increasingly focused on complementary green industries, which often benefit from cheap panels. Many German firms also worry that EU action will prompt Chinese retaliation, costing them market share in the world's second-largest economy.

China has so far responded with words rather than deeds. On June 5th its Ministry of Commerce announced plans to investigate European subsidies to its wine indus-

try. That looks like a move calibrated to hurt southern European states like France and Italy more than the likes of Germany and Britain, which also opposed the solar-panel tariffs. Yet the ministry did not set a timetable for its wine probe or mention the possible level of retaliatory tariffs.

Europe is not alone in confronting China, of course. America began collecting tariffs on solar panel imports last year (although a German manufacturer of solar panels with facilities in America led the complaints about Chinese imports). But if such disputes grow angrier, the worry among trade-watchers is that Europe is

Buttonwood | Out of favour

The sell-off in emerging markets should not obscure their attractions

ARE investors falling out of love with emerging markets? The stockmarkets of developing countries were one of the few bright spots in investors' portfolios during the first decade of the 21st century. But since October 2010 they have steadily underperformed markets in the developed world (see chart).

That trend has continued in 2013. Emerging-market equities fell by 2.9% in May, leaving the MSCI EM index down by 4.4% since the start of the year compared with a 10% gain for the world as a whole. Other asset classes have been equally disappointing. Investors in emerging-market bonds have lost 4.8% so far this year, and JPMorgan Chase's emerging-markets currency index fell by 3.3% in May, its biggest decline in a year.

The main attraction of emerging markets is their superior growth prospects, but economic data have been falling short of expectations. The average level for emerging-market purchasing-managers' indices (in the manufacturing sector) in May dropped below 50, signalling contraction. There was a decline in 11 of the 14 emerging-market PMIs monitored by Royal Bank of Canada. A gauge created by Capital Economics, a consultancy, indicates that emerging markets grew by an annual rate of 4% in the first quarter, the slowest growth since the third quarter of 2009. Both the IMF and the OECD recently cut their 2013 growth forecast for China, the largest developing economy.

Weaker commodity prices (*The Economist's* index is down by 4.7% so far this year) are further evidence of the slowdown in emerging markets, since they have been the fastest-growing source of demand. This is also bad news for developing nations that produce commodities.

The danger is that companies in the developing world may have overinvested



on the expectation that rapid growth would continue. Martial Godet of BNP Paribas points out that the return on equity for emerging-market firms has fallen from 17.7% in July 2008 to 13.2% today.

Meanwhile, sentiment in the rich world has recovered a bit. Data on the American economy, although mixed, are on balance better than they have been; even the euro zone managed to post better-than-expected manufacturing PMIs in May. There is much talk of a renaissance in American manufacturing, fuelled by the bonanza of cheap energy in the form of shale gas. "For the past 50 years, a vibrant US economy has meant strong external demand for EM economies," says Manoj Pradhan of Morgan Stanley. "Should the US return to sustainable growth, it will likely return as a competitor for emerging markets and not as a consumer."

The prospect of American recovery points to another issue: the hints from the Federal Reserve that it is mulling a slowing of quantitative easing. Even if the Fed does taper its asset purchases later this year, this will not represent the end of easy monetary policy. What the Fed taketh away, the

Bank of Japan still giveth. But Simon Derrick of BNY Mellon thinks that there is a change in attitude towards the dollar, which had been on a weakening trend since 2002. If the Fed is the first big central bank to tighten monetary policy, the dollar is expected to rise, especially as emerging-market monetary policy is still being eased: 11 developing-world central banks have cut rates in the past two months. "The outflows from the dollar that have proved so supportive for emerging markets over the years appear to be drying up," says Mr Derrick.

This combination of factors may be persuading investors to pull assets out of the developing world. According to EPFR Global, a research firm, in the last week of May global emerging-market equity funds suffered outflows of \$1.4 billion, the biggest sell-off since late 2011.

The question is whether the recent underperformance is part of a longer-term cycle, like that in the late 1990s, or a shorter-lived development as in late 2008 and early 2009. Some of the current worries may be overdone. Just as investors often become overenthusiastic about emerging markets during booms, they can get too depressed in bear markets. Emerging markets still offer faster growth than the rich world. They have much better fiscal positions, too: government debt averages 33% of GDP.

The best rule of thumb is not to buy emerging markets when they are the consensus trade and when they look relatively expensive. At present emerging-market shares trade at a 25% discount to their developed-market peers. They have been cheaper in the past, but a further period of underperformance will make them very attractive to long-term investors.

particularly vulnerable to the lure of protectionism.

With domestic demand squeezed, struggling European economies need to run big external surpluses to avoid even higher unemployment. Their current-account balances have been moving in the right direction, largely because demand for imports has slumped, but measures to protect domestic producers are bound to appeal to many. On June 3rd, for instance, the French culture minister called Amazon, an American online-retail giant, a “destroyer of bookshops” and accused it of dumping.

Talks on the transatlantic trade deal are due to begin later this month. Agreement would give the European economy a big boost. But, as protectionist sabres rattle, reaching a deal on an expansion of free trade will not be easy. ■

Advertising hedge funds

Bull marketing

Alternative-investment firms are preparing to pitch to the public

TOBACCO and alcohol brands face heavy restrictions when it comes to advertising. Hedge funds and other purveyors of alternative investments have suffered similar prohibitions on marketing their products. That ban may soon be lifted in America. (Europe’s pending new regime for alternative investments is stricter, although it has lots of loopholes.) Long consigned to silence, the money men are starting to practise their sales pitches.

Change is expected as part of the JOBS act, a 2012 bill designed to make it easier for smaller American businesses to raise cash. Hedge funds, private-equity firms and others piggybacked on the reforms in the hope of widening the pool of investors they can pitch to. The Securities and Exchange Commission (SEC) is busy writing the rules that

would put the bill into practice. That process has been bedevilled by delays but it seems inevitable it will overturn a Depression-era ban on “general solicitation”.

Under the current regime, alternative-investment firms are not only banned from advertising, they cannot do or say anything that could be taken as an inducement to raise money. In theory, that means they cannot even tell curious onlookers—including, often, your correspondent—how their funds are faring. Only the most general waffle about market conditions is tolerated by twitchy compliance lawyers.

Critics of laxer rules say it will overturn the grand bargain under which high financiers gained regulatory leeway in return for not peddling whizzy products to widows and orphans. But restrictions on who can actually put money in will remain: most funds can accept money only from “accredited investors”, defined as those with \$1m in investible assets or regularly earning \$200,000 a year. It is merely the duplication of regulating both marketing and sales which will be done away with, says Brian Lane, a former SEC official now at Gibson Dunn, a law firm.

The change will mean plenty of dentists and lawyers becoming fair game for Wall Street’s marketing wizards (at the moment, these investors have to find their own way to funds). Carlyle, a big private-equity firm, estimates accredited investors have \$10 trillion at hand, twice the value of all the money tied up in hedge funds and buy-out funds put together. Along with many of its rivals, it has recently launched vehicles allowing people to invest just thousands of dollars, a fraction of the \$5m-or-so minimum usually required to gain access to such funds. Executives salivate at the prospect of pitching to future pensioners investing their retirement pots.

Those expecting to see Beyoncé laud Moore Capital’s risk-adjusted returns in tv ads are likely to be disappointed, however. Hedge funds will still have to abide by an existing ban on using gimmicks like celebrity endorsements to sell financial products. In any case established hedge

funds, in particular those with good records, are typically closed to new money. The main beneficiaries are likely to be up-and-comers that struggle to get noticed.

On the buy-out side, big diversified asset managers such as KKR and Blackstone, whose profits correlate with the amount of money they manage, will welcome any chance to attract fresh cash. Firms that sell both mutual funds and hedge funds under the same brand will find it easier to steer their richer clients towards the latter, generating fatter fees. The losers will be managers which wrap fancy hedge-fund strategies into mutual-fund structures; some of their clients will be lured to the real thing.

What of investors? Those that don’t qualify for “accredited” status will hear a lot more about funds they cannot buy. That may grate. They shouldn’t fret too much. A sensible blend of off-the-shelf bond and equity products has comfortably outperformed the average hedge fund in recent years. Advertising may even be a signal to sell. A recent study found that hedge funds that advertised indirectly (by sharing a brand with a mutual fund which placed ads) underperformed in the immediate aftermath of a marketing blitz. ■

Hank Greenberg

The people v Hank

ALBANY, NEW YORK

AIG’s former boss is still fighting allegations of fraud, with some success

EIGHT years and more than \$1 billion in legal fees later, the prosecution of Hank Greenberg for orchestrating an accounting fraud stumbles on. The latest instalment of a saga that began in 2005, soon after Mr Greenberg vacated his seat as the boss of American International Group (AIG), a large insurer, took place on May 28th in the elegant Albany home of New York state’s court of appeals.

A panel of seven judges grilled David Boies, Mr Greenberg’s lawyer, and Barbara Underwood, the state’s solicitor-general, on a motion by Mr Greenberg’s lawyer to dismiss claims related to two transactions, which should otherwise come to trial within the next 12 months. Whatever they decide, law-school classes could be taught on a twisting legal battle that has shaved the Greenberg prosecution down to largely symbolic value.

The first shot was fired on May 26th 2005, when Eliot Spitzer, the then New York state attorney-general, filed a complaint against Mr Greenberg and Howard Smith, AIG’s former chief financial officer, asserting that “between the 1980s (if not earlier) and Greenberg’s departure from ▶▶





Ever Greenberg

▶ **AIG** in 2005, the defendants routinely engaged in misleading accounting and financial reporting.” Both Mr Greenberg and Mr Smith have consistently denied the charges in the complaint, which was packed with incendiary allegations about complex schemes to deceive outsiders.

To boost **AIG**'s share price at pivotal moments, for example, Mr Greenberg was said to have had **AIG**'s own traders buy the company's stock. When informed that one business segment remained viable only through an illicit tax-avoidance scheme, Mr Greenberg, according to a witness cited in the complaint, “began laughing”. In a particularly intricate deal in 1999, Brazilian insurance losses were alleged to have been converted into more palatable investment losses using a Taiwanese affiliate. The process worked so well, the complaint alleged, that the Taiwanese affiliate was used again in a similar scheme in 2000.

By September 2005 the state had submitted an amended complaint in which the number of incidents cited had dropped from an initial nine to four: the two Taiwanese transactions, which would later be dropped as well, and the two that endure. Each of these surviving complaints involves allegations of elaborate schemes to transform weakness in **AIG**'s core insurance operations into other, less damaging types of losses. One concerned an arrangement in 2000 with General Re, a big reinsurer, to boost falling reserves at a time when their decline had generated concern among securities analysts. The other allegation was that the firm used an offshore shell company named **CAPCO** to mask problems in **AIG**'s car-insurance business.

Events have not all gone Mr Greenberg's way. In 2006 **AIG** itself agreed to pay \$1.6 billion to resolve fraud claims stemming from the two transactions. In a 2008

America's non-banks

The anointed

NEW YORK

The number of too-big-to-fail institutions gets bigger

ALTHOUGH the names on the list are supposed to be secret **AIG** and Prudential, two insurers, this week confirmed they are on it. So too did **GE Capital**, the conglomerate's financial arm. These firms, and perhaps others, have joined America's largest banks and clearinghouses in being designated “systemically important financial institutions” (**SIFIs**) by the new Financial Stability Oversight Council, a regulatory watchdog. What that means in practice is that because they are thought to be significant enough to blow up America's economy, they should get special attention.

