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On the cover

How to make America's penal system less punitive and more effective: leader, page 11. The bloated prison system has stopped growing. Now it must shrink, pages 23-26

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8 The world this week

Leaders

- 11 **Justice in America**
Jailhouse nation
- 12 **Greece and the euro**
My big fat Greek divorce
- 14 **The ICC and South Africa**
Justice delayed
- 14 **Trade agreements**
TPP, RIP?
- 16 **Britain's immigration**
Kneecapping the recovery
- 17 **Africa**
Nigeria's moment

Letters

- 18 On transparency, India, modelling for free trade, tax evasion, artificial intelligence

Briefing

- 23 **American prisons**
The right choices
-
- 27 **Congressional business**
Tangling on trade
 - 28 **Film-making in California**
The Empire strikes back
 - 28 **Population trends**
Latino mojo
 - 30 **The Rachel Dolezal case**
White is the new black
 - 32 **Louisiana's budget**
The Norquist wriggle
 - 32 **Paying for college**
A teaspoon of sugar
 - 33 **Anthropology**
Kenne-which man?
 - 34 **Lexington**
Time and the Republicans

The Americas

- 35 **The pope's encyclical**
What would Jesus do about global warming?
- 36 **Food and Venezuela**
Let them eat Chavismo
- 36 **Haitian migrants**
Fear of statelessness

Asia

- 37 **Japan's national debt...**
Hoping for growth
- 38 ...and its Olympic games
A capital spat
- 38 **Police in South Korea**
The K-cop wave
- 39 **Politics in Taiwan**
Madam President?
- 39 **Politics in Malaysia**
The trouble with trebles
- 40 **Justice in Vietnam**
Compassionate commies
- 42 **Banyan**
The shadow of the caliphate

China

- 45 **Hong Kong's politics**
A snub to the party
- 46 **Corruption**
After Zhou, who?
- 46 **Dog-lovers v dog-eaters**
The qualms of a new middle class

Special report: Nigeria

- Opportunity knocks
After page 46

Middle East and Africa

- 47 **China and the Arab world**
The great well of China
- 48 **Health care in Egypt**
Dirty sheets and stray cats
- 49 **Syria and Israel**
Don't bruise the Druze
- 49 **Iraq's oil boom**
Gush but worry
- 50 **Ugandan politics**
Bored of a Big Man
- 50 **Googling in Africa**
Work or play?
- 50 **Ghana's economy**
The mighty fallen



Greece and the euro zone

Stuck in an abusive relationship: leader, page 12. The cost of Grexit still outweighs the benefits for both Greece and the euro area, page 67. Debt-relief boosts growth, but only when it comes with conditions: Free exchange, page 76



Nigeria Africa's most important disappointment can at last come right: leader, page 17. Having consistently failed to live up to its huge potential, Nigeria now has a rare chance to turn itself round. Our special report assesses its prospects, after page 46



British immigration Firms need skilled workers—and the prime minister needs to stop making panicky promises: leader, page 16



Trade deals The row over a Pacific pact threatens America's economic and political interests: leader, page 14. Failure to make progress shows how Congress damages America's standing in the world, page 27. The cruel calculus of trade disputes, page 69



The pope and the planet Latin America listens attentively but quizzically to a clarion call for greenery, page 35



Capitalist torch-bearer Legend, the Chinese conglomerate built by Liu Chuanzhi, is closer to its American and European counterparts than to Asian business groups, page 60. Chinese firms are returning to their home stockmarkets, page 61

Europe

- 51 France's reforms** Almost out of time
- 52 German same-sex unions** End of the Regenbogen
- 52 Kosovo and war crimes** Where the past isn't past
- 53 Ukraine on Russia** Putin the uniter
- 54 Charlemagne** The east's awkward squad

Britain

- 55 Military strategy** Doing less with less
- 56 Terror-tourism** The Yorkshire bomber
- 56 Intelligence agencies** Spies and lies
- 57 Bagehot** England's sensible slumber

International

- 58 Minorities and sovereignty** Who deserves a state?
- 59 The Crimean Tatars** Back into exile

Business

- 60 Legend Holdings** A torch-bearer for Chinese capitalism
- 61 Chinese companies** A red tide ebbs
- 62 Retailers and rebates** Buying up the shelves
- 62 Mobile telecoms** Change is in the air
- 63 Wearable technology** Fitbit goes public
- 64 Aircraftmakers** Keep seatbelts fastened
- 65 Challenging sanctions** Who are you calling a rogue?
- 66 Schumpeter** The Middle East and globalisation

Finance and economics

- 67 Greece and the euro** Down but not yet out
- 68 Buttonwood** Piketty and the rich
- 69 The Swiss economy** True to form
- 69 Trade disputes** Torture by tariff
- 70 Commodities and El Niño** The mocha hedge
- 70 AIG** Pyrrhus would be proud
- 73 Private equity** Another Greek tragedy
- 76 Free exchange** When debt-relief is warranted

Science and technology

- 77 Quantum computers** A little bit, better
- 79 Displaying Braille** Reading lessons
- 79 Burdensome** Global disability
- 80 Biometrics** Shifting identity
- 80 Psychology** Friends, then benefits

Books and arts

- 81 Abortion in America** After Roe
- 82 Primates of Park Avenue** A field guide
- 82 Cosmology** Black and light
- 83 The birth of Dada** Breaking out
- 84 Silicon Valley art** Good advice

Economic and financial indicators

Statistics on 42 economies, plus a closer look at private wealth

Obituary

- 90 Christopher Lee** Noblesse oblige



Quantum computers After decades languishing in the laboratory, a revolutionary technology is attracting commercial interest, page 77

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Politics



After another round of failed talks between **Greece** and its creditors, Alexis Tsipras, the Greek prime minister, hurled abuse at them, accusing the IMF of "criminal responsibility". Coming just before two crunch dates for debt repayments to the IMF and the European Central Bank, such language raised new fears of a Greek exit from the euro. Finance ministers gathered in Luxembourg for the first of what may be a series of crisis negotiations.

The **European Union** failed to agree to a plan to distribute asylum-seekers more fairly among its members using a quota system. The Italians, who are initially taking in most of the boat people crossing the Mediterranean, were cross. Matteo Renzi, Italy's prime minister, talked of a plan that would "hurt Europe".

A few days after America said it was considering putting heavy weapons in Poland and the Baltic states, **Russia's** Vladimir Putin announced that his government would add 40 new nuclear missiles to its stockpile this year.

The leader of **France's** National Front, Marine Le Pen, found enough allies from other countries to form an official far-right group in the European Parliament. Groups get more plum committee posts, which the far right will spurn, and money, which it will take.

Ahead of a planned visit to the Americas, the **pope** published an encyclical on the environment in which he warned of the catastrophic risks from

man-made climate change and called on policymakers to do more to avert it.

Around 20 people died because of flooding in Tbilisi, the capital of **Georgia**. Many animals perished when the city's zoo was submerged by the deluge. Residents were told to stay indoors when some animals escaped; a tiger was shot dead after it killed a man.

Dreading the knock on the door
Fear swept through immigrant communities in the **Dominican Republic** after a deadline passed by which Haitians and other technically illegal residents had to apply to stay in the country legitimately. Only about half the 500,000 "migrants" (many of them born in the Dominican Republic) had done the paperwork in time.

Federal prosecutors in **Brazil** told the authorities to hold back from evicting some 2,000 families, many of them indigenous, who are living in an area of the Amazon where a hydroelectric dam, one of the world's largest, is planned.

Venezuela and the United States, whose relations have been icy since 2010, hinted at slight progress in talks aimed at achieving a breakthrough. Officials from the two countries met in Haiti and said they were engaged in a "process of rapprochement".

Democracy under a cloud



Hong Kong's legislature rejected a proposal backed by China's leadership for the introduction of universal suffrage in choosing the territory's chief executive. Pro-democracy politicians denounced the offer as a sham, saying mechanisms would

remain in place to ensure no critic of the Communist Party would be elected. Before the vote pro-democracy campaigners protested outside the legislature, though many members of the public think the proposal, though flawed, should be accepted.

Australia and **China** signed a free-trade deal, abolishing many tariffs. The Australian prime minister, Tony Abbott, called it a "momentous" occasion for the two countries. The deal includes the abolition of most tariffs on China's imports of natural resources and manufactured goods from Australia.

North Korea said it was facing its worst drought in a century as seasonal rains had failed to appear. More than 30% of the rice crop was parched, the state news agency said. Although the regime rarely makes such an admission, it may be seeking aid.

Catch me, if you can

South Africa flouted its obligation as a signatory to the International Criminal Court by inviting **Sudan's** president, Omar al-Bashir, who has been indicted by the court for genocide (among other crimes), to a meeting of the African Union under an assurance of immunity. Mr Bashir had to rush home just before a South African court issued a warrant for his arrest.

An **Egyptian** court upheld a death sentence against Muhammad Morsi, the Muslim Brother who was ousted from the presidency by a military coup two years ago. The same sentence was handed down to at least 80 others, including the Brotherhood's supreme guide, Muhammad Badie, on a variety of charges ranging from a mass jailbreak in 2011 to espionage. Further appeals against the sentences are expected.

Suicide-bombers attacked the capital of **Chad** in what appears to be retaliation by Boko Haram, a jihadist outfit, for Chad's military intervention

against the group in Nigeria. Reports said that 23 people as well as four suicide-bombers were killed in the blasts.