An appeals process against being labelled a **SIFI** will last for 30 days, but discussions have been going on for years so it is hard to believe minds will be swayed now. The immediate consequence is that the firms will be regulated by the Fed and subjected to tougher capital and operational requirements. Jack Lew, the treasury secretary, said the designations would “protect taxpayers, reduce risk in the financial system, and promote financial stability.”

Others are less enthusiastic. “This is a catastrophe,” says Peter Wallison, a fellow of the American Enterprise Institute,

a think-tank, and a former White House counsel. Putting these institutions under the thumb of the Fed will inevitably undermine their ability to innovate, he argues. And joining the group of entities perceived to be too big to fail means they will enjoy an implicit government guarantee. That will put them at a funding advantage against smaller companies, he says, and imply that their products are government-backed, a huge help for insurers in particular.

Firms themselves appear to have mixed feelings about the **SIFI** label. **AIG** seems to approve; MetLife, an insurer that has not been designated, thinks that the higher capital requirements it brings could undermine the viability of some products. Much depends on whether **SIFIs** are now perceived to have an implicit guarantee, and on whether that can be monetised. It also matters how many other firms are designated **SIFIs**. Lots of financial firms in America are large: there are rumblings about money-market funds, asset managers and private-equity firms. Risk can move around the financial system. The question today is which firms should be on the list. Eventually it might be which to leave off.

trial, four senior General Re executives and the **AIG** executive Mr Greenberg assigned to work on the controversial deal were found guilty of fraud in a federal court (no criminal charges were ever filed against Mr Greenberg or Mr Smith). Although that verdict was dismissed on appeal in 2011, each defendant subsequently entered into deferred-prosecution agreements in which they “recognised that aspects of the...transaction were fraudulent.”

Mr Greenberg has twice tried to have the state's case against him dismissed in “summary judgment” (ie, without a full trial) but failed. In 2009 he agreed to pay \$15m (and Mr Smith \$1.5m) to the Securities and Exchange Commission to settle related charges; neither admitted or denied guilt but both pledged not to violate federal laws. On April 10th the two received federal-court approval to settle all shareholder-related claims linked to the General Re and **CAPCO** incidents for \$115m.

All of this might suggest a grim picture for Mr Greenberg, but that is by no means clear. The shareholder settlement in April undermined the prosecution's claim that it needed to try Mr Greenberg in an effort to unlock the damages his actions caused, estimated by state consultants to be worth

billions of dollars. With the victims apparently satisfied by the settlement, the state has dropped its monetary claims. Instead, it has been reduced, among other things, to demanding that Mr Greenberg never serve in management or on the board of a public company, or work in the securities industry (which, bizarrely, does not include insurance). Among the arguments considered in Albany was whether the damages the state is left to claim justify a trial.

If the appeals court thinks they do, and is willing to permit evidence that emerged in the criminal prosecutions, the case will be bound for trial. Despite the fact that only symbolic penalties may be at stake, it will be a brutal and important fight. **AIG** under Mr Greenberg was the largest insurer in the world (it is still big; see box). In her arguments before the court Ms Underwood noted that “he has never acknowledged that there was a fraud, much less that he was responsible for it.” Mr Greenberg's case is that there is nothing to acknowledge. Ms Underwood's contention is that without an admission of wrongdoing or a guilty verdict, the citizens of New York “will see it is possible to avoid responsibility for fraud”. Wherever justice lies, it has been a long time coming. ■

Free exchange | Shocks and ores

Short-term gyrations in commodity prices may do more damage than long-run trends

HUMANITY harbours a lingering fear that Thomas Malthus might just have been right. The dour reverend first warned in 1798 that population growth would lead to soaring resource prices, leaving workers destitute. Two centuries of growth later, the worry that the world's natural resources are finite remains.

Paul Ehrlich, a biologist of Malthusian disposition, argued in "The Population Bomb", a 1968 book, that rising populations would inevitably exhaust those resources, sending prices soaring and condemning people to hunger. That pitted him against economists who argued that rising prices should mitigate the squeeze by calling forth more supply. In a famous 1980 wager Julian Simon, an economist, bet Mr Ehrlich that commodity prices would be lower a decade later. He won, as the effects of rising prices in the 1970s showed up in energy conservation and more oil exploration. But when exuberance returned to commodity markets in the 2000s, so did the old arguments. Jeremy Grantham, a money manager, wrote in 2011 that "price pressure and shortages of resources will be a permanent feature of our lives."

In a new paper* David Jacks, an economist at Simon Fraser University, assembles figures on inflation-adjusted prices for 30 commodities over 160 years. It turns out Mr Ehrlich was not entirely off the mark. Over the very long run commodity prices display a marked upward trend, having risen by 192% since 1950, and by 252% since 1900. But an upward trend has clearly not translated into global famine, and not all commodities are alike.

Long-run rises have been most pronounced for commodities that are "in the ground", like minerals and natural gas. Energy commodities especially have boomed, soaring by roughly 300% since 1950. Prices of precious metals have also risen, as have industrial ingredients like iron ore. In contrast, prices for resources that can be grown have trended downwards (see chart). The inflation-adjusted prices of rice, corn and wheat are lower now than they were in 1950. Although the global population is 2.8 times above its 1950 level, world grain production is 3.6 times higher.

These long-run trends can be easy to miss, because medium-term wiggles known as "supercycles" can push prices off trend for a generation. Mr Jacks's data suggest the typical supercycle, defined as a sustained move in the price of a commodity of at least 20% away from trend, lasts for no more than 40 years from beginning to end. Such episodes tend to cluster in periods of rapid industrialisation and urbanisation. Economies in the midst of

an industrial boom—like 1890s America, or China in the 2000s—are hungry for basic commodities such as oil, iron ore and beef. Supply is slower to respond. New oil wells or iron-ore mines cannot be developed overnight. Prices surge until supply catches up.

Mr Jacks identifies the start of past clusters of supercycles in the 1890s, 1930s and 1960s, with prices rising above trend to peaks in the 1910s, 1950s and 1970s before subsequently easing off. Half of the commodities in his sample appear to have begun new supercycles between 1994 and 1999, driven by demand in fast-growing emerging markets. These energy-hungry economies started testing available supply for petroleum and natural gas in the late 1990s. Industrial materials like steel, lead and nickel also boomed, alongside precious metals. Rice, rubber and tea are among the "grown" commodities whose prices surged.

But supercycles have historically peaked within 20 years, according to Mr Jacks's analysis. Higher prices lead to more drilling, mining and farming, and to less demand as firms and households learn to be more efficient. Prices then return to trend. The soaring prices that vexed Mr Grantham in 2011 have fallen back since then, and will continue to do so as China's economy evolves away from an investment-led growth model that gobbles up steel and energy. Mr Jacks reckons the natural-gas supercycle has also reached its top: thanks to shale gas, total natural-gas output in America has risen by 34% since 2005.

Going against the grain

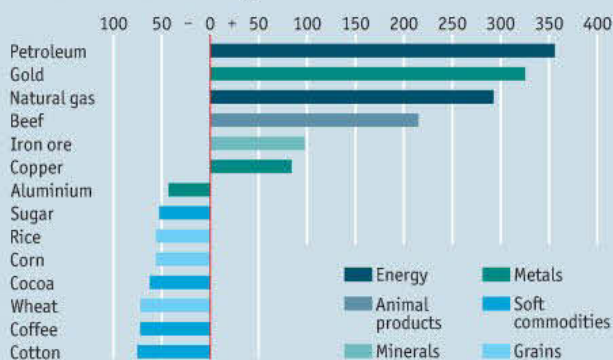
It is in the nature of pessimists to find fresh reasons to fret. Even if firms continue to turn up new sources of commodities "in the ground", for example, new fossil fuels will only add to the amount of carbon in the atmosphere, increasing global warming. As for agriculture, steady increases in grain production have kept prices down. But Mr Grantham points out that higher production is mostly a result of rising yields, which are in turn supported by ever more intensive application of fertiliser. That, he argues, cannot continue. Though humans could fertilise crops through clever use of their own waste, they instead rely on phosphorus from a diminishing supply of phosphate-containing rocks.

In response, optimists point to the power of price signals. In agriculture the long-run trend of falling grain prices has created little reason to use grain, land or waste more efficiently. A shift towards dearer grains would be just the thing to improve behaviour. As for fossil fuels, a global price on carbon would create the right market incentives to limit emissions.

Indeed, the most damaging commodity-price movements may well be short-run booms and busts, which come and go more rapidly than supercycles but can generate far bigger moves in prices. Such spasms are common: over the whole of his dataset, Mr Jacks finds 140 booms and 135 busts (a gap explained by several ongoing booms, in the likes of corn, copper and gold). Most short-term booms produce spikes of at least 50-100% away from trend price growth. That can mean a serious pinch on rich-country wallets—some blame rocketing oil prices in 2007-08 for the start of the global recession—or political unrest in emerging markets. Threats of Malthusian collapse may grab attention but short-run gyrations end up being the bigger headache. ■

The vital ingredients

Prices, 1950-2011, real % change



* "From Boom to Bust: A Typology of Real Commodity Prices in the Long Run", NBER Working Paper 18874, March 2013



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Cancer therapy

Checkpoint Charlie

A new class of drugs is being deployed in the struggle against cancer

THE lexicon of oncology is filled with military metaphors: the war on cancer, aggressive tumours, magic bullets. And although these are indeed only metaphors, they do reflect an underlying attitude—that it is the clinician's job to attack and destroy his patient's tumour directly, with whatever weapons are to hand. As in real warfare, those weapons may be conventional (surgery), chemical (cancer-killing drugs) or nuclear (radiation therapy). There is even talk of biological agents, in the form of viruses specifically tailored to seek out and eliminate their tumorous targets.

Which is all well and good as strategies go. But as Sun Tzu observed, the wisest general is not one who wins one hundred victories in one hundred battles, but rather one who overcomes the armies of his enemies without having to fight them himself. And one way to do that is to get someone else to do your fighting for you.

That, in an oncological context, is where immunotherapy comes in. Instead of attacking cancer directly, immunotherapy recruits a patient's immune system to do the attacking. The latest way of doing so is by removing the controls which keep the immune system in check during times of bodily peace, lest it damage the person it is supposed to be protecting. Such "checkpoint-inhibitor" immunotherapy has proved itself over the past three years in the treatment of advanced melanoma,

hitherto a death sentence. Now, as a series of papers presented this week to the annual meeting of the American Society of Clinical Oncology, in Chicago, shows, its range is being extended. More effective versions are being brought to bear on melanoma. And the whole approach is being tried out—often successfully—on lots of other cancers, including those of the lungs, the kidneys, the bladder, the colon, the stomach, the head and the neck.

Checkout time

The treatment of melanoma that started the ball rolling (and which was announced at the society's meeting three years ago) employed a drug called ipilimumab. This belongs to a class known as monoclonal antibodies. An antibody is an immune-system protein shaped to lock onto a particular chemical target. And specific varieties of antibody, aimed at specific targets, can be generated from cultures of genetically identical cells created for the task—in other words, cellular clones.