Kurdish fighters seized a strategic town on the border between Turkey and Syria, cutting off supply lines used by **Islamic State**. It had held the town, Tal Abyad, for more than a year to smuggle in supplies and fighters bound for Raqqa, its main Syrian stronghold.

Balancing act

Free trade was dealt another blow when most Democrats in the House of Representatives, joined by isolationist Republicans, refused on June 12th to give Barack Obama "fast-track" authority to negotiate trade deals. The leadership in the House prepared to hold another vote, employing procedural tactics and other strong-arm manoeuvres to get the measure passed.



A white gunman opened fire in a **black church** in Charleston, South Carolina, killing nine, according to early reports. The police described it as a hate crime.

Jeb Bush formally entered the American presidential race, after six months of unofficial campaigning. The Republican made his announcement in Florida, where he was a successful two-term governor, and unveiled his campaign logo, which eschews the Bush family name.

Also joining the race on the Republican side was **Donald Trump**, a property tycoon with impressive hair. A spokeswoman for the Democrats sneered that he "adds some much-needed seriousness [to] the GOP field." ➤

Business

A judge ruled that the American government exceeded its authority when it sequestered **AIG's** equity in return for a bail-out following the collapse of Lehman Brothers in 2008. Hank Greenberg, a former chief executive and chairman of AIG, brought the case on behalf of shareholders seeking \$40 billion in damages; the court's decision surprised observers who thought his lawsuit was a long shot. But the judge also reasoned that if the government had not rescued AIG its investors would have been wiped out during Wall Street's meltdown, so he awarded no compensation. Mr Greenberg is to appeal against that part of the ruling.

Fluttering away

Dick Costolo took markets by surprise when he announced that he was stepping down as **Twitter's** chief executive. The social-media company has been struggling to increase its number of users at a rate to satisfy investors; a disappointing quarterly earnings report in April caused its share price to plunge by 20% within minutes. Mr Costolo's interim replacement is Jack Dorsey, one of Twitter's founders.

The board at **21st Century Fox** approved leadership changes at the film and television giant that will see **Rupert Murdoch** hand over the reins as chief executive to his younger son, James, on July 1st. Rupert Murdoch will share the job he currently holds of executive chairman with his eldest son, Lachlan. The promotion of the Murdoch siblings had been expected as part of their father's succession plans at the media empire he founded.

Microsoft reorganised its executive ranks and announced that Stephen Elop is to leave. Mr Elop used to run Nokia, joining Microsoft when it bought the Finnish company's mobile-handset business, an acquisition that has yet to prove lucrative. Microsoft's Windows 10, which aims

to streamline its operating systems for PC, mobile and gaming, will be launched next month.

Harmony-seekers

The European Commission unveiled an "action plan" to tackle **corporate tax avoidance**. The main plank is the relaunch of a common "consolidated" tax base, first proposed in 2011, that would offer a single set of rules for multinationals to calculate taxable profits in the European Union, but would not harmonise tax rates.

The European Court of Justice found that the "outright monetary transactions" programme, introduced by the **European Central Bank** in 2012 as part of its promise to do "whatever it takes" to prop up the euro zone, is legal. The decision makes it easier for the ECB to intervene should the **Greek** crisis escalate. Under OMT the bank can buy bonds on secondary markets in unlimited quantities, but opponents of the plan, notably in Germany, claim this is outside its remit.

Russia's central bank reduced its main interest rate by one percentage point, to 11.5%, the fourth cut this year. Some expected a bigger reduction,

but the Bank of Russia stressed that inflation, which has slowed to 15.8%, could pick up again, limiting the scope for more easing.

Allergan, the maker of Botox, agreed to buy **Kythera**, which produces a treatment to reduce double-chins, for \$2.1 billion. The acquisition should be completed by the end of the year, provided the deal has no unexpected wrinkles.

A hearing at California's labour commission found that a driver for **Uber** should be treated as an employee, and not a freelancer. It is another setback for the app-based ride-sharing firm, but one that has the potential to cause it more trouble than the various regulatory battles it is fighting.

A shale-gas project overseen by Cuadrilla, an energy company, was approved by planning officers in Lancashire, an English county, opening the way for the first fracking to take place in Britain for four years.

Colt, a gunmaker that made its name with the first mass-produced revolvers in the 19th century, filed for bankruptcy protection. The company still makes weapons for America's armed forces, but it lost a big

contract in 2013 and has since piled up debts. After it restructures, Colt insists, it will be back with a bang.

Kirk Kerkorian died at the age of 98. The billionaire investor was a force in the car industry, attempting a hostile takeover of Chrysler in the 1990s. But he will be best remembered for shaping Las Vegas by building the **MGM Grand**, the largest hotel in the world when it opened in 1993.

Cinema listings

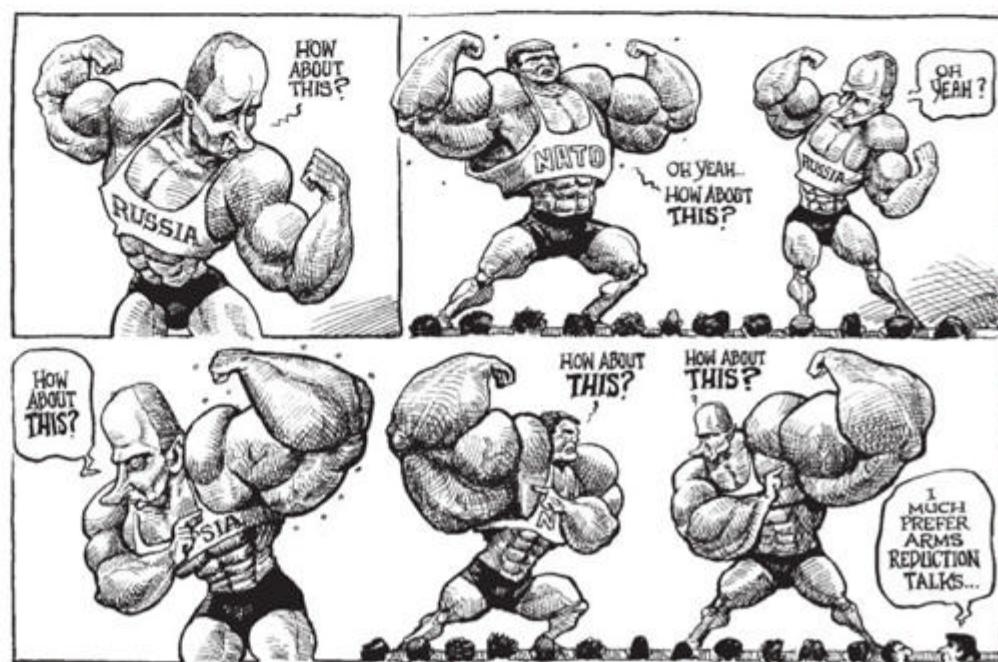
Box-office receipts

	Worldwide opening, \$m
Jurassic World (2015)	524.1
Harry Potter and the Deathly Hallows, Part 2 (2011)	483.2
Furious 7 (2015)	397.6
Harry Potter and the Half-Blood Prince (2009)	394.0
Marvel's The Avengers (2012)	392.5
Avengers: Age of Ultron (2015)	392.5

Source: Box Office Mojo

"**Jurassic World**" broke box-office records for the opening weekend of a film, taking \$209m in America and becoming the first release to surpass \$500m in total worldwide.

Other economic data and news can be found on pages 88-89



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Jailhouse nation

How to make America's penal system less punitive and more effective



WITH less than 5% of the world's population, the United States holds roughly a quarter of its prisoners: more than 2.3m people, including 1.6m in state and federal prisons and over 700,000 in local jails and immigration pens. Per head, the incarceration rate in the land of the free has risen seven-fold since the 1970s, and is now five times Britain's, nine times Germany's and 14 times Japan's. At any one time, one American adult in 35 is in prison, on parole or on probation. A third of African-American men can expect to be locked up at some point, and one in nine black children has a parent behind bars.

Bars and stripes

Advocates of tough justice point out that America's crime rate has fallen as the incarceration rate has risen. Criminals who are locked up cannot mug law-abiding citizens, and the prospect of going to prison must surely deter some from breaking the law in the first place. All this is true, but only up to a point. In the 1980s expanding prisons probably did help slow the rise of crime by taking thugs off the streets. But mass incarceration has long since become counter-productive (see pages 23-26). A recent study by the Brennan Centre for Justice, a think-tank, concluded that at most only 12% of the reduction in America's property crime rates since the 1990s can be attributed to higher rates of imprisonment—and that there might be no effect at all. States with larger prison populations have no less crime than states with smaller ones.

Crime is largely a young man's game, but many prisoners now are old: the number over the age of 50 has more than tripled since 1994. Many of these people are no longer dangerous, but locking up the elderly—and treating their ailments—costs taxpayers a fortune, typically \$68,000 per inmate each year. The longer prisoners are inside, the harder it is for them to re-integrate into society. And mass incarceration has contributed to the breakdown of working-class families, especially black ones. Among African-Americans aged 25-54, there are only 83 free men for every 100 women, which is one reason why so many black mothers raise children alone. Men behind bars cannot support their offspring, and when they are released, many states make it preposterously hard for them to find jobs.