Ipilimumab locks onto and thus blocks the action of a protein, CTLA-4, which sits on the outer membranes of immune-system cells called T-lymphocytes. These lymphocytes exist to kill body cells that pose a threat, such as cells infected by viruses, and also cancer cells.

CTLA-4's role is to calm lymphocytes down and stop them proliferating. That is a

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good thing when there is no threat around. But some cancer cells are skilled at hiding from the immune system, so a drug that switches CTLA-4 off can unleash lymphocytes in circumstances when they are needed but otherwise unavailable.

Ipilimumab's success has spurred the development of further antibodies that work in similar ways. Nivolumab and lambrolizumab gum up another surface protein, PD-1; and a fourth, so new that it still goes by its laboratory identifier of MPDL3280A, binds to PD-L1, a protein that would otherwise help PD-1 to do its job. Though they have slightly different *modi operandi*, all four antibodies work by shutting down biochemical checkpoints that limit the proliferation of lymphocytes. Hence the name checkpoint inhibitors.

In the original trials of ipilimumab, 11% of patients responded. That might not sound many, but those who did respond often did so strongly—surviving in some cases for years with no evidence of disease. Ipilimumab's successors have pushed the response rate up while maintaining the long-term benefits. A trial of nivolumab, led by Mario Sznol of the Yale Cancer Centre, showed a success rate of almost a third in a group of 107 melanoma patients, when success was defined as a tumour shrinking by 30% or more. The median survival time of these successes has so far been 16.8 months, quite a gain over the nine months that might have been expected for such people just a few years ago.

Lambrolizumab, too, looks promising. Antoni Ribas of the University of California, Los Angeles, and his colleagues reported to the meeting that the tumours of more than a third of the 135 advanced-melanoma patients whom they had treated with it have shrunk. Some of these people had previously been treated, unsuccessfully, ▶▶

Palaeontology

A heroic find

Shedding light on the evolution of primates

THE fossil record for early phases of primate evolution is notoriously patchy. As a result, little is known about it. This makes *Archicebus achilles* a boon to palaeontologists. Its nearly complete skeleton was unearthed in China's Hubei province by Ni Xijun, of the Chinese Academy of Sciences in Beijing, and colleagues. As they report in *Nature*, the critter, which lived around 55m years ago, in the Eocene epoch, seems to be the most primitive relative of tarsiers, mouse-sized primates which now inhabit the islands of South-East Asia.

Like its modern-day kin, it appears to have moved mostly by leaping between twigs, which it grasped with all four limbs. Large eye sockets, indicating fine vision, and small, pointy teeth both suggest that it hunted insects. In this, too,

it resembles agile (and even more wide-eyed) tarsiers, which are the only existing primates to enjoy an exclusively carnivorous diet of bugs, as well as small birds, snakes, lizards and bats.

However, an analysis of the fossil also revealed some features which resemble those of anthropoids like monkeys and apes, including man. One is its strikingly anthropoid heel bone, which Dr Ni alludes to in the specimen's name. The findings imply that the split between anthropoids and tarsiformes, previously reckoned to have happened 55m years ago, must have occurred earlier.

The animal is estimated to have weighed 20-30 grams and measured 71mm (or about 200mm including the tail). That makes the 3D reconstruction pictured below just about life-size.



An Eocene Achilles

▶ with ipilimumab, confirming that the two drugs really do work in different ways.

Those separate modes of action were also confirmed by work announced to the meeting by Jedd Wolchok of the Memorial Sloan-Kettering Cancer Centre, in New York. He and his colleagues reported that a combination of ipilimumab and nivolumab causes faster and more complete responses than either does on its own. So far, they have treated 52 people. The tumours of around three-quarters of these patients began shrinking in the first 12 weeks of treatment. In a third of cases tumours shrank by 80% or more in that period and in 90% the patient was continuing to respond at his last check-up.

This, then, is good news for those with melanoma. But the most intriguing paper of the series was delivered by Roy Herbst, who also works at Yale. He and his colleagues are testing MPDL3280A in a trial

open to people who have any type of metastatic or otherwise incurable tumour—those, in other words, for whom established treatments offer no hope. Preliminary results suggest a fifth of the 140 patients in this trial are responding. And, as in the case of Dr Wolchok's work, these responses are long-lasting.

The crucial point in the MPDL3280A trial is that those who have responded have a range of cancers—not just melanoma. What was once a treatment specifically for melanoma now looks as if it might work for at least some cases of half a dozen common cancers. If such results are confirmed by future studies, a new front will have opened in the war on cancer. Moreover, the troops on this front will be not untested conscripts but confederates who are familiar with the enemy and just needed a little encouragement to join the battle. Sun Tzu would surely have approved. ■

Academic publishing

Peer to peer

Portable reviews look set to speed up the publication of papers

ASK a researcher what annoys him most about scientific publishing, and slowness will come near the top of the list of gripes. It takes nearly six months, on average, for a manuscript to wend its way from submission to publication. Worse, before a paper is accepted by a journal, it is often rejected by one or more others. The reason need not be a fatal flaw in the research; sometimes the work is simply not splashy enough for outlets high up in the pecking order. But in the process, each journal's editors send the paper for peer review—appraisal by experts in the relevant field—in much the way that each prospective purchaser of a house commissions his own survey. And, unlike those multiple, parallel surveys, the reviewers do not even get paid for their efforts.

Some publishers are at last beginning to twig that this is an awful waste of resources. Last month a number of them, including big ones like the Wellcome Trust, BioMed Central (BMC), the Public Library of Science (PLOS) and the European Molecular Biology Organisation, said they would give authors of papers they reject the option of making referees' reports available to the other publishers.

The practice is not unheard of within publishing groups. *Genome Biology*, BMC's flagship journal, which accepts just one paper in ten, passes 40% of the sound but humdrum sort it spurns to its less prestigious sister publications with reviews attached, says Matthew Cockerill, the group's managing director. Half of those end up in a BMC journal. But similar arrangements between competing publishers have not caught on.

Other ways to speed up peer review are being tested, too. Rubriq, a company in North Carolina, plans to offer fast, independent reports to authors for a fee. This includes a reality check on just how far up the publication pecking order a paper might be submitted with a reasonable expectation that it will be accepted. To reviewers, meanwhile, it is offering payment for the job. The firm is in talks with publishers including BMC and PLOS. Damian Patinson, the editorial director of *PLoS One*, the latter group's biggest journal, calls Rubriq's service "useful", though he admits that details of how it will work have yet to be sorted out.

The customers of a Finnish firm, Peerage of Science, are not authors, but journals themselves; 23 have signed up so far. ▶

Publications in effect outsource the organisation of peer review to the company on the understanding that other clients can look at the results, too. Then, if the first customer rejects a researcher's offering, those others can choose quickly whether to snap it up instead. Peerage's fee is paid by whichever journal ultimately publishes the offering in question.

The number of submissions to journals

is outpacing reviewers' capacity to deal with them, says Mr Cockerill. Mr Pattinson agrees. *PLoS One* already churns through 4,000 papers a month, putting its referees under tremendous strain, he says. With luck, parallel processing of peer review in this manner will reduce the stress on the system, and thus the time frustrated researchers have to wait before their gems see the light of day. ■

Planetary science

Lost and found

A successful piece of astronomical kit looks dead. But its mission continues

THE *Kepler* telescope was launched into space in 2009 to look for extrasolar planets, those that circle stars other than the sun. Since then it has spotted more than 2,700 potential alien worlds, including some that appear to be small, rocky and far enough from their stars for liquid water to exist on the surface—rather like Earth, in other words, and thus, just possibly, hospitable to life. In doing so it made “exoplanet” research one of the busiest areas of astronomy. It also whetted planet-hunters' appetites. Originally meant to collect data for 3½ years, last year its mission was extended until 2016.

So it came as a blow when, on May 15th, the telescope's minders at NASA announced that the device was in trouble. One of the three components, known as reaction wheels, that help keep it pointing in the right direction (specifically, at a patch of stars between the constellations Lyra and Cygnus) had jammed.

With its sole spare reaction wheel already damaged, things did not look good. After two weeks of trying, NASA's boffins have been unable to restore *Kepler* to working order. Geoff Marcy, a planet-hunter at University of California, Berkeley, expressed his angst by borrowing from W.H. Auden: “*Kepler* was my North, my South, my East and West,” he lamented online. This comes just six months after *COROT*, a European telescope with a mission similar to *Kepler*'s, suffered a computer failure from which it has yet to recover.

Life after death

Happily, there is plenty of science left to do. Big experiments collect such vast quantities of data these days that scientists cannot keep up. As a result, discoveries can be made long after a telescope has been decommissioned. Two papers, presented to the annual meeting of the American Astronomical Society, held on June 2nd-6th in Indianapolis, show how.

They found that *Kepler* underestimated how big the stars were. Sometimes the underestimates were small. But one in four stars seems to be larger by 35% or more.

That matters, because the size of a planet is calculated from the size of its parent star and the amount of dimming observed. If the star is bigger, therefore, so too are its planets. In other words, some of the Super Earths identified by *Kepler* may in fact be gas giants, more akin to Neptune and Uranus.

Bigger stars' “habitable zones”, in which temperatures are low enough for liquid water, and life, to exist, are also farther from a star system's centre. So some planets *Kepler* deemed far enough from their parent star to be sufficiently cool may in fact not be. (Admittedly, some others, previously considered too far to contain any water other than ice, could be balmier than thought.)

The second paper, by John Gizis at the University of Delaware, reports the discovery not of a strange new planet, but of a strange new star. W1906+40, as it is known, is a cool dwarf that suffers from regular temper tantrums. Roughly once a week it flares, its temperature rising from around 2,000°C to 7,700°C in a matter of minutes, before slowly cooling off again.

Flares like these have never before been seen in such a small, cool star. Dr Gizis hopes that studying them will help astronomers understand the whims and fancies of the powerful magnetic fields that all stars, including the sun, generate, and which are presumed to produce the flares.

Even if *Kepler* cannot be mended, planet-hunters need not despair. Earlier this year NASA confirmed that in 2017 it plans to launch the Transiting Exoplanet Survey Satellite, a successor to *Kepler* which will search the entire sky, rather than merely a part of it, and look for exoplanets nearest to Earth. Until then, though, astronomers will be poring over *Kepler*'s back catalogue, where many discoveries still lurk. ■



So long, and thanks for all the facts



Contemporary art

The artistic solution

VENICE

The main theme at the Venice Biennale is: how did the world get into such a mess?

THE world's biggest art festival, the Venice Biennale, has never been just about art. In 1930 Italy's Fascist dictator, Benito Mussolini, saw the Biennale's potential as a propaganda showcase and ran it from his office. He regarded the event as such a success that four years later he took Hitler on a personal tour. Since the second world war state involvement has been more arm's length. The British pavilion, for example, is run by the British Council and the State Department delegates responsibility for the American pavilion to the Peggy Guggenheim Collection, which is based in Venice.

This year many of the artists selected to fill their national pavilions are again taking the pulse of their own nations. Ten countries are new participants, including Bosnia and Herzegovina (after a ten-year break), the Bahamas, Angola (which carried off the prize for best pavilion), Tuvalu and the Holy See. The Vatican has used its first appearance to "rebuild relations between art and faith", in the words of Cardinal Ravasi, the telegenic prelate who is overseeing the project.

Its three galleries have been turned over to the creation of the world, though anyone expecting images of the Almighty will be disappointed. The high point is "a sensory journey where the audience is involved in a dialogue that encompasses a crossing of temporal experience". This is Biennale-speak for an interactive video. In "Creation" by Studio Azzurro, an Italian art collective, the viewer can stretch out a hand in the manner of God on the ceiling

of the Sistine Chapel, and touch a figure on a film being screened on the surrounding walls. The pavilion, which also includes photographs of disintegrating landscapes by a Czech artist, Josef Koudelka, is regarded as a success for its dogma-lite approach.

The Iraqi pavilion, in Venice for the second time only, won plaudits for pluck. Jonathan Watkins, its curator, travelled to Baghdad, Basra, Babylon and Kurdistan in an armoured car visiting more than 100 artists before selecting 11 to take part. This is art made against all odds. There is cardboard furniture and a bench that looks like a Chinese bronze, but which has been created from parts of a bicycle. The pavilion has transformed the stately rooms of the Venetian mansion, Ca' Dandolo, on the Grand Canal into a cosy hospitality suite with sofas, low tables piled with books, and a kitchen that serves mint tea.

The euro-zone countries' pavilions reflect common anxieties. Money, or lack of it, is a major preoccupation. In the Spanish pavilion Lara Almarcegui has placed a vast mound of rubble that reaches up to the ceiling; Stefanos Tsivopoulos in the Greek pavilion has created a wall of text about alternative currencies and a three-part film in which a woman makes bouquets of flowers out of euro notes. The Romanians are on such a tight budget that the walls in their pavilion are completely bare. Instead, five people use only their bodies to "enact" artworks that have featured at past Biennales.

The Germans are not the only pavilion

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to want to stress how open they are to international co-operation and exploring cultural boundaries. But these concepts have special resonance among Germans because, as one attendant said, "Everyone hates us." Germany has swapped pavilions with France (a nod to the anniversary of the 1963 Treaty of Friendship signed by Charles de Gaulle and Konrad Adenauer). But the only artist present who could qualify as a German is Romuald Karmakar, a French passport holder born in Wiesbaden. The others are China's Ai Weiwei, Santu Mofokeng from South Africa and Dayanita Singh from India.

The French pavilion has not returned the compliment. Its chosen artist is Anri Sala, a Franco-Albanian, who is showing a sophisticated but ultimately unmoving film about musicians interpreting a piece by Maurice Ravel.

In the British pavilion Jeremy Deller, a Turner prize-winning conceptual artist, is having a rant. "We Sit Starving Amidst Our Gold" depicts William Morris, a radical Victorian artist and designer, as a superhero rising from the Venice lagoon to crush the yacht of Roman Abramovich, a London-based oligarch. Another room is dominated by a painting of a giant hen harrier carrying a Range Rover in its claws (pictured), an allusion to an incident when two hen harriers, a protected species, were allegedly shot from the royal Sandringham estate. Prince Harry and a friend were accused of being involved, but both denied any knowledge of the affair. Under-terred, Mr Deller pursues the idea in a film showing a Range Rover being repeatedly pounded by the claw of a crushing machine. Subtle this is not.

By contrast, Sarah Sze, in the American pavilion, has looked outside her backyard. Her installation consists of worlds (globe-shaped in case you do not get the point) made out of everyday household objects such as tins of paint, espresso cups, lamps ▶▶

and napkins. The result is ingenious and visually compelling, though in an environment where art has to shout to gain attention her message about sustainable ecosystems goes unheard.

The Russian pavilion drives its point home. Vadim Zakharov's "Danae", based on the Greek myth in which Zeus seduces Danae disguised as a golden shower, is about at least three of the seven deadly sins: greed, lust and envy. Here, a man sits on a high beam eating nuts, while a stream of golden coins rains down from a shower head onto the floor below. If you are female, and thus eligible for the attentions of Zeus, you are allowed to watch the money pouring down on your head from beneath a see-through umbrella. An attendant then requires you to fill a bucket with the coins to keep both the economy—and corruption—flowing.

Alongside the pavilions is the main show. Often a disappointment, this year it is the highlight of the festival. "The Encyclopedic Palace", curated by Massimiliano Gioni of the New Museum in New York, is about how people order all the information that bombards them. Alongside some well-known names, Mr Gioni has included works made by self-trained artists from the periphery of society, such as asylum inmates and autistics. Shinichi Sawada, who barely speaks, has a gallery dedicated to his deeply sinister clay animals. His work—and the show as a whole—offers something different: art that is genuinely surprising. ■

Modern America

So many troubles

The Unwinding: An Inner History of the New America. By George Packer. *Farrar, Straus and Giroux*; 434 pages; \$27. *Faber and Faber*; £20

AT THE very end of America's industrial boom a black single mother from Ohio with many problems but a strong work ethic got a job assembling car parts for General Motors. The year was 1988, and Tammy Thomas thus became one of the last Americans to know the security of a post-war, union-crafted factory contract. A diligent sort, she found she could cover two assembly-line stations at once, allowing her to collect an occasional \$20 from a colleague who needed an hour to sober up after lunch. Thanks to agreements between her employer and the local chapter of the Electrical Workers union, she received 80% of her pay even when doing nothing in quiet months. With each passing year, she gained in wages, benefits,

holidays and pension rights.

Ohio's massive steelworks had already closed with catastrophic effects, but lighter manufacturing continued. Ms Thomas, who was determined to stay off welfare and keep her three children from gangs and drugs, had a taste of the 20th-century social contract that promised to bring those willing to work hard into the middle class as "full-fledged members of an egalitarian democracy", in the wistful phrase of George Packer, a staff writer for the *New Yorker* magazine.

Her story is one of half a dozen portraits that anchor "The Unwinding", Mr Packer's new book about the crumbling of that social contract in America. An experienced reporter and war correspondent, he does not sugar-coat factory life: soldering wires gave Ms Thomas asthma, and pain in her hands kept her awake at night. But when her job vanishes in 2006 readers are guided towards outrage. Mr Packer describes how banks descended on her bankrupt employers and paid themselves tens of millions of dollars in fees, bonuses and stock options while laying off two-thirds of the staff and closing 21 of 29 factories. Ms Thomas left after accepting a lump sum, most of which was stolen by an uncle hustling to profit from the last moments of a nationwide housing bubble.

Crooks and scoundrels fill the book, along with disastrous decisions taken by essentially decent people. The misery is leavened by evocative reporting, whether describing deer picking their way across an overgrown parking lot in the Rust Belt, or the "power walls" behind the desks of Washington lobbyists—photo galleries showing them smiling next to the highest-ranking politicians they know.

The book attacks some familiar targets: subprime mortgage brokers, Walmart, Wall Street and tea-party conservatives (here portrayed berating a Democratic congressman about Barack Obama's health care plans, spitting: "You want the government to control doctors' decisions? Are you insane, stupid or just plain evil?")

But the book also takes swipes at elitists on the left, nagging the poor to eat organic kale like temperance activists scolding drunks in a Victorian slum. In the chapters on Washington, Mr Packer is merciless about the bullying cynics who populate the senior ranks of Democratic and Republican politics alike.

In short, "The Unwinding" is a skilled work of narrative reporting, and more balanced than some. Alas, it is fatally incurious about economics. Could America have afforded to maintain union jobs like the one Ms Thomas had, at the very moment that China, India, the Soviet bloc and other giants emerged from their slumbers and began to compete? Was the post-war American dream sustainable? The book is savage about American political and cor-

porate governance, but many countries of the rich West, with very different politics, lost heavy industry. What of them?

The book skates past such questions, preferring to sorrow over greed and tackiness in modern life. A few things trigger approval: a community organisation in Ohio lobbying for firms to hire locals and give felons a second chance; better city planning to fight suburban anomie; some individual displays of idealism. Is that enough to stop America's unwinding? The book does not say. As a result—for all Mr Packer's empathy and anger—it ends up feeling oddly bloodless. ■

The world in 1913

The year before the sky fell in

1913: In Search of the World Before the Great War. By Charles Emmerson.

PublicAffairs; 528 pages; \$30. *Bodley Head*; £25

VIEWED from the capitals of Western Europe, the world looked pretty good in 1913. There were many, it is true, who heard rumblings of war; but this was so often the case in Europe, even after two decades of peace. *The Economist* was not alarmed. In June 1913 it described the recent entente cordiale between Britain and France as "the expression of tendencies which are slowly but surely making war between the civilised communities of the world an impossibility."

We got that wrong. Yet the coming slaughter, which would leave 35m dead or wounded, was not inevitable. Europe was not only peaceful but also richer, healthier and arguably more stable than it had ever been. It was also more interconnected. Kaiser Wilhelm II, King George V and Tsar ▶▶



Downton's lord in his lair

▶ Nicholas II were cousins and socialised together. The latter two monarchs looked very much alike, and the societies they presided over were also close kin.

A hybridised elite travelled the continent, patronising its hybridised music and art. A swelling European middle-class went shopping for the same luxuries in London as in Vienna. And Europe's workers at least had the consolation of socialism—as preached by the 553 delegates from 23 countries who gathered in Switzerland in November 1912 to rededicate themselves to peace. Despite expressions of nationalist fervour, in Europe a multi-tiered continental identity was emerging.

Charles Emmerson, a young British historian who has previously written a fine study of the Arctic, provides a grand tour of Europe at this fateful time—and then proceeds to Detroit, Buenos Aires, Tehran, Bombay and Tokyo, to 23 cities in all. With barely a nod to the impending calamity, he aims not to explain what caused or was lost to the war, but to retrieve from the partial glare of hindsight the world in which it erupted.

This is no modest undertaking. Mr Emmerson draws from a wide range of sources, including memoirs, billboards and newspapers, to recreate a year that was fairly uneventful. 1913 saw the opening of Stravinsky's "The Rite of Spring" and New York overtake London as the world's busiest port; it was a caesura before great events. Yet Mr Emmerson makes no apology for the geopolitical verisimilitude he describes. Not unlike Marcel Proust's "In Search of Lost Time", the first instalments of which were published in 1913, his narrative finds coherence in the unremarkable. It can similarly drag; but what emerges is a rich portrait and an important set of ideas.

Humanity was less shaped by the Great War than is often supposed. Rather, the world of 1913 was quite like that of 2013: modern, substantially urbanised and, even as Woodrow Wilson set about slashing import tariffs, thriving on global trade. The report of a bad harvest in Canada could mean a fall on the London stock-market the next day, and the arrangement of imports of Russian wheat by the end of the week. The European empires augmented these linkages; advertisements in one London paper recommended holidays in Sudan, with travel by "express steamers and sleeper trains-de-luxe". Yet challenges to colonial rule in India, South Africa and elsewhere, were becoming louder, partly due to the same global forces.

Though some features of the world in 1913 seem strange—including the riches of Argentina—most are familiar. Yet with that comes a troubling corollary. In the current testing of European unity, the reassertion of the nation state and insecurity engendered by rising powers, the world in 2013 looks a bit discomfitingly like that of 1913. ■



Hedge funds

Full of hot air

Hedge Hogs: The Cowboy Traders Behind Wall Street's Largest Hedge-Fund Disaster.