More and more Americans accept that the harm caused by mass imprisonment now exceeds its benefits. Hillary Clinton, whose husband's 1994 crime bill filled many a cell, has now changed her mind. On the right, fiscal conservatives decry the burden on taxpayers, while Christians talk of mercy. Rick Perry, a former governor of Texas and a Republican presidential candidate, boasts of his record of closing three prisons in his state. Nationwide, the incarcerated population appears to have plateaued; it should be sharply reduced.

A good start would be to end the war on drugs, which would do less harm if they were taxed, regulated and sold in shops, not alleys, as marijuana is in Colorado and Washington state. In fact, the drug war is already ebbing: in 1997 drug of-

fenders were 27% of all prisoners; now they are around 20%. That could be cut to zero if drugs were legalised.

The next step would be to amend or repeal rules that prevent judges from judging each case on its merits, such as state and federal "mandatory minimum" sentences and "three strikes" rules that compel courts to lock up even relatively minor repeat offenders for most of their lives. New York has dramatically reduced its state-prison population this way. Prosecutors there have in effect been told to limit the number of people they imprison, giving them an incentive to lock up only the most dangerous. Prosecutors have long had huge discretion in which charges they bring; those in New York now use police intelligence to help them decide. If the man in the dock seems relatively harmless, they go easy on him; if they know him to be a career criminal who has remained free because he intimidates witnesses, they throw the book at him. Crime has fallen in New York. There has been no backlash among voters.

Reducing the prison population to European levels is probably impossible, for America is still a much more violent place, even if most districts are reasonably safe. There are roughly 165,000 murderers in American state prisons and 160,000 rapists. If America were to release every single prisoner who has not been convicted of killing or raping someone, its incarceration rate would still be higher than Germany's.

But still, America does not need to lock up every violent criminal for as long as it does—which is longer than any other rich country. Some 49,000 Americans are serving life without the possibility of ever being released. (In England and Wales the number is just 55.) Such harshness is unnecessary. A 50-year sentence does not deter five times as much as a ten-year sentence (though it does cost over five times as much). Money wasted on long sentences cannot be spent on catching criminals in the first place, which is a more effective deterrent.

Reform is hard. Prosecutors and judges are often elected in America; many woo votes by promising to be tougher than their predecessors. Politicians who are seen to be soft on crime run a risk. One reason Michael Dukakis was never president was that a murderer called Willie Horton, who was released on furlough while Mr Dukakis was governor of Massachusetts, took the opportunity to rape someone.

Swift and sure justice, but less harsh

Nonetheless, the big fall in crime in the past two decades means that Americans are now less afraid than they were, and more open to reform. Californians voted last year in a referendum to downgrade several non-violent felonies to misdemeanours. Other states are experimenting with better education in prisons (so that ex-convicts have a better chance of finding work), and drug treatment or GPS-enabled ankle bracelets as alternatives to incarceration. Some are also trying to improve prison conditions, not least by curbing assaults and rapes behind bars. The aim of penal policy should be harm reduction, not revenge. Tighter gun laws might help, because guns can turn drunken quarrels into murders; alas, that is politically improbable for now. There is no single fix for America's prisons, but there are 2.3m reasons to try. ■

Greece and the euro

My big fat Greek divorce

Greece and the euro zone are stuck in an abusive relationship



politicians are saying openly that, without a deal to release rescue funds in the next few days, default and "Grexit" loom.

The urgency is because of a repayment of €1.5 billion (\$1.7 billion), which Greece seemingly cannot afford, to the IMF on June 30th and because Greece's European bail-out expires that day. Cue the last-ditch negotiations that have become a Euro-speciality: just after *The Economist* went to press, finance ministers were to assemble in Luxembourg; leaders may meet over the weekend; a European Union summit is scheduled at the end of next week. It may come down to a head-to-head between Mr Tsipras and Angela Merkel, Germany's chancellor. A deal is still possible, but the sides have come to loathe each other. If this were a marriage, the lawyers would be circling.

Divorce would be a disaster—for everyone. The trouble is that, unless Greece and the euro zone change the terms of their relationship, staying together would not be a great deal better.

Exit Greece, stage far-left

To see why, start with the results of a default and Grexit. After arguing on and off for five infuriating years, some have begun to welcome the prospect. They are making a mistake.

For Greece the gains from defaulting would be slight, and the costs potentially vast. True, the country could walk away from debts of €317 billion, or almost 180% of GDP. But that is worth less to Greeks than it sounds. Although the debt is huge, it is at bargain-basement interest rates and repayable over decades. Interest payments until the early 2020s are just 3% of GDP a year. Even for Greece, that is manageable. Nor would leaving the euro do much good. In theory, with a new drachma and its own central bank, Greece could devalue and gain competitiveness. But Greece's trade is modest. And it has already lowered nominal wages by 16% without a boom in exports.

By contrast, the cost of Grexit would be exorbitant: bust banks, slashed savings, broken contracts and shattered confidence (see page 67). Politics could be devastated. Syriza, Mr Tsipras's hard-left party, is anti-market and anti-enterprise. Neo-fascist Golden Dawn and the Communists, with a combined 12% of the vote, would thrive. Most of the parties in the middle, already discredited, would struggle. This week Mr Tsipras was due to play footsie with Vladimir Putin in Russia. Ejected from the euro, and possibly the EU, a country with a history of coups would risk becoming violent and even more corrupt.

That is one reason for the euro zone to think twice before ditching Greece. A failing state on the Aegean would be the EU's problem regardless of whether its politicians accepted bribes in euros or drachmas—indeed, it would be a greater and less tractable problem than Greece is today. In addition, monetary union was supposed to be irrevocable. If, in fact, its mem-

bers risk ejection, then contagion will be more likely to spread to other vulnerable economies, such as Portugal and Cyprus—if not in this crisis, then in the next.

Some people, including possibly Mr Tsipras, have concluded that the price of Grexit is so high that Greece can count on the euro zone giving ground at the last minute. But that is reckless. If the euro is to endure, its rules must be enforceable. So long as the monetary union is forged between sovereign states the principles of irrevocability and enforceability are contradictory. Yet you can be sure there is a limit to what the euro zone will tolerate—even if nobody knows where it lies.

Till debt do them part

The upshot is that Grexit is a process, not an event. Even if talks fail, even if Greece defaults, even if it introduces capital controls and the government starts to issue paper IOUs because no more euros are left—even then, a referendum or a new government could still offer Greece a way back.

But a deal is a process, too. Though it would doubtless be hailed as a triumph, it would mark only a step towards the eventual restructuring of Greek debt. Trust is so low and Greece's reluctance to honour its pledges so evident, that each slug of new rescue money will depend on Greece showing that it has kept its side of the bargain. Such conditionality is necessary and economically desirable (see *Free exchange*), but in today's poisoned environment comes at a high cost. Relations between the euro zone and Greece are defined in terms of the "concessions" each has screwed out of the other. The marriage may endure, but even more unhappily than before.

A change of mindset is needed. Both sides have bungled the Greek crisis. Especially at the outset, the creditors put too much weight on rapid fiscal adjustment, in a doomed attempt to limit the size of Greek debt. As well as needlessly impoverishing Greece (GDP has shrunk 21% since 2010), this was a distraction from the real task, which is to sort out the structural impediments to growth—rampant clientelism, hopeless public administration, comically bad regulations, a lethargic and unreliable justice system, nationalised assets and oligopolies, and inflexible markets for goods and services and labour.

But Mr Tsipras has made a bad situation worse. In 2014 the Greek economy grew. Now it is shrinking again, partly because Syriza has proved incompetent and even more clientelist than its predecessors. But also because posturing in negotiations has absorbed all Syriza's attention and set the country back years. The need for a crisis to bring the talks to a head and to wring concessions from the other side has wrecked market confidence. Capital has flooded out of the banking system. Investors have kept away. Every reform has become a bargaining chip that must not be traded away before a deal and will not be exceeded once a deal has been struck. The idea that reform is actually good for Greece has been lost.

Most Greeks want to stay in the euro. But their politicians still look to Berlin for salvation, rather than to reform at home. Greece must understand that, if this does not change, the creditors will lose patience. Avoiding divorce would be better for everyone. But this marriage is not worth saving at any price. ■



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A dynamic photograph of a woman with long, light-colored hair kite surfing. She is wearing a blue top and a black vest, and is holding onto the kite's bar. A large red and white kite is visible in the background against a cloudy sky. The water is choppy and spray is visible around her board.

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The International Criminal Court and South Africa

Justice delayed

Nelson Mandela's legacy has been soiled, but the cause of international justice lives on



ONE of Africa's nastiest rulers, Omar al-Bashir of Sudan, would now have been in the dock of the International Criminal Court (ICC) at The Hague, where he has long belonged, had it not been for the disgraceful behaviour of the government of South Africa this week. Mr Bashir had been indicted by the court for a genocide in which, according to the UN, about 300,000 people perished in his country's western region, Darfur. Atrocities by his henchmen—mostly Arabs hunting down black Africans—are still taking place. South Africa was an eager founding signatory of the statute that created the court in the wake of tragedies such as the Rwandan genocide of 1994 and the horrors of apartheid itself. By letting Mr Bashir return safely home instead of arresting him when he visited South Africa on June 13th for a meeting of the African Union (AU), the government has damaged not only the ICC and the cause of international justice but also its own reputation for upholding the rule of law.