By Barbara Dreyfuss. Random House; 285 pages; \$28 and £19.99

THE amaranth flower is praised both in Aesop's fables and John Milton's "Paradise Lost" for its everlasting qualities. In the eyes of Nick Maounis, a bond trader, that made it a good name for the hedge fund he set up in 2000. Six years later, Amaranth Advisors looked an astonishing success, with a stellar investment record and assets under management of more than \$9 billion. But by the end of the year, the group had been consigned to the compost heap.

The story of its collapse is clearly and entertainingly told in "Hedge Hogs" by Barbara Dreyfuss, a former Wall Street analyst who is now a journalist. It is a tale of hubris and nemesis, of traders who forgot about risk in pursuit of reward. Amaranth was brought low by energy trading, and by the outsized positions in the gas market of one man in particular, Brian Hunter.

Amaranth did not actually begin trading in energy until 2002 and did not hire Mr Hunter until 2004. As late as March 2005 a San Diego pension fund that invested in Amaranth was not aware of Mr Hunter's importance to the fund. But the trader staged a spectacular coup that year when his options on the gas price shot up in value after Hurricane Katrina disrupted supplies; he rescued a difficult year for the group and received a bonus of \$13m.

Taking big bets was a mark of Mr Hunter's style. He had a tendency to increase his position when prices moved against him and was relaxed about revealing his positions to others. At his previous employer, Deutsche Bank, he had battled a superior who wanted him to reduce his risk-taking; when the bank lost \$53m in a few weeks, Mr Hunter was demoted, denied a bonus and moved off the trading desk.

At Amaranth his initial success emboldened him to take more risk; by the end of February 2006, he was trading billions of dollars' worth of gas contracts. Two months later 38% of Amaranth's total capital was being directed by Mr Hunter.

Investors were told that Amaranth carefully monitored its portfolio, with more than a dozen people devoted to risk management. However, Mr Hunter ran energy trading from an office in Calgary, Alberta, while the risk management was handled from the firm's HQ in Greenwich, Connecticut. Ms Dreyfuss says there was no computer system in Greenwich capable of viewing Mr Hunter's trades in real time.

At first, things went well; he earned the firm \$320m in February 2006 and another \$1.1 billion in April. But in May, the firm lost \$1.1 billion, even though the firm's risk calculations predicted the maximum possible loss would be \$350m. Amaranth's positions were so large that offloading them was impossible without incurring a further \$1 billion in losses. Mr Hunter was told to reduce his positions gradually.

Once again, however, he doubled up, hoping that he could shore up prices and force traders who were betting the other way to drop out of the market. By the end of May, 50% of the firm's positions were invested in energy; by late July he owned 80,000 gas contracts for January 2007, nearly as much as all American residential consumers actually used that month. It worked for a while but other market participants could sniff blood. Once prices turned against him, the end was swift; in one day at the end of August, trading counterparties demanded that Amaranth hand over a further \$1.5 billion in collateral to cover its losses and the firm's assets fell by \$6 billion in four weeks.

The author is rightly angry about the extent to which one trader can dominate a market. She shows that there was real collateral damage, in the form of losses to local gas utilities that were trying to protect themselves against rising prices. She is perhaps a little too swift to tar the entire hedge-fund industry with Amaranth's brush; there are plenty of managers who take much less risk, and who merely try to pick the best and worst shares. But her book is a salutary example of how traders who believe they are super-smart might be nothing more than lucky, and how there is nothing so intoxicating as the ability to speculate with other people's money. ■

Lord Sainsbury on government

Sensible chap

Progressive Capitalism: How to Achieve Economic Growth, Liberty and Social Justice.By David Sainsbury. *Biteback*; 281 pages; £20

THREE things convinced David Sainsbury that he had been wrong about economics, government and the financial markets. The most painful was a hostile private-equity bid in 2007 for Sainsbury's, the family business which he had once run. In his view the bid was just an attempt to profit by selling off the firm's property portfolio and taking on lots of debt without the "slightest pretence of seeking to improve the performance of the company".

He was also taken aback by the financial crash of 2008, and the year before that by a lacklustre response to "The Race to the Top", a report he wrote after spending eight years in government. In it he called for more activist policies to promote innovation and upgrade the goods and services sold by corporate Britain. Whereas the Conservatives were promoting a reduction in the role of government, Lord Sainsbury became convinced that what a successful 21st-century economy needs is neither small nor big government, but smarter, better government. What such a government should, and should not, do is the theme of "Progressive Capitalism", perhaps the best so far in that exclusive category of books by billionaires on how to reform capitalism.

He has two main focuses. One is to help savers. Institutional investors have been far too weak in exercising corporate governance, he says, and have made it far too easy for corporate executives to get rich. Lord Sainsbury proposes that the government establish a Shareholders Advisory Board to help savers get a better deal out of investment managers. And he would like non-executive board members to be nominated, as is the case in Sweden, by big shareholders, not corporate executives.

He also wants to upgrade every part of what he calls Britain's "knowledge infrastructure"—a combination of basic research, venture capital, organisations that spread knowledge within the economy and the education and training system.

Lord Sainsbury does flirt alarmingly with the idea that developing countries should use protectionism in some circumstances. But overall he remains enthusiastic about the wealth-creating potential of capitalism even as he argues for smarter governmental engagement with it.

Though the book is written primarily for a British reader, it draws heavily on aca-

demic work from around the world. That is to his credit, but it can be very worthy. As a businessman, philanthropist, government minister and funder of two political parties (Labour and the SDP), Lord Sainsbury could have drawn on a wealth of personal anecdotes to make his points less dryly. There is very little colour in the book, one notable exception being a story about asking a civil servant for examples of innovation in Britain's services sector, to which he was told that "tax avoidance is an art where we are very innovative."

Later when Lord Sainsbury was in government critics cited him as an example of New Labour's overeagerness to suck up to big business. He would have seen them off more sharply if he had been as thoughtfully critical of capitalism then as he is now. ■

Somalia's Shabab**The struggle for the Horn of Africa****Al-Shabab in Somalia: The History and Ideology of a Militant Islamist Group, 2005-2012.**By Stig Jarle Hansen. *Oxford University Press*; 208 pages; \$37.50. *Hurst*; £25**The World's Most Dangerous Place: Inside the Outlaw State of Somalia.**By James Fergusson. *Da Capo Press*; 432 pages; \$27.50. *Bantam*; £20

IN 2005 three dozen Somalis formed a club of Islamists, soon dubbing themselves the Shabab (Arabic for "youth"). Chaos had reigned over Somalia for a generation and there had been no real government since the military ruler, Siad Barre, fell in 1991. But within a year or so, the Shabab was the dominant force within a loose coalition of Islamic courts that had sought with some grim success to impose order.

By 2009 the Shabab, with a core of 5,000-odd fighters, had mastered a good half of the country and made most of the rest virtually ungovernable. Stig Jarle Hansen, the Norwegian author of one of two important new books explaining the rise of the Shabab, reckons it controlled an area "equal to the size of Denmark, with perhaps 5m inhabitants" (out of perhaps 10m in all). The Shabab, Mr Hansen believes, was then the world's only self-proclaimed al-Qaeda ally controlling large territories. Because of a far-flung Somali diaspora of nearly 2m in America (especially Minnesota), Britain (London and Cardiff), Kenya (nervously adjacent to Somalia) and Scandinavia, the Shabab's capacity for wreaking terror at home and abroad has frightened and flummoxed Western and African governments. These two books, "Al-Sha-

bab in Somalia" and "The World's Most Dangerous Place", are essential reading for those who seek to counter the menace.

James Fergusson (who has contributed in the past to *The Economist*) has written the more readable work. With ingenuity and no little courage he has travelled far and wide, within Somalia and among the Somali diaspora in Britain and America, delving into the soul of a ravaged community. Few if any foreigners in the past half-decade have reached so deeply into the territorial nooks and crannies of Somalia's myriad fiefs. Mr Hansen focuses on the complex ideological detours and military tactics of the Shabab from its inception. His is a succinct and definitive if somewhat dry history.

Both authors agree that although the bloody-minded Shabab is probably on the road to containment if not outright defeat, quite a lot of Somalis may still reluctantly accept it as the lesser of many evils. It certainly did better than its rivals at transcending the bitter divisions between the clans, sub-clans and sub-sub-clans (some 140 of them, according to Mr Fergusson) whose doggedly lethal loyalties were a main cause of the country's fragmentation.

The Shabab is driven by local grievances yet has global aspirations, helping to stoke rebellion in such troubled places as northern Nigeria and Yemen. In the past two years the West has been trying to bolster a revamped government in Mogadishu, Somalia's capital, while accommodating the semi-autonomous fiefs to build what might become a workable federation. Such efforts have been led by Britain's prime minister, David Cameron, who happens to be a close friend of Mr Fergusson. But Somalia is still one of the most dangerous countries in the world, and its people still among the most tragically disturbed. The Shabab may be on the wane. But neither author predicts it will fade fast. ■



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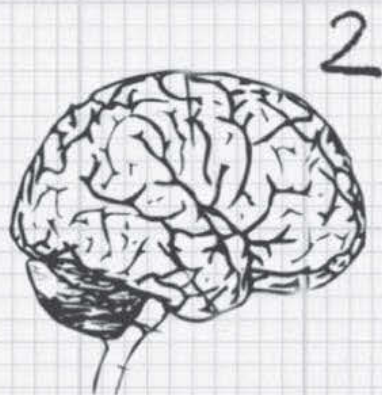
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Appointments

Job Announcement

In recent years Revenue Watch has built its reputation as an intellectual leader and change maker in the field of natural resource governance. Under the leadership of a new president, with organizational strategic review underway and new exciting partnerships on the horizon – including a merger with the Natural Resource Charter, Revenue Watch is poised to seize significant opportunities for development and organizational growth, aimed at enhanced impact in helping countries around the world.

To do so, we are creating new positions and seeking to attract experienced and passionate leaders for the following roles:

- **Chief Financial Officer** (based in New York or Washington D.C.) to ensure the financial stability and fiscal integrity of Revenue Watch and help design the systems, processes and policies to ensure smooth, efficient operations.
- **Director of Development** (New York, Washington D.C. or London) to assess our current fundraising approaches and capacities, create a compelling case that articulates clearly our mission, uniqueness and impact, and explore new opportunities to secure corporate giving and support from high net worth individuals.
- **Director of Communications** (New York or Washington D.C.) to lead a re-think of Revenue Watch's branding, designing powerful, targeted messages to advance our work with different audiences.
- **Asia Pacific Regional Coordinator** (Jakarta, Indonesia) to provide the strategic vision to carry forward Revenue Watch's mission in the region.

For more details and to apply, please visit our website:
www.revenuwatch.org



Global Water
Partnership

www.gwp.org

Senior Technical Officer

The Global Water Partnership (GWP) is a worldwide network of nearly 3000 Partner organisations, dedicated to supporting countries in integrated water resources management, for sustainable and inclusive growth. We are seeking a Senior Technical Officer who is a gifted writer with an ability to develop strategic messages, helping to build the international visibility of GWP and create coherent linkages across our network. The messages will have a focus on the economics of water security, to feed into processes such as the evolving Sustainable Development Goals and the post-2015 development framework.