It was a close-run thing. Mr Bashir has sought to undermine the ICC by visiting countries in Africa and the Middle East on the presumption that they would abide by the bad old rule that fellow strongmen protect each other. So a red-carpet welcome to the South African gathering, attended by half the continent's leaders, was a brazen act of defiance against the court. To the credit of South Africa's own courts and its vigorous human-rights champions, it soon became clear that, unless Mr Bashir fled to Sudan, he might well have been seized. A South African judge issued a warrant for his arrest, swatting aside a spurious claim by the government that Mr Bashir had immunity during his visit. But he had already fled.

The fiasco has done little to dispel the canard, promoted by

Mr Bashir and his friends, that the ICC is biased against Africans. But a canard it is. Although all the court's indictees so far have been African, of the nine current sets of indictments, all but two were referred to the court by African governments themselves or were referred to it (as in Mr Bashir's case) by the UN Security Council. The court's chief prosecutor is a formidable Gambian woman. The president of the ICC's assembly of member states is Senegal's justice minister. Above all, the thousands of victims in such places as the Central African Republic and the Ivory Coast, who still cry out for the court to bring their tormentors to book, are African. Though the case against Uhuru Kenyatta, president of Kenya, collapsed last year amid accusations that his government had intimidated witnesses and failed to co-operate, the victims of violence after the disputed election of 2007 beg the court not to give up.

Besides, Africa is not the sole region under its scrutiny. The ICC has been holding a string of investigations into crimes said to have been committed in—among other places—Afghanistan, Colombia, Georgia, Honduras, Iraq (involving the actions of British soldiers), South Korea and Ukraine. Syria's leaders would be in the dock, had not Russia and China blocked the UN Security Council's bid to put them there.

They'll catch him in the end

The principle of international justice impartially pursued is as valid as ever. The AU's claim that incumbent presidents are immune from the law erodes the very core of justice: that no one, however lofty his or her position, should be able to commit mass murder with impunity. So the ICC must persevere. Mr Bashir has evaded it for six years; but Radovan Karadzic, the murderous Bosnian Serb leader, was brought before a forerunner of the ICC in The Hague a good 13 years after his indictment. Despite South Africa's behaviour, Mr Bashir's time will surely come—to the benefit of all Africa. ■

The Trans-Pacific Partnership

TPP, RIP?

A row over the Pacific trade deal is harming America's economic and political interests



THE world economy is undergoing revolutionary changes, John F. Kennedy told Congress in 1962. If America chooses to lead, it can shape new rules for an era of free trade and healthy competition. The Democrat who occupies the White House today makes the same case in defence of the Trans-Pacific Partnership (TPP), a 12-country trade pact. Barack Obama may yet prevail over the opposition of his own party as he seeks "fast-track" trade-promotion authority (TPA, confusingly)—the right to negotiate TPP and other trade agreements which Congress

could then approve or reject, but not amend. However, the fight over TPP has already dented America's leadership credentials, to say nothing of Hillary Clinton's (see page 27).

On June 12th Democrats in the House of Representatives, egged on by trade-union bosses, led a revolt that, temporarily at least, has derailed Mr Obama's chances of winning fast-track authority. Its opponents call the TPP deal a dangerous sequel to earlier trade accords, which they blame for sending factories from the American heartland to low-cost countries far away. (Never mind that, in a tactic to thwart Mr Obama, they voted against a training scheme for workers whose jobs are lost to foreign competition.) Tribunes of the populist left, such as Senator Bernie Sanders of Vermont, have used the fight ➤

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► against TPP to revisit long-standing grievances about the power of Wall Street banks and big business. Nancy Pelosi, the Democratic leader in the House, has called for wholly new ways to regulate globalisation, perhaps under the auspices of the UN.

Such attacks are off-target. The threat to America from low-wage manufacturing hubs is exaggerated: killing TPP would not bring factory chimneys and steel mills back to blighted Rust Belt towns. New markets among the 12 TPP countries are worth having: between them these Pacific Rim nations account for 40% of global economic output. And the thrust of TPP is to open up sectors such as services, where America enjoys a comparative advantage. As for Ms Pelosi's ideas, they are pure grandstanding. There is no conceivable congressional majority for handing trade powers to an international body.

In JFK's shadow

At least she is being less weaselly than Mrs Clinton, the front-runner to win the Democratic presidential nomination. As Mr Obama's Secretary of State, Mrs Clinton repeatedly hailed TPP's importance and its "gold standard" quality as a trade pact, with unprecedented protections for workers' rights

and the environment. Yet before the vote in Congress she was silent; after the revolt she urged Mr Obama to listen to House Democrats and seek to drive a harder bargain with foreign countries. This is not heir-to-Kennedy behaviour.

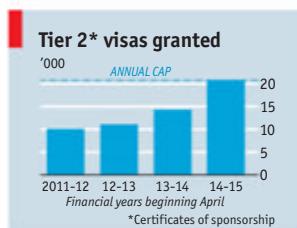
Examples of political dysfunction in Washington are ten-a-penny, but the row over TPP risks undermining American leadership in Asia and beyond. One reason is that the trade deal may fizzle. Without fast-track authority, every clause in a TPP agreement will be open to congressional tweaking; that makes negotiations practically impossible. If TPP crumbles, Mr Obama's talk of a pivot to Asia will ring hollow.

Even if Mr Obama does eventually win the fast-track fight, the saga has already imposed costs. To win support for TPP, the president has made the pact sound like a way to curb the rising power of China, which is not part of the talks. This comes after a ham-fisted attempt to squash an initiative by China to set up an Asian infrastructure bank. Yet TPP would be worth more if China was part of it and America's long-term interests are best served by knitting China into a rules-based economic system. TPP, in other words, ought to be a vehicle for American economic leadership. Instead it risks being a case study in the very insularity that JFK warned about. ■

Britain's immigration policy

How to kneecap the recovery

Firms need skilled workers—and the prime minister needs to stop making panicky promises



BRITAIN'S economy is back on track, growing faster last year than any other in the G7 group of rich countries. So British firms are expanding—and hiring. But for David Cameron, the welcome boomlet presents an inconvenience. Five years ago, when the economy was in the doldrums, the prime minister made a foolish vow drastically to reduce immigration. The promise always looked unrealistic. Now, as the economy fires up and firms recruit, it threatens to become crippling.

Britain's companies need the right workers if they are to grow. Yet tight restrictions on skilled migrants from outside Europe mean that firms are already being told that they cannot hire the people they need. The problem is easy enough to fix: the inflexible annual quota should be raised or, better, scrapped altogether. But there is no sign of that—indeed, egged on by right-wingers in his Conservative Party, the prime minister has said he wants to tighten the tap.

Repent at leisure

When Mr Cameron announced in 2010 that he would bring annual net migration down to "tens of thousands", Britain was hardly an appealing destination for migrants. The economy had shrunk by 4.3% the previous year and immigration had been falling. When in 2011 he put a cap on skilled non-European migrants, limiting their number to 20,700 a year, it made little difference, since so few firms were recruiting. But last month, for the first time, the monthly allocation implied by this cap was reached. Companies around the country have had visa applications unexpectedly rejected. Most of the jobs

that will now go unfilled are skilled, middle-earning ones: junior managers, trainee bankers, lawyers, nurses and teachers.

Despite howls from business, the rules are to stiffen. Multinationals will face more restrictions in moving their overseas employees to British offices; a new levy could be imposed on the already-expensive visas. "It has been too easy for businesses to recruit from overseas, undermining those who want to work hard and do the right thing," said the prime minister (who hired an Australian to run his re-election campaign).

This is daft. The targets of the crackdown are the very last immigrants that Britain should be keeping out. They are specialists and bottleneck-busters, young and well paid: commercially and fiscally handy people to have around. Mr Cameron's self-defeating cap will crimp economic growth and won't even mollify critics of immigration. The 20,700 skilled non-Europeans represent barely 3% of Britain's annual inflow of immigrants, so slashing their numbers will do little to reduce headline figures. Nor will it free jobs for Britons, since many would-be employers of highly skilled foreigners will simply move. Global firms would find it simple to shift graduate trainees out of London.

Damaging caps on migration, dubious fiscal rules, a referendum on membership of the EU: a worrying number of the threats facing Britain come from Mr Cameron's jelly-willed eagerness to make promises about the future if it allows him to scuttle out of danger in the present. The Tories' election-winning manifesto is stuffed full of such fantastical pledges, from all-hours doctors' appointments to subsidised home-ownership. Scarcely a week passes without the Tory backbench gaining some new panicked concession on Europe (this week: the timing of the referendum). Migration is merely the latest of these political IOUs to fall due—and it is Britain that will pay. ■

Africa

Nigeria's moment

How Africa's most important failure can at last come right



FIYE-and-a-half decades ago, when Nigeria elected its first government at the end of colonial rule, many expected the country to rise quickly to become Africa's leading power. It had people in abundance, the region's best universities and vast natural resources. It exported great pyramids of peanuts, was one of the world's leading sources of cotton and was soon to become Africa's biggest producer of oil.

Yet within a few years its hopes were dashed. Nigeria suffered the first of many military coups in 1966 and was torn apart by civil war the next year. Corruption spread rapidly, hollowing out institutions and preventing the government from providing even basic services. After decades of theft and misrule, the most populous nation in Africa—and its biggest economy—has come perilously close to fragmentation. In January this year much of the north-east was overrun by bloodthirsty jihadists. Many expected that the elections which took place at the end of March would be so rigged as to give another term to Goodluck Jonathan, a singularly ineffectual president, and that opposition-supporting areas in the north would rise up in protest. The previous elections, judged among Nigeria's fairest yet, had led to more than 700 deaths.