Based in Stockholm, the STO reports to the Executive Secretary, and liaises across the GWP network to ensure that our input into global events builds on regional and national processes. An advanced degree in economics, international relations, international water law and governance or related field is preferred. Excellent English required, and French and/or Spanish is an advantage.

The full position description and application procedures are available at www.gwp.org. The closing date for applications is 8 July 2013.



EXPRESSION OF INTEREST PROCUREMENT OF ROLLING STOCK Lagos Nigeria

MARINA EXPRESS TRAIN SERVICES LIMITED (METSLS) and THE INFRASTRUCTURE BANK PLC working in conjunction with THE LAGOS STATE GOVERNMENT (NIGERIA) request qualified suppliers to submit "EXPRESSION OF INTEREST" documentation for the supply of rolling stock for the REDLINE METROLINE scheme.

MARINA TO AGBADO

Pre-qualification for Electrical and Mechanical Contract
Expressions of Interest are invited from Contractors who wish to submit a tender for
New Rolling Stock for Marina Express Train Services Limited (METSLS) Phase 1

1. Background Information

The Redline project is one of 7 metropolitan railway lines proposed by the Lagos State for the alleviation of traffic jams in the state. The Redline is approximately, from feasibility design, about 37 km in length. It will run from the Marina at the heart of Lagos Island to Agbado with the option of extending it into Ifo if the traffic volumes justify this extension. A 7 km airport link is also part of the scheme which will link both the two local terminals and the international terminal to the Route. The Redline project has been divided broadly into two areas of deliverables in the technical aspect. They are a) the fixed infrastructure and b) the moving infrastructure.

The moving infrastructure will cover the listed below:

- Signalling
- Electrification
- Power Generation
- Operations and Maintenance
- Depot
- Rolling stock
- Interface management
- Systems integration
- Automatic fares collection

METSLS is interested in engaging with organizations that have abilities in i) rolling stock manufacturing ii) signalling iii) systems integration.

We envisage an 18 hour daily operation. Of these 18 hours, the morning and evening peaks account for a total of 8 hours. During the peaks, the traffic studies and simulation show about 15 trains per hour. Each train will ferry about 4500 passengers.

There will be 13 new stations (Marina, Ebute, Ero, Iddo, Ebute Metta junction, Yaba, Mushin, Oshodi, Sogunle, Ikeja, Agege, Iju, and Agbado).

2. Scope of Works

The scope of works comprises the manufacture, supply, delivery, installation, testing, commissioning and rectification of defects during the Defects Liability Period for 15 trains each consisting of 16 cars and the associated equipment necessary to facilitate operation and maintenance of the trains.

2a. Additional Scope – Signalling (desirable but not essential)

METSLS will expect the prospective contractor(s) to have the signalling capabilities necessary for the operation of this railway. This capacity can be brought in from another organisation in the form of a joint-venture or sub-contract. The signalling system should be able to run at least 15 trains an hour as a minimum. At peak periods, METSLS envisage 75,000 passengers per hour per direction. More details about the signalling capabilities will be made available during the "Request for Proposal" stage.

Also, the successful bidder will be expected to play a significant role in systems integration.

3. Key Dates (All tentative)

Contract	EOI Issue	RFP Issue	Negotiation Close	Contract Award
METSLS	Q2/2013	Q3/2013	Q2/2014	Q2/2015

4. Expressions of Interest

In order to be considered for pre-qualification, interested parties having relevant resources, qualifications and experiences are requested to express their interest on or before 14.00 hrs (Nigerian time) on 30th June 2013 to the email address given below. Late applications will not be considered. Addresses – rawoyomi@yahoo.co.uk and copy to jkruger@tibplc.com

5. Closing Date for Return of Answers/Information

Upon expression of interest, the contractors will receive an invitation of pre-qualification via email from METSLS and will be furnished with further information as deemed required and necessary at this time. This will lead to the next stage in the procurement process which is termed, "Request for Proposal"



For enquiries, please contact

Mr. Seye Rotimi Awoyomi and/or Mr Johan Kruger
rawoyomi@yahoo.co.uk and copy to jkruger@tibplc.com



INVITATION TO PARTICIPATE IN A FRAMEWORK AGREEMENT

TENDER TITLE: Standards Framework Agreement
TENDER NUMBER: PO/20121136

TMEA wishes to pre-qualify consultants to build the capacity of National Bureaus of Standards to be competent parties in the standardization process in the EAC region and enable the private sector to increase the value of their products and be more competitive by adhering to set standards.

Interested and qualified consultants/consultancy firms must register and apply online only on the TMEA procurement portal at the website: <http://procurement.trademarka.com>. Any queries should be directed to procurement@trademarka.com. The closing date for applications is 05 July 2013. Only successful bidders will be notified.

TMEA cannot answer any query relating to this tender three days or less prior to the submission deadline.

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BACKUP ADDRESS: If you do not receive a reply within 2 working days, please email: adbackup@consultant.com



Technical Advisory Opportunities – Kabul, Afghanistan

Adam Smith International is a leading independent management consultancy firm that provides economic growth and government reform advice to a range of clients in the public, private and civil society sectors. Based in London, ASI's mission is to apply our professional and consulting skills towards improving the quality of life in countries needing economic, political and social change.

ASI is currently delivering an ambitious budget and fiscal policy reform programme in the Ministry of Finance in Kabul, funded by DFID. This award-winning, three-year project aims at supporting a comprehensive, results-focused budget process that delivers national budgets in line with fiscally-sustainable spending levels.

As part of this programme, ASI is hiring immediately for technical experts who can advise Afghan counterparts on the following major reforms:

- Public expenditure and financial accountability norms
- Formula-based budgeting – to support development of norms-based costings, including the introduction of asset registers
- Bringing aid on budget
- Programme-based budgeting - particularly the introduction of programme-based appropriations
- Performance monitoring frameworks for programme budgeting
- Revenue modelling and in particular advice on the introduction of VAT
- Improving budget execution

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Department of
Justice

Ravenhall Prison Project Invitation for Expressions of Interest

The Victorian Government is inviting Expressions of Interest from experienced, operator-focused respondents for the development and operation of a new prison at Ravenhall, in Melbourne's west.

The Ravenhall prison is a key element of government's investment in the Victorian correctional system.

Expressions of Interest are invited from respondents to design, construct, finance and maintain the new facility and deliver correctional services.

Expressions of Interest

The Invitation for Expressions of Interest can be found at www.tenders.vic.gov.au

Expressions of Interest close 2pm Thursday 18 July 2013.

For further details email
ravenhall.prison@justice.vic.gov.au

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Setting up of an Electric Locomotive Factory at Madhepura, Bihar

Global RFQ No. 2013/Elect (Dev)/440/7, dated 06.05.2013

- The Ministry of Railways ("MOR"), Government of India plans to enable setting up of an Electric Locomotive Factory at Madhepura, Bihar for production and supply of Electric Locomotives.
- The Supplier shall be selected through open competitive bidding to undertake the work of setting up of the Electric Locomotive Factory at Madhepura, Bihar to supply 800 Electric Locomotives of 12,000 H.P., twin Bo-Bo configuration, over a period of 11 years and undertake maintenance of a specified number of Electric Locomotives for a specified period. MOR intends to pre-qualify and short-list suitable Applicants in accordance with the procedure set out in the Request for Qualification (RFQ) document.
- The President of India, acting through Executive Director, Electrical Engineering (Dev.), Railway Board invites applications for this purpose from interested parties.
- The RFQ will be available for download on the website (www.indianrailways.gov.in) from 06.05.2013. The RFQ document may also be obtained from Room No. 361, Rail Bhavan, New Delhi from 06.05.2013 on all working days on payment of Rs. 100,000 (Rupees one lakh only) in the form of a Demand Draft drawn on any Scheduled Bank in India, and payable at Delhi, in favour of Pay & Account Officer, Railway Board.
- The Applications on prescribed form of RFQ should be submitted at the place described in the RFQ documents on or before 1100 hrs. of 20.06.2013. Applications will be opened at 1130 hrs. on 20.06.2013.

For further details please contact:

Nihar Ranjan Dash

Executive Director, Electrical Engineering (Development)
Ministry of Railways (Railway Board)
Room No. 361, Rail Bhavan, Raisina Road,
New Delhi-110001. Phone: + 91-11-23387221
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Economic data

% change on year ago

	Gross domestic product			Industrial production latest	Consumer prices		Unemployment rate, %	Current-account balance		Budget balance % of GDP 2013 ¹	Interest rates, % 10-year gov't bonds, latest	Currency units, per \$	
	latest	qtr* 2013 ¹	2013 ¹		latest	2013 ¹		latest 12 months, \$bn	% of GDP 2013 ¹			Jun 5th	year ago
United States	+1.8 Q1	+2.4	+2.0	+1.9 Apr	+1.1 Apr	+1.6	7.5 Apr	-475.0 Q4	-2.8	-5.4	2.10	-	-
China	+7.7 Q1	+6.6	+7.8	+9.3 Apr	+2.4 Apr	+3.3	4.1 Q1 [§]	+224.8 Q1	+1.7	-2.1	3.18 ^{§§}	6.13	6.37
Japan	+0.2 Q1	+3.5	+1.6	-2.3 Apr	-0.7 Apr	+0.1	4.1 Apr	+51.2 Mar	+0.9	-8.7	0.86	99.3	78.7
Britain	+0.6 Q1	+1.3	+0.8	-1.3 Mar	+2.4 Apr	+2.7	7.8 Feb	-91.5 Q4	-2.8	-7.8	2.09	0.65	0.65
Canada	+1.4 Q1	+2.5	+1.8	+2.1 Mar	+0.4 Apr	+1.4	7.2 Apr	-62.3 Q1	-3.1	-3.2	2.05	1.04	1.04
Euro area	-1.1 Q1	-0.8	-0.6	-1.7 Mar	+1.4 May	+1.6	12.2 Apr	+191.3 Mar	+1.6	-3.1	1.51	0.76	0.80
Austria	+0.7 Q4	+0.4	+0.6	+2.5 Feb	+1.9 Apr	+2.1	4.9 Apr	+7.1 Q4	+2.1	-2.9	1.89	0.76	0.80
Belgium	-0.6 Q1	-0.1	nil	-1.1 Mar	+1.2 May	+1.3	8.4 Apr	-6.6 Dec	-0.5	-2.9	2.26	0.76	0.80
France	-0.4 Q1	-0.7	-0.2	-2.5 Mar	+0.7 Apr	+1.2	11.0 Apr	-61.3 Mar	-1.8	-4.2	2.06	0.76	0.80
Germany	-0.3 Q1	+0.3	+0.4	-2.6 Mar	+1.5 May	+1.7	6.9 May	+237.6 Mar	+6.2	-0.3	1.51	0.76	0.80
Greece	-5.3 Q1	na	-5.5	-0.7 Mar	-0.6 Apr	-0.8	27.0 Feb	-5.4 Mar	-0.8	-5.3	9.26	0.76	0.80
Italy	-2.3 Q1	-2.1	-1.7	-5.2 Mar	+1.2 May	+1.6	12.0 Apr	+0.6 Mar	+0.1	-3.2	4.14	0.76	0.80
Netherlands	-1.7 Q1	-0.4	-0.7	-5.3 Mar	+2.6 Apr	+2.4	8.2 Apr	+77.0 Q4	+8.8	-3.7	1.88	0.76	0.80
Spain	-2.0 Q1	-2.1	-1.7	-9.8 Mar	+1.4 Apr	+1.7	26.8 Apr	-0.2 Mar	+0.3	-7.0	4.46	0.76	0.80
Czech Republic	-2.8 Q1	-4.3	-0.7	-6.0 Mar	+1.7 Apr	+1.8	7.7 Apr [§]	-4.8 Q1	-2.3	-2.9	1.90	19.7	20.6
Denmark	-0.8 Q1	+0.8	+0.4	-8.9 Mar	+0.8 Apr	+1.3	5.9 Apr	+16.9 Mar	+5.2	-2.6	1.05	5.70	5.96
Hungary	-0.9 Q1	+2.9	+0.8	-0.8 Mar	+1.7 Apr	+2.7	11.0 Apr [§]	+2.0 Q4	+2.0	-3.5	5.60	227	243
Norway	-2.7 Q1	-0.7	+2.3	-10.1 Mar	+1.9 Apr	+1.7	3.7 Mar	+62.2 Q1	+12.0	+13.4	2.29	5.81	6.10
Poland	+0.5 Q1	na	+1.0	+2.8 Apr	+0.8 Apr	+1.5	14.0 Apr [§]	-14.9 Mar	-2.9	-3.3	3.61	3.27	3.52
Russia	+1.6 Q1	na	+2.8	+2.1 Apr	+7.4 May	+6.3	5.6 Apr [§]	+63.5 Q1	+2.3	-0.5	7.38	32.1	33.0
Sweden	+1.7 Q1	+2.5	+1.4	nil Mar	-0.5 Apr	+0.5	8.7 Apr [§]	+37.5 Q1	+7.2	-0.1	1.97	6.60	7.21
Switzerland	+1.1 Q1	+2.3	+1.2	+1.7 Q4	-0.6 Apr	nil	3.1 Apr	+85.8 Q4	+11.2	+0.3	0.84	0.94	0.96
Turkey	+1.4 Q4	na	+3.5	+0.2 Mar	+6.5 May	+7.1	10.5 Feb [§]	-47.1 Mar	-5.7	-2.7	7.08	1.89	1.85
Australia	+2.5 Q1	+2.2	+2.6	+3.6 Q1	+2.5 Q1	+2.5	5.5 Apr	-51.1 Q1	-3.6	-1.3	3.39	1.05	1.03
Hong Kong	+2.8 Q1	+0.9	+2.6	+1.3 Q4	+4.1 Apr	+4.2	3.5 Apr	+3.5 Q4	+1.2	+2.1	1.60	7.76	7.76
India	+4.8 Q1	+0.4	+6.2	+2.5 Mar	+9.4 Apr	+9.1	9.9 2012	-93.4 Q4	-4.1	-4.9	7.21	56.8	55.6
Indonesia	+6.0 Q1	na	+6.2	+10.4 Mar	+5.5 May	+5.7	5.9 Q1 [§]	-26.2 Q1	-1.9	-1.9	na	9,793	9,403
Malaysia	+4.1 Q1	na	+4.4	-0.3 Mar	+1.7 Apr	+1.9	3.3 Mar [§]	+15.9 Q1	+6.7	-4.2	3.43	3.08	3.20
Pakistan	+4.2 2012**	na	+3.6	+9.3 Mar	+5.1 May	+6.3	6.0 2011	-2.7 Q1	-1.0	-7.0	10.82	98.5	93.9
Singapore	+0.2 Q1	+1.8	+2.3	+4.7 Apr	+1.5 Apr	+3.8	1.9 Q1	+48.2 Q1	+19.2	+0.7	1.79	1.25	1.29
South Korea	+1.5 Q1	+3.5	+3.2	+1.7 Apr	+1.0 May	+2.4	3.2 Apr [§]	+52.8 Apr	+3.4	+0.4	3.16	1,116	1,180
Taiwan	+1.7 Q1	-2.7	+2.3	-0.9 Apr	+0.7 May	+1.4	4.2 Apr	+49.9 Q1	+10.9	-1.9	1.35	29.8	30.0
Thailand	+5.4 Q1	-8.4	+4.4	-3.8 Apr	+2.3 May	+2.5	0.7 Mar [§]	+2.6 Q1	+1.0	-3.1	3.57	30.5	31.6
Argentina	+2.1 Q4	+5.2	+3.5	+1.7 Apr	***	-	7.9 Q1 [§]	+0.5 Q4	+0.8	-2.6	na	5.29	4.47
Brazil	+1.9 Q1	+2.2	+3.0	+8.4 Apr	+6.5 Apr	+6.5	5.8 Apr [§]	-70.0 Apr	-3.1	-2.7	10.32	2.14	2.02
Chile	+4.1 Q1	+2.1	+4.9	+1.5 Apr	+1.0 Apr	+1.8	6.4 Apr [§]	-11.1 Q1	-4.2	+1.0	na	504	512
Colombia	+3.1 Q4	+7.4	+4.3	-11.2 Mar	+2.0 May	+2.0	10.2 Apr [§]	-11.4 Q4	-3.2	-0.6	6.34	1,902	1,803
Mexico	+0.8 Q1	+1.8	+3.2	-4.9 Mar	+4.6 Apr	+4.0	5.1 Apr	-14.4 Q1	-1.2	-1.7	7.75	12.8	14.2
Venezuela	+0.7 Q1	-9.7	+0.2	-11.1 Mar	+29.4 Apr	+30.6	7.9 Apr [§]	+7.1 Q1	+4.6	-7.2	na	6.29	4.29
Egypt	+2.2 Q4	na	+2.0	+3.2 Mar	+8.1 Apr	+9.8	13.2 Q1 [§]	-6.9 Q4	-2.4	-13.1	na	6.99	6.04
Israel	+2.0 Q1	+2.8	+2.2	+4.5 Mar	+0.8 Apr	+1.5	6.5 Q1	-0.2 Q4	+1.6	-4.8	3.75	3.66	3.90
Saudi Arabia	+6.8 2012	na	+4.0	na	+4.0 Apr	+4.2	5.5 2012	+164.8 Q4	+14.8	+3.9	na	3.75	3.75
South Africa	+1.9 Q1	+0.9	+2.8	-2.0 Mar	+5.9 Apr	+5.8	25.2 Q1 [§]	-24.1 Q4	-5.3	-4.6	7.22	10.0	8.44

Source: Haver Analytics. *% change on previous quarter, annual rate. ¹The Economist poll or Economist Intelligence Unit estimate/forecast. [§]Not seasonally adjusted. ^{||}New Series. ^{**}Year ending June. ^{|||}Latest 3 months. ^{||3}3-month moving average. ^{§§}5-year yield ^{***}Official number not reliable; The State Street PriceStats Inflation Index, April 19.27%; year ago 25.73% ^{|||}Dollar-denominated bonds.

WHAT ROUTE DOES YOUR TABLET PC TAKE?



Markets

	Index Jun 5th	one week	% change on	
			Dec 31st 2012 in local currency terms	in \$
United States (DJIA)	14,960.6	-2.2	+14.2	+14.2
China (SSEA)	2,377.1	-2.3	nil	+1.7
Japan (Nikkei 225)	13,014.9	-9.2	+25.2	+9.1
Britain (FTSE 100)	6,419.3	-3.1	+8.8	+3.1
Canada (S&P TSX)	12,443.7	-2.3	+0.1	-3.9
Euro area (FTSE Euro 100)	888.7	-2.8	+3.7	+3.0
Euro area (EURO STOXX 50)	2,709.3	-2.8	+2.8	+2.0
Austria (ATX)	2,408.1	-1.7	+0.3	-0.5
Belgium (Bel 20)	2,609.6	-2.8	+5.4	+4.6
France (CAC 40)	3,852.4	-3.1	+5.8	+5.0
Germany (DAX)*	8,196.2	-1.7	+7.7	+6.9
Greece (Athex Comp)	985.4	-2.3	+8.5	+7.7
Italy (FTSE/MIB)	16,971.2	-1.5	+4.3	+3.5
Netherlands (AEX)	353.1	-3.6	+3.0	+2.3
Spain (Madrid SE)	835.1	-1.8	+1.3	+0.5
Czech Republic (PX)	963.3	-1.7	-7.3	-10.2
Denmark (OMXCX)	492.5	-1.0	+8.8	+8.1
Hungary (BUX)	19,138.8	-1.3	+5.3	+2.3
Norway (OSEAX)	527.6	-1.5	+7.6	+3.0
Poland (WIG)	47,805.9	+0.7	+0.7	-4.5
Russia (RTS, \$ terms)	1,301.1	-4.3	-10.3	-14.8
Sweden (OMXS30)	1,185.0	-3.1	+7.3	+5.7
Switzerland (SMI)	7,747.8	-3.5	+13.6	+10.2
Turkey (ISE)	79,636.8	-8.6	+1.8	-3.8
Australia (All Ord.)	4,825.1	-2.7	+3.4	-5.1
Hong Kong (Hang Seng)	22,069.2	-2.2	-2.6	-2.7
India (BSE)	19,568.2	-2.9	+0.7	-2.8
Indonesia (JSX)	5,001.2	-3.8	+15.9	+14.0
Malaysia (KLSE)	1,774.4	-0.5	+5.1	+4.2
Pakistan (KSE)	22,092.4	+3.0	+30.7	+29.0
Singapore (STI)	3,243.4	-3.7	+2.4	+0.2
South Korea (KOSPI)	1,959.2	-2.1	-1.9	-5.9
Taiwan (TWI)	8,181.9	-1.9	+6.3	+3.5
Thailand (SET)	1,522.7	-4.9	+9.4	+9.6
Argentina (MERV)	3,423.2	-1.5	+19.9	+11.4
Brazil (BVSP)	52,798.6	-3.4	-13.4	-17.0
Chile (IGPA)	20,667.3	+1.2	-1.9	-6.7
Colombia (IGBC)	13,384.3	-0.9	-9.0	-15.5
Mexico (IPC)	40,226.3	-1.0	-8.0	-6.8
Venezuela (IBC)	818,554.6	+1.1	+73.6	na
Egypt (Case 30)	5,071.9	-5.0	-7.1	-15.4
Israel (TA-100)	1,103.9	-0.5	+5.2	+7.2
Saudi Arabia (Tadawul)	7,613.4	+2.8	+11.9	+11.9
South Africa (JSE AS)	40,793.8	-1.1	+3.9	-11.8