Instead Nigeria confounded not just its critics but itself. The elections were peaceful and, despite some ballot-box stuffing, roughly reflected the will of the majority. The election of the opposition candidate, Muhammadu Buhari, marks the first democratic defeat of a Nigerian president running for re-election as well as the best opportunity to tackle the country's many problems. As our special report in this issue lays out, Nigeria, at last, has a chance to change.

Goodluck to Buhari

Sceptics will scoff that every new dawn in Nigeria for the past half-century has proved false. Yet there are three reasons for optimism. The first, believe it or not, is Mr Buhari himself. Although he was a military dictator in the 1980s and presided over human-rights abuses, his rebirth as a democrat seems genuine. He also appears to be honest, and determined to do something about those who are not. He has warned officials—and his own relatives—to expect no mercy if they are caught stealing. Cronies of the previous regime take him seriously: even before his inauguration in May, they were said to be negotiating the return of stolen money in exchange for amnesty.

The election itself gives another reason for hope. Having experienced their first cleanish vote, Nigerians may prove less tolerant of rigging in the future. It is a salutary lesson that a sitting president, with all the resources of the state at his disposal, can lose. It suggests that voters will punish misrule. Other entrenched and corruption-riddled ruling parties, such as South Africa's, are watching nervously.

Last, Nigeria's middle class is growing rapidly. For all its flaws, Nigeria is less atrociously governed than it was in the mid-1990s, when its ruler, Sani Abacha, was both tyrannical

and economically illiterate. Growth has averaged more than 7% a year for the past decade, creating opportunities for bright young Nigerians to make a good living honestly. Instead of jostling to join the government in order to extract rents from their fellow citizens, many are flocking to start businesses. Smartphones and social media have helped fuel this growth, and are also making Nigeria more transparent. Motorists shaken down for bribes by cops can now film the interaction and post it to YouTube. During the elections volunteers photographed the tally at individual voting stations and posted the results on Twitter, reducing the scope for mischief. Nigeria's diaspora helps, too. More than 1m Nigerians live in the rich world, mainly in America and Britain. Having tasted cleaner government abroad, many now expect better back home.

Mr Buhari's greatest tasks will be to fight corruption and improve security. These are in fact linked, since a rotten, thieving state breeds unrest and is inept at quelling it. Early this year Nigeria had lost almost all of three northern provinces to Boko Haram, a rabble of Islamists who are fond of pillage and murder but object to education, especially of girls. The group succeeded for a while because no one stopped it. Nigerian officers allegedly sold weapons to the enemy, leaving their own troops ill-equipped for the fight. Boko Haram was pushed back only when the army of a neighbouring country, Chad, intervened. Mr Buhari needs to clean up and discipline the army. Ordering the generals who are supposed to fight the jihadists out of their air-conditioned offices in the capital and into headquarters closer to the action was a good start.

Things come together?

To clamp down on corruption more broadly, Mr Buhari must both reduce the opportunities for it and also catch and punish the perpetrators. An obvious early step would be to audit the country's oil revenues properly. By one estimate, a third of these are stolen before they even reach the treasury.

Another way to reduce the scope for graft would be to reduce the role of the state in the economy. Nigeria has too many onerous regulations, and officials demand bribes not to enforce them. It also has policies that invite abuse—such as price controls on petrol, which must be sold at below-market rates, with fat subsidies to compensate the sellers. Too often, the subsidies are stolen and the fuel finds its way onto the black market, leaving chronic shortages at petrol stations. Abolishing subsidies and deregulating prices would stem the theft of billions of dollars. Mr Buhari should also cut Nigeria's sky-high tariffs on imports (which promote smuggling), liberalise power and gas prices (which are so low that they discourage investment in the energy sector), and allow private firms to build and operate the roads, bridges and railways that Nigerian farmers and firms so desperately need to get their produce to market.

Nigeria matters because it is the biggest country in the continent that has huge potential for catch-up growth. If it fails, it could bring down half a dozen neighbouring states with it. If Mr Buhari turns it round, it could be both the engine room of Africa and an inspiration for people everywhere who are tired of predatory government and long to clip its claws. ■

Shine a light on government

You called for more devolution in Britain, but were too glib in thinking that corruption will lessen if voters have more opportunities to "kick out the failures" ("Time for a civic surge", June 6th). All too often in British local government, voters do not find out what is really happening when corruption takes root. At worst, elections can themselves be manipulated.

A strong localism agenda should go hand in hand with transparency, mechanisms for public scrutiny and independent oversight. Yet the government abolished the main bodies providing this, notably the Audit Commission, without transferring their powers and responsibilities elsewhere. We may not know for a decade how bad corruption in local government has become. But under the current conditions, there is a high risk of failure.

ROBERT BARRINGTON
Executive director
Transparency International UK
London

It is true that the north-east of England has much to learn about regional devolution from Germany ("Spreading their wings", June 6th). But where would Deutschland itself be without Geordie-land's engineering prowess? Robert Stephenson, born in Willington Quay, built not only the "Rocket" but also Germany's first viable locomotive, the "Adler", at his factory in Newcastle in 1835.

PETER CAIN
Trier, Germany

In support of Modi

I was confused by your analysis of Narendra Modi's first year in office as Indian prime minister (Special report on India, May 23rd). You set out a list of policy objectives that failed to acknowledge the context within which he operates. You think that last year's election has presented Mr Modi with a mandate that "would allow him to push through any measure he wants". Yet the past few

months are testament to the politicking required to drive sensitive reforms through a hostile upper house where his party is the minority.

Moreover, the failure to get the land-acquisition bill through Parliament was not because of a lack of ambition on his part. How many prime ministers would address farmers directly through radio to debate the bill's merits?

KUNAL DESAI
Head of Indian equities
Neptune Investment
Management
London

Your criticism of Mr Modi continues, despite the long list of achievements you noted: an improving economy, lower inflation and interest rates, a stable rupee, lower current and fiscal deficits, higher growth rates, increased FDI, cuts to red tape, the scrapping of diesel subsidies. The list goes on and is impressive after one year of governing. Your fears of grave communal violence have also proved to be unfounded.

SUNIL MAHAJAN
Pune, India

Thanks for alluding to philosophy when describing what Amitabh Kant, a bureaucrat, must do: his "imperatives are welcome, but they can offer no categorical guarantee that investors will respond".

AMY BERG
San Diego

TTIPing point

Free exchange (May 30th) explained how computable general equilibrium (CGE) modelling of the Trans-Pacific Partnership "has big drawbacks", often relying on "patchy" data and "faulty assumptions". CGE models are also used to assess the Transatlantic Trade and Investment Partnership (TTIP) and exaggerate its potential benefits.

The European Commission, for instance, cites a CGE model that puts the gains from TTIP at an extra 0.5% of GDP for the European Union and an extra 0.39% for the United States. Not only is this based

on the wildly optimistic assumption that regulatory barriers will be cut by half, but the data are also compiled from information provided by business representatives, who may have a vested interest in exaggerating the benefits.

Even if we took the figures at face value, they are hardly impressive. Those who want an EU-US free-trade deal should more honestly debate the potential effects.

FERDI DE VILLE
Assistant professor in politics
Ghent University
GABRIEL SILES-BRÜGGE
Lecturer in politics
University of Manchester

Tackling tax evaders

Although America's crackdown on Swiss banks may not have gone entirely according to plan, its regulators are still streets ahead of their European counterparts in tackling the industrial-scale tax-evasion schemes promoted by Alpine financial institutions ("America the not so brave", May 23rd).

Rather than waiting for information to come forward from whistleblowers, the US Department of Justice has set up the Offshore Compliance Initiative requiring dozens of Swiss banks to pay substantial penalties and hand over the names of their American clients, or face the prospect of a criminal prosecution instead.

Several banks have already agreed on a settlement under this scheme and many others will follow in the course of the year. When it comes to instances of bankers accused of assisting tax evaders, American prosecutors have won more cases than they have lost. European regulators should follow America's lead.

NIGEL WILKINS
London

I am not a toy

"Rise of the machines" (May 9th) gave little consideration to the application of laws and regulations to artificial-intelligence (AI) machines should they work among humans. AI machines would possess consciousness, free

will and intentions. They would be able to understand. How would we humans regulate such creatures? Would we give them rights and responsibilities? Would they have legal protections? Would they be second-class citizens?

An argument for why such conscious beings would be denied rights would have to rest upon the clear, but arbitrary, physical distinction between flesh and blood on the one hand, and metal and plastic on the other. These debates are just starting-points, but thinking about them leads one down what some may find a disturbing path that calls into question fundamental assumptions of not only what civil society is supposed to value, but also what it means to be human.

The existential fears of Bill Gates, Stephen Hawking, Elon Musk and others are all too understandable.

BRIAN CHAO
Feirson Family Fellow
University of Pennsylvania
Philadelphia



In Marvel's recent blockbuster, "Avengers: Age of Ultron", an AI adversary personifies (machinifies?) everything that humanity fears about supremely intelligent computers turning on their creators. One of Ultron's first words upon his "birth" reflected the sentiment expressed by some in your article: "This feels...Wrong." He proceeds to wreak havoc.

DAVID WOHLVER
Orlando, Florida ■

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Executive Focus



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Executive Focus

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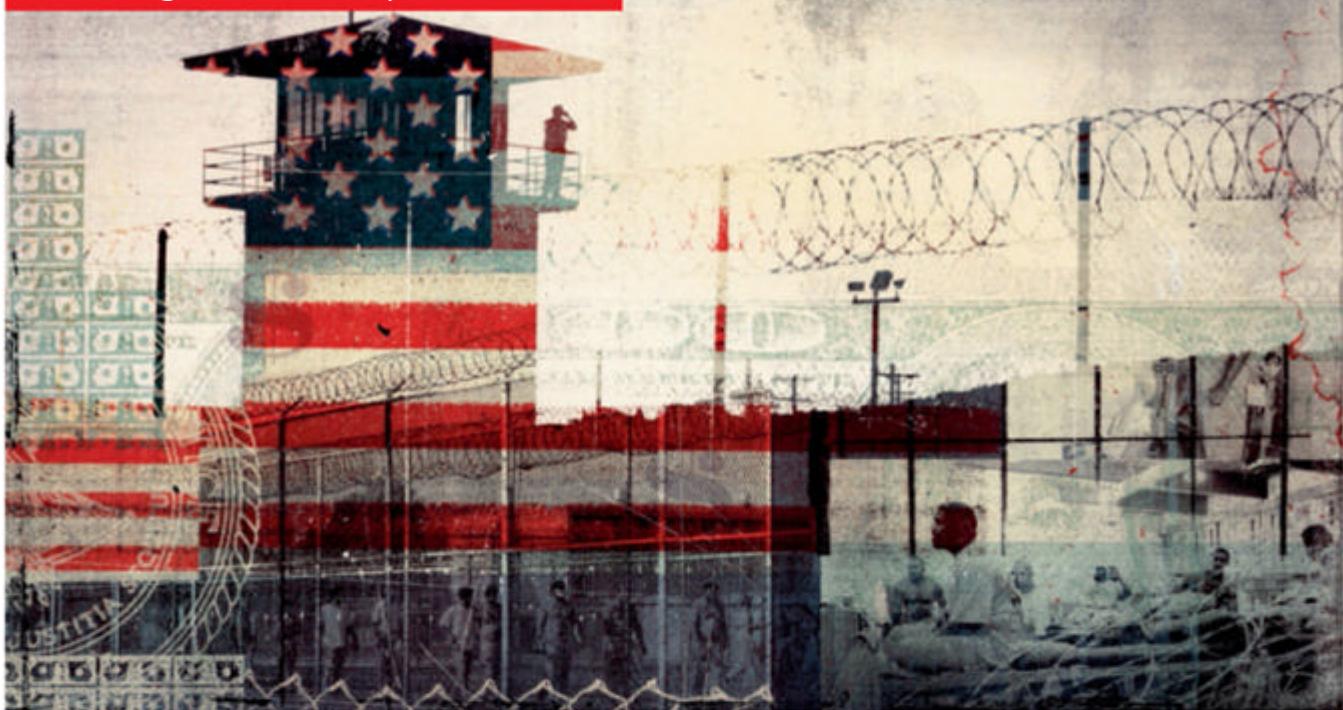
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The right choices

CLEVELAND, TEXAS

America's bloated prison system has stopped growing. Now it must shrink

DAVID PEACE, a 35-year-old from Dallas, has never used the internet. Neither has he ever used a mobile phone, possessed a driving licence or received a pay-cheque. Mr Peace, who is black, stockily built, with a broad smile, was convicted of an aggravated assault in 1997 after using a knife in a fight with a neighbour. The years most men of his age would have spent working, or starting a family, he has spent in various prisons in Texas. Next year he will be released from the minimum-security prison in Cleveland, a town near Houston, where he is currently held. The prospect of the outside world is still daunting. "I feel left behind," he says. "I've been living in a place where all of my choices are made for me, and now I have to learn to make the right choices."

No country in the world imprisons as many people as America does, or for so long. Across the array of state and federal prisons, local jails and immigration detention centres, some 2.3m people are locked up at any one time. America, with less than 5% of the world's population, accounts for around 25% of the world's prisoners. The system is particularly punishing towards black people and Hispanics, who are imprisoned at six times and twice the rates of whites respectively. A third of young black men can expect to be incarcerated at some

point in their lives. The system is riddled with drugs, abuse and violence. Its cost to the American taxpayer is about \$34,000 per inmate per year; the total bill is around \$80 billion.

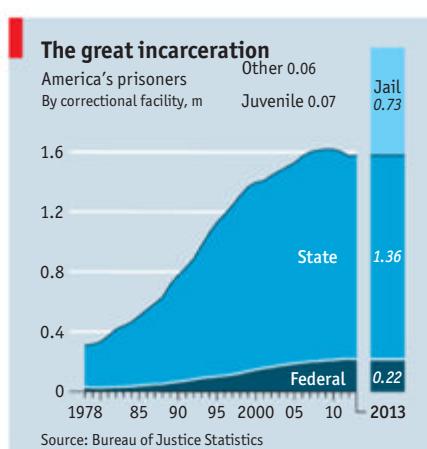
Things were not always this way. In 1970 America's state and federal prisons together held just under 200,000 inmates. In 2013, the latest year for which figures are available, the number of people in federal prisons, which hold only people convicted of federal crimes such as drug-smuggling or fraud, was itself more than 200,000 (see chart). There were almost 1.4m more in-

mates in state prisons; and there were over 700,000 people locked up in jails, some of them serving short sentences, the majority of them awaiting trial. Most of the inmates were men, but at 113 per 100,000 the incarceration rate of black women is higher than the overall incarceration rate in France or Germany. Prison conditions are often poor; many of those locked up have no proper access to training, education or rehabilitation.

Unstoppable though the system's growth has seemed at times, in the past five years it has reached a plateau. In 2009, for the first time since the 1970s, the total prison population declined slightly. One reason is that, faced with budget pressures, many states—particularly big ones such as California, New York and Texas—have been trying to cut their prison populations. Reforms to sentencing policy introduced by Eric Holder, Barack Obama's attorney-general from 2009 to 2015, may explain the very small recent fall in federal prison numbers.

Another reason for the plateau in prison numbers is that crime is on the retreat—and with it people's fears of crime. According to polling by Gallup, the proportion of Americans who worry "a great deal" about crime and violence has fallen dramatically since 2001 (though this year it ticked up from its previous low). That makes reform easier. American electorates have been widely assumed always to favour measures that look tough and punitive; but in California voters passed a ballot initiative last November that was designed to keep some non-violent criminals out of prison.

The trend could continue. Indeed, it ►►



could and should accelerate; this problem needs fixing. But even with a political appetite for reform and a public mood conducive to it, a comprehensive cutting back will be hard. The expanded prison system has built itself into the fabric of society. Judges, district attorneys, state- and county-level politicians, police forces, prison-guard unions, federal agencies and private firms that build and run prisons: all have contributed to the rise of mass incarceration, and many benefit from it. In rural parts of America prisons are now the biggest employers in many towns.

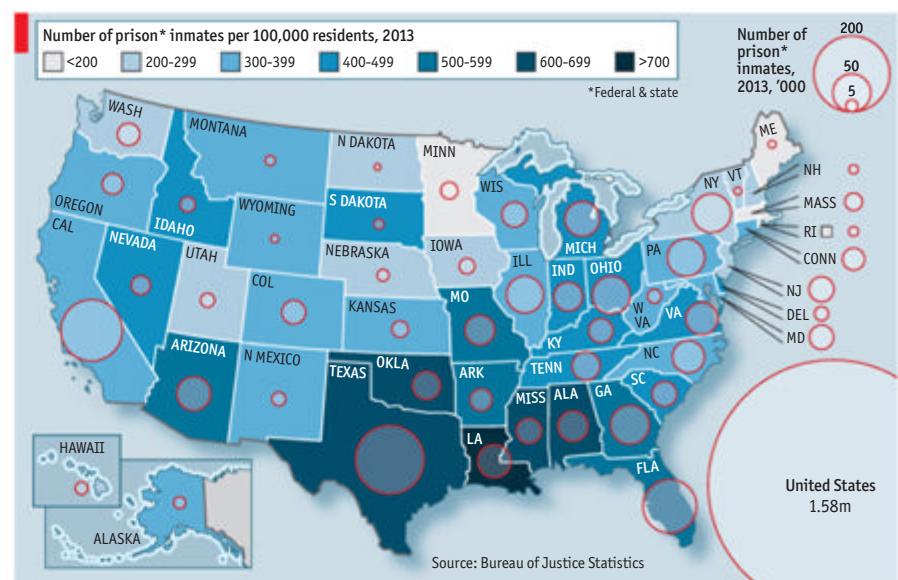
Forcing people in

The extraordinary growth in the prison population started with the “war on drugs” begun by Richard Nixon. The first state laws to bring in mandatory sentencing for drug crimes were introduced in New York in 1973, under Governor Nelson Rockefeller. During Ronald Reagan’s administration in the 1980s both the federal government and many states introduced much tougher penalties for dealing crack cocaine than for dealing powder cocaine, a move that enforced strong racial biases on sentencing. Between 1980 and 1990, the proportion of offenders in prison whose primary offence was to do with drugs climbed from under 8% to almost a quarter.