The Economist poll of forecasters, June averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % change		Current account % of GDP	
	Low/high range		average					
	2013	2014	2013	2014	2013	2014	2013	2014
Australia	2.3/3.0	2.7/3.5	2.6 (2.7)	3.0	2.5 (2.6)	2.6	-3.6 (-3.7)	-3.8
Belgium	-0.3/0.5	0.1/1.6	nil (0.1)	1.0 (1.2)	1.3 (1.5)	1.7 (1.8)	-0.5 (-0.4)	-0.3 (-0.2)
Britain	0.5/1.3	0.8/2.2	0.8 (0.7)	1.5	2.7 (2.8)	2.5	-2.8 (-2.9)	-2.4 (-2.3)
Canada	1.4/2.2	2.1/2.9	1.8 (1.7)	2.4	1.4 (1.5)	1.9 (2.0)	-3.1	-2.8
France	-0.6/0.3	0.4/1.3	-0.2	0.7 (0.8)	1.2	1.5 (1.6)	-1.8	-1.7
Germany	0.1/1.0	1.1/2.1	0.4 (0.6)	1.5	1.7	1.9	6.2 (6.1)	5.8 (5.7)
Italy	-2.1/-1.2	-0.9/0.9	-1.7 (-1.5)	0.2 (0.3)	1.6 (1.7)	1.4 (1.6)	0.1 (-0.1)	0.5 (0.2)
Japan	0.9/2.4	0.5/3.1	1.6 (1.3)	1.5 (1.4)	0.1	1.7 (1.6)	0.9	1.5
Netherlands	-1.2/-0.4	0.1/1.1	-0.7 (-0.6)	0.7 (0.9)	2.4 (2.6)	1.9	8.8	8.8
Spain	-2.0/-1.4	-1.2/0.8	-1.7 (-1.6)	nil	1.7 (1.9)	1.0 (1.1)	0.3 (0.2)	0.9
Sweden	1.0/2.1	1.5/3.0	1.4	2.3 (2.4)	0.5	1.5 (1.6)	7.2 (7.1)	7.2 (7.1)
Switzerland	0.7/1.8	1.3/2.3	1.2	1.6	nil (0.1)	0.6 (0.7)	11.2 (10.8)	10.9 (10.5)
United States	1.6/2.5	2.4/3.2	2.0	2.8 (2.7)	1.6 (1.7)	1.9	-2.8	-2.8
Euro area	-0.7/-0.4	nil/1.3	-0.6 (-0.5)	0.8	1.6	1.5	1.6	1.7

Sources: Bank of America, BNP Paribas, Citigroup, Commerzbank, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, ING, JPMorgan Chase, KBC Bank, Morgan Stanley, RBC, RBS, Schroders, Scotia Capital, Société Générale, Standard Chartered, UBS

Other markets

	Index Jun 5th	one week	% change on	
			Dec 31st 2012 in local currency terms	in \$
United States (S&P 500)	1,608.9	-2.4	+12.8	+12.8
United States (NAScomp)	3,401.5	-1.9	+12.7	+12.7
China (SSEB, \$ terms)	262.6	-2.7	+5.5	+7.2
Japan (Topix)	1,090.0	-7.5	+26.8	+10.4
Europe (FTSEurofirst 300)	1,192.8	-2.5	+5.2	+4.4
World, dev'd (MSCI)	1,450.9	-2.6	+8.4	+8.4
Emerging markets (MSCI)	991.4	-2.8	-6.0	-6.0
World, all (MSCI)	361.8	-2.6	+6.5	+6.5
World bonds (Citigroup)	904.2	+1.0	-4.2	-4.2
EMBI+ (JPMorgan)	674.5	-1.2	-5.1	-5.1
Hedge funds (HFRX)	1,197.7 [†]	-0.4	+4.3	+4.3
Volatility, US (VIX)	17.5	+14.8	+18.0 (levels)	
CDSs, Eur (iTRAXX) [‡]	107.9	+7.7	-14.7	-15.3
CDSs, N Am (CDX) [‡]	85.7	+11.3	-19.3	-19.3
Carbon trading (EU ETS) €	3.9	+4.5	-41.7	-42.1

Sources: Markit; Thomson Reuters. [†]Total return index. [‡]Credit-default-swap spreads, basis points. [§]June 4th.

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The Economist commodity-price index

2005=100

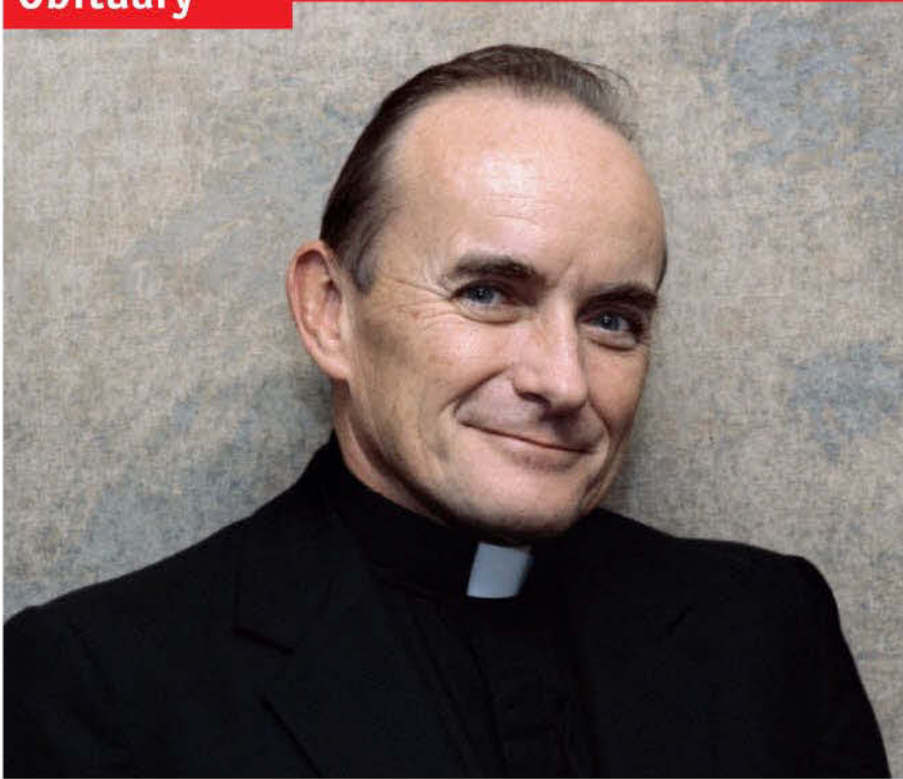
	May 28th	Jun 4th*	% change on	
			one month	one year
Dollar Index				
All Items	175.8	177.7	+0.3	+0.9
Food	202.6	203.5	-0.1	+2.6
Industrials				
All	148.0	150.8	+0.9	-1.5
Nfa [†]	160.7	161.1	-2.4	-4.9
Metals	142.6	146.4	+2.5	+0.1
Sterling Index				
All items	212.7	211.3	+1.5	+1.4
Euro Index				
All items	170.1	169.0	+0.4	-3.8
Gold				
\$ per oz	1,386.3	1,395.2	-3.5	-13.4
West Texas Intermediate				
\$ per barrel	95.0	93.4	-2.3	+11.1

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curl; FT; ICCO; ICO; ISO; Jackson Rice; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. ^{*}Provisional. [†]Non-food agricultural.

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Andrew Greeley

Andrew Greeley, priest, sociologist and novelist, died on May 29th, aged 85

He pulled her down on the sofa and ripped her dress, stripping her to the waist. He wanted to stop. Principle began to reassert itself. His fingers slipped away from her breasts. He breathed deeply. Yes, now he could stop...He was no longer touching flesh, only black lace, much less dangerous.

Then she put her arms around his back and drew him down on top of her.

Their love was violent and reckless. They clung to each other long afterward, the perspiration of their bodies blending and binding them together. Neither of them spoke.

ANDREW GREELEY wrote that scene in his novel "The Cardinal Sins". It sold 3m copies, making him famous. The protagonist, a priest, was on his way to the red hat and many more occasions of sin. Preposterous, said some readers. Others wondered how Father Greeley knew, being a man of the cloth, whose closest encounter with women was presumably hugging his mother. He explained the episode, and countless others in his novels, as theology and sacrament, something that gave a small inkling of what the love of God was like. And it was not, by the way, Cardinal Cody of his home town of Chicago he was thinking of, he added in his defence.

He was an unrelenting thorn in the hierarchy's side, a lifelong crusader against the rigid canon lawyers and "mitred bird-brains" who tried to turn his beloved Cath-

olic church into a fortress against the modern world, rather than a community of grace and celebration. And his weapon was words, for he had an Irishman's astonishing gift of the gab, glibness he called it, that never failed him. He wrote more than 50 novels, including a series about a bishop-detective, Blackie Ryan, and a sentimental range (with titles such as "Irish Whiskey" and "Irish Mist") about an Irish-American couple, Nuala and Dermot, and the ups and downs of their marriage. Then came the newspaper columns on religion and politics, always fiercely left-liberal, for the *Chicago Sun-Times*; and 70 works of non-fiction. These underpinned all the rest, for they included serious sociological studies for the National Opinion Research Centre at the University of Chicago on the revolution—not, he thought, too strong a word—that had occurred from the 1960s in the Catholic church in America.

His detailed surveys of college students, priests, Catholic adults and ethnic groups showed, sometimes shockingly, how in those decades sexual attitudes loosened and Mass attendance fell. By 1974 only 16% of American Catholics thought contraception was wrong, in open defiance of Paul VI's encyclical *Humanae Vitae*, and many priests—vacillating too in their definitions of sin—pronounced them-

selves dissatisfied with the leaders of the church. The hierarchy, he found, did not wish to hear him, even when they had commissioned his work themselves. They repudiated his findings. He had done the research, and had the unassailable data; could these idiots not read off the numbers? It appeared not. He was just a troublemaker in their eyes, as Jesus was to the Pharisees. A loud-mouthed Irish priest, in the words he wanted written on his grave.

God as love-story

He got louder, excoriating America's bishops through the 1980s and 1990s for their refusal to face up to the child-sex scandals and their inability to punish those responsible. All of it was done out of deep love for his church, whose schools he always defended against secular snipers and whose rituals, in their heart-stopping beauty, he joyfully observed. But his rudeness and raciness put him beyond the pale. Always the nuisance, as the nuns found when they whacked him on the fingers for his bad handwriting at St Angela Elementary, and as the University of Chicago seemed to think when it three times denied him tenure. Dangerously wild, as Cardinals Cody and Bernardin both implied when they refused his charitable gifts and denied him a parish of his own, though since second grade a priest was all he had ever wanted to be.

A priest, and a storyteller. Were they not, in the end, the same? Religion, after all, sprang from man's poetic and creative faculties, fashioning stories of hope against death, as his mother had sprinkled holy water round their house in Oak Park during thunderstorms. The Catholic imagination saw all things, sunrise, moonlight, chocolate ice-creams, a friend's face, a lover's touch, as metaphors for the divine. It was the richness of this world and the power of the stories, he wrote, that persuaded Catholics to stay in the church when they couldn't take the nitpicking rules any more. They stayed on their own terms. And they read his books—making him a rich man, with a condo in the John Hancock building, and giving him both on paper and online a parish after all.

For God loved him, Andrew Greeley, loved him with all his stupidities, his blunderings, his spitefulness, his spiritual sloppiness; his inability ever to forgive a bad review, his failure to achieve anything before ten o'clock in the morning, his unblinking belief that the Bears and the Bulls (*Miserere eis, Domine!*) would win this season. All of it. God—whom he often called "She", partly to stir up trouble, partly for the soundest theological reasons, since all opposites were resolved in Him or Her—loved him and all created beings with the passion of a lover, that can't-live-without-you ecstasy. And couldn't stop now, or ever. ■

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