The crack-cocaine epidemic produced the conditions for more punitive policies across the board. “Three strikes” provisions, which required prison for third offences however minor, and “truth-in-sentencing” laws, which limited the possibility of parole to at most the last 15% of a sentence, proliferated. In many cases their passage was sponsored by prison-guard unions. Time served grew dramatically: according to a study by the Pew Charitable Trusts, the average prisoner released in 2009 spent three years inside, up from two in 1990.

In the early 1990s crime began to fall; by 2000 it was falling steeply. At the time some put this down to the growth in the prison population, but today few experts see that as having been much of a factor. In the 1970s and 1980s more incarceration probably did take some violent and dangerous people off the streets. But a comprehensive study by the Brennan Centre for Justice at New York University Law School, published in February, found that at most 12% of the fall in property crime in the 1990s could be attributed to more people in prison—and that there might have been no effect at all. Some of the punitive policies adopted in the 1990s seem to have been of particularly little value. Robert Nash Parker, a criminologist at the University of California, Riverside, has found that crime fell just as fast in states that had not adopted three-strikes laws as in ones that had.

A bigger prison system was also a worse one; as prisons filled up, states cut



back on their quality. In 2012 a report on Arizona prisons by Amnesty International found thousands of prisoners confined to windowless cells for 22 to 24 hours a day, without access to education or indeed any sensory stimulation at all. Most Texan prisons are not air-conditioned, which means that in summer the heat index, which takes temperature and humidity into account, can rise as high as 140°F (60°C). In one shocking case at a women’s prison in Alabama, guards were found to be routinely raping the inmates—and punishing those who complained with solitary confinement or threats of violence.

The drug problems that often get people to prison are rarely treated there: in 2010 the National Centre on Addiction and Substance Abuse, a think-tank, found that 65% of prisoners and jail inmates had substance-abuse problems, for which just 11% got any help. In many states prisoners have extremely limited access to vocational training or higher education. The crime bill signed by Bill Clinton in 1994, a measure which enacted subsidies that encouraged the building of state prisons, also banned prisoners from receiving Pell grants to help get college degrees—a decision which dramatically undercut education within prisons. As Mr Clinton admitted in an interview on CNN in May, “We wound up...putting so many people in prison that there wasn’t enough money left to educate them, train them for new jobs and increase the chances when they came out so they could live productive lives.”

Mr Peace, about to be released from his prison near Houston, is one of those who enjoys such a chance, thanks to philanthropy. He is enrolled in a privately organised “Prison Entrepreneurship Programme” through which he receives enthusiastic mentoring from well-off volunteers (dancing features surprisingly heavily: tattooed murderers bop around

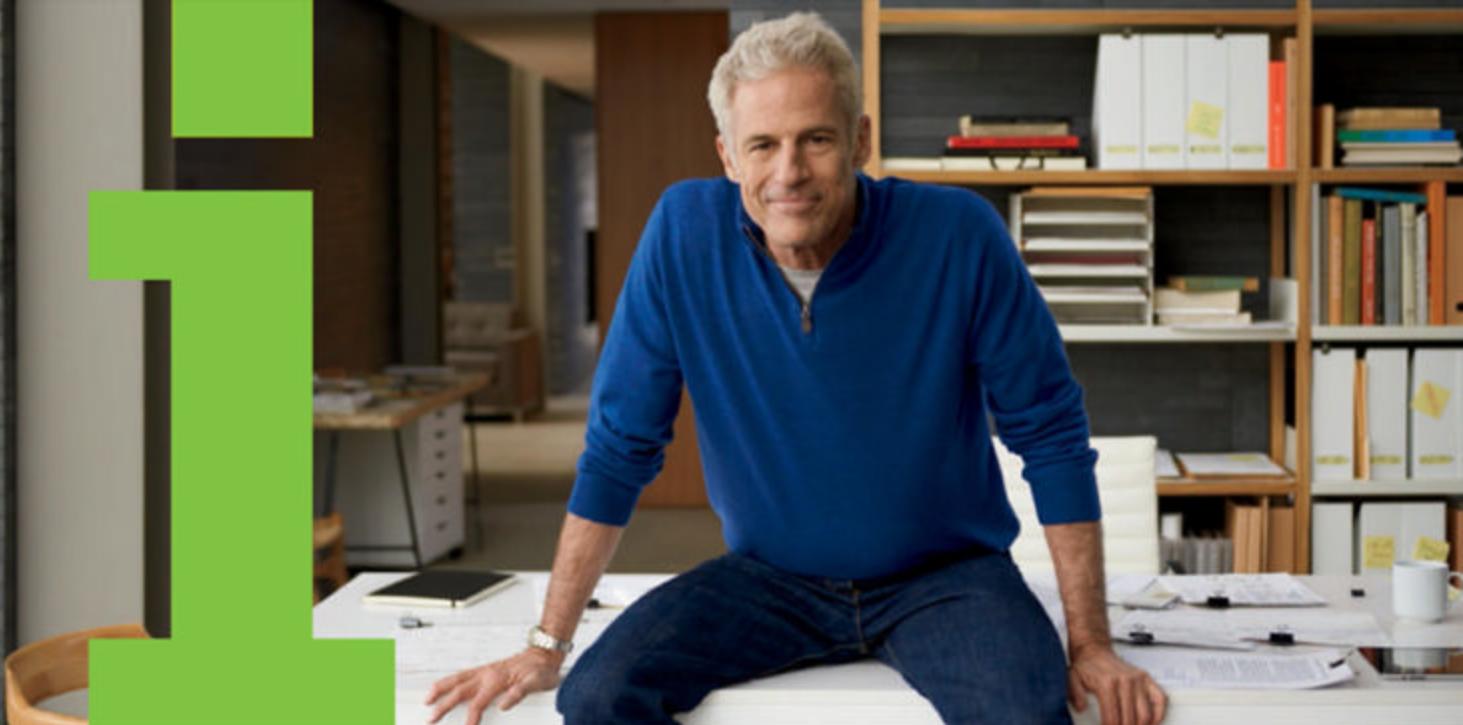
the floor with blazer-wearing oil executives from Houston). When he leaves prison, he will get help finding housing and work. When most prisoners in Texas are released at the end of their term, though, they get just a bus ticket home and \$100; those let out on parole get \$50. It is a recipe for recidivism. According to a Department of Justice survey of those released from state prisons in 30 states, 77% of those released in 2005 were arrested within five years; more than half of the arrests were within a year of release.

Building a new life is made even more difficult by policies which continue to punish criminals long after they have served their time. In many states, former felons are banned from claiming food stamps and getting public housing. In some trades, having a conviction can keep you out of work entirely. In Texas prisoners may be taught how to cut hair in prison, but barbers’ licences are withheld from some convicted felons.

Making a plateau a peak

The case for change is manifest; the opportunity real. Outrage at the deaths of black Americans at the hands of the police has prompted a new look at the way the rest of the justice system treats them. Hillary Clinton, the likely Democratic nominee for president, gave a speech in April arguing that “there is something profoundly wrong when African-American men are still far more likely to be...sentenced to longer prison terms than are meted out to their white counterparts.” Some sort of reform is popular with a number of Republicans, too. In the Senate several Republicans are joint sponsors of bipartisan bills intended to reform the federal prison system.

The war on drugs is now being wound down. In four states and the District of Columbia cannabis has been legalised; in many more, its possession has been decriminalised.



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▶minalised. New York reformed the Rockefeller drug laws in 2004 and again in 2009. In 2010 Congress passed the Fair Sentencing Act, which reduced the historic 100:1 disparity between the amount of powder cocaine and the amount of crack that would trigger federal penalties. Drugs courts have been widely introduced to direct non-violent drug-users into treatment, not prison.

John Whitmire, a Democrat in the Texas state Senate who is a prominent advocate of prison reform, says his state is at last learning “to distinguish between who you’re afraid of and who you’re mad at.” The state’s Right on Crime movement—a Republican group—argues that reducing prison populations is both fiscally conservative and in accord with the Christian principle of forgiveness. Rick Perry, until January Texas’s governor and a Republican presidential candidate for 2016, likes to boast about closing three prisons during his time in office.

But substantially reducing the prison population is difficult. Reducing the flow into prison of non-violent, non-sex-offender prisoners who have committed relatively minor crimes—which is much of what has been done so far—is politically palatable, but has only a limited impact. John Pfaff of Fordham Law School in New York points out that such offenders have been a diminishing proportion of the prison population for some time. Violent offenders make up around half of all prisoners in state and federal prisons, sex offenders 12%. There are 165,000 murderers in America’s state prisons and 160,000 rapists: if everyone else were released, America’s incarceration rate would still be higher than Germany’s. Over time this pattern seems certain to strengthen: even for dealers, drug sentences tend to be relatively short, but violent criminals are sent away for decades. There is little appetite for releasing them early, even if they have aged and mellowed in prison.

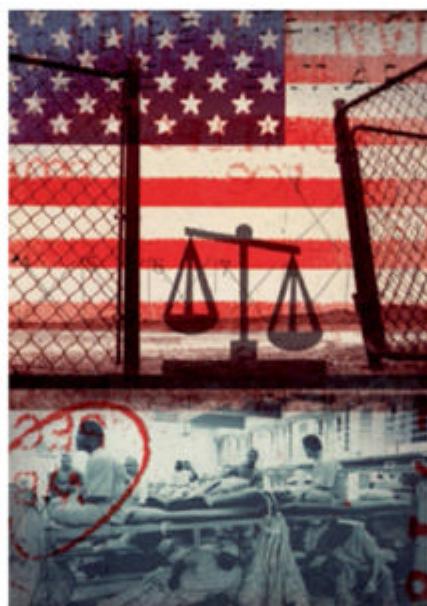
Another problem is that the people who run the system have substantial incentives to protect it. “If it wasn’t for district attorneys, we would have passed so many more bills already,” says Ana Yáñez-Correa, the head of the Texas Criminal Justice Coalition, a prison-reform pressure group. The backlash to be faced if a criminal who could have been, or stayed, locked up does something heinous gives elected prosecutors—and judges—a strong incentive to err on the side of stiff penalties. Mr Pfaff sees a ratchet effect at work over time, with prosecutors seeking ever tougher charges. Private prisons, which account for just 8% of all prison beds but are growing fast, also produce a constituency with an interest in seeing those beds filled. Many prison-management firms insist on minimum-occupancy terms in contracts.

For these reasons and others, attempts

made by states to slow or arrest the growth of their prison populations have met with only partial success. Texas’s prison population, for example, has not fallen much since 2007. In half the states the prison population continued to increase between 2009 and 2013, even as the national numbers fell a bit.

But two big states, California and New York, have done well enough to suggest that the others could do better. In California the imprisoned population has been cut by 51,000, over 30%, since 2006. New York’s prison population has been falling since 1999, and is now a quarter smaller than it was. In both states, the reforms that have worked have not been changes to laws but rather adjustments to the way in which the entire system, from arrest to release, is organised.

In California, the reduction was largely the result of “realignment”, a policy adopt-



ed after the US Supreme Court ruled that the state’s prisons were dangerously overcrowded and either new prisons would have to be built or prisoners released. The response was to pass the cost of dealing with comparatively harmless criminals from the state to its counties—the entities which actually charge people and send them to prison. In addition, county probation departments took on responsibility for 60,000 people released from prison into supervision programmes.

Focusing on the worst

The policy seems to have realigned incentives productively; though roughly a third of the reduction in California’s prison population went back behind bars, two-thirds did not. The state is now going further: proposition 47, an initiative passed last year with overwhelming support, is likely further to reduce the number of people going

to prison by replacing several felonies with misdemeanours.

New York’s adjustment to the system has been brought about largely by prosecutors in New York City, who have become more careful about how they use the toughest charges. Cy Vance, Manhattan’s district attorney, is a fan of what he calls intelligence-driven prosecution. Under his tutelage, a Crime Strategies Unit collects information on the most persistent criminals, which can inform prosecutors even if it does not form part of a case. “If I know someone who is involved in shootings or violence, even if he is arrested for shoplifting, I want to charge it as aggressively as possible,” says Mr Vance.

The rationale behind this strategy is that most people who turn up in front of a judge are fairly harmless; even in the most violent neighbourhoods, a tiny number of criminals, often ones good at intimidating witnesses, account for most violent crime. If the book is thrown at the second lot and more leniency shown to the first, prison populations and crime rates could both fall. The intelligence lies in throwing the books correctly.

And some money that could have been spent on prosecutions is instead being spent on crime prevention. At a gym in a relatively poor neighbourhood of Harlem teenagers are taught basketball skills by professional coaches—all under the watchful eyes of police officers and staff from Mr Vance’s office. Similar sessions take place every weekend at ten different sites across Manhattan. In a city where zero-tolerance policing makes many young black teenagers suspicious of any uniform, the teenagers seem happy with the prosecutors and cops present. The hope is that by building trust, prosecutors will find out about arguments between teenage gangs before they erupt into violence.

If prison is to be less of a part of American life, the philosophy behind such schemes needs to spread. Reform in police forces like those of Los Angeles and New York City, which in the 1990s started trying to prevent crime as well as react to it, is one of the things that has made America less violent. But the rest of the criminal-justice system is only slowly catching up to the idea of being proactive. A system that has been designed to react to crime, and to punish it, needs to prevent it instead. That will take a broad change in culture, not just tweaks to laws.

In his cell block, Mr Peace complains that for most of the time he has spent in prison, he has never been treated as someone with a problem, but rather as a problem himself. He has earned qualifications as a plumber and a welder—both paid for by his mother. He is hopeful that when he leaves, he will never come back. If America is to be the land of the free, it will have to learn to forgive a lot more men like him. ■



Congressional business

Tangling on trade

WASHINGTON, DC

A rebellion in the House shows how far apart the president and his party are

“**W**HATEVER the deal is with other countries, we want a better deal for America’s workers.” With that incisive bit of analysis Nancy Pelosi, the minority leader of the House of Representatives, postponed Barack Obama’s hopes of securing the authority he needs to negotiate a trade deal with a dozen Pacific countries, and then another with the EU. Mr Obama now finds himself in the unfamiliar position of relying on the two most senior Republicans in Congress, John Boehner in the House and Mitch McConnell in the Senate, to rescue him. If they are unable to do so then Mr Obama’s foreign policy, which is forever proclaiming its pivot to Asia, will merely resemble a plank.

Failure to move forward on the deals would create more than enough blame to go around the capital. It would also suggest that in the past two decades it has got easier for groups pursuing minority interests to stop the federal government working.

Understanding how Mr Obama finds himself in this position entails getting to grips with the acronyms that populate trade policy, as well as with arcane parliamentary manoeuvres. To negotiate with other countries, the president needs Trade-Promotion Authority (TPA), which allows his administration to make agreements without the people on the other side of the

table worrying that Congress will pick them apart at some later date. People involved with negotiating the Pacific deal say that other countries will not put their best offers forward until they know the president’s representatives have this authority. Republicans have been prepared to put aside their mistrust of Mr Obama and give him TPA. Most Democrats, by contrast, would rather their fingerprints were not found on trade deals.

To get TPA through the Senate, the Republican majority leader, Mitch McConnell, combined it with something Demo-

Also in this section

28 Film-making in California

28 Latino mojo

30 The Rachel Dolezal case

32 Grover Norquist hits Louisiana

32 Sex and student debt

33 Re-assessing Kennewick Man

34 Lexington: Time and the Republicans

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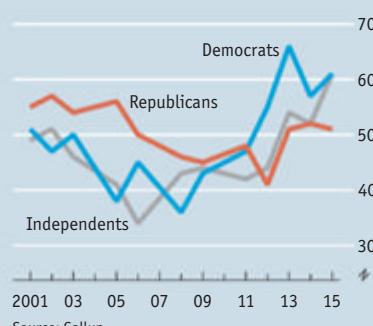
crats do like, namely the spending of federal dollars on retraining workers who have lost their jobs as a result of globalisation. This is where the second acronym, TAA (Trade Adjustment Assistance), comes in. The combined bill then went to the House, where Democrats, who are in the minority, were powerless to prevent the president from getting his negotiating authority. They did, however, manage to block the other half of the bill. Republicans looking to trim government spending were happy to help. Democrats thus managed to delay the whole package, at the cost of voting down a retraining fund which they would ordinarily have supported.

Viewed from afar, it might be tempting to conclude that this all means America has changed its mind about trade, or about the benefits of global capitalism. This is not the case: polling by Gallup suggests that more Americans see foreign trade as an opportunity than as a threat than at any time during the past two decades. When those views are broken down by party affiliation, the results are surprising. Though Republicans are the party of trade in Congress, Democrats are more likely to have a positive view of trade, by a margin of ten points (see chart). Why, then, did their representatives in the House decide to kill it?

Trade bills tend to pit the president, who must weigh up the impact of any deal on America’s economy and its standing in the world, against the House, where members are more concerned with the risk of job losses in their districts. One way of reconciling these interests in the past has been for the president to help congressmen secure earmarks, as Bill Clinton did in 1993 to pass the North Atlantic Free Trade Agreement (NAFTA). This kind of bribery is no ➤

Odd, but true

“Foreign trade is mainly an opportunity for the United States”, % agreeing:



► longer available to party leaders and whips in Congress, leaving the president more reliant on his power to charm.

It is possible that with some more arm-twisting in person Mr Obama could have got his way, but the idea that his administration has been a casual observer is mistaken. Michael Froman, the administration's chief negotiator on trade, and his staff have held 1,700 meetings on Capitol Hill, most of them with Democrats. In the event Mr Froman managed to get the backing of 28 House Democrats for trade promotion, compared with 102 who voted for NAFTA in 1993. Most of those 102, though, represented districts crowded with conservative voters, who urged their congressmen to adopt more centrist positions. Many of these seats have since been lost or redistricted away, leaving behind a Democratic rump in the House which is to the left of the party's median voter on trade.

Alongside the demise of earmarks and blue-dog Democrats, trade politics has been complicated by the increased sway outside groups hold over congressmen. Such is the size of the Republican majority in the House that it ought to have been easy to secure TPA for the president. Yet the Club for Growth, which lobbies for a smaller state, suggested to Republican congressmen that they should vote against the fund for retraining workers, even though that would have brought the trade deals the club purports to favour.

On the other side of the aisle, groups that seek to influence the Democrats have begun to imitate their ideological opposites. Though the importance of unions has declined in most American workplaces, Congress is not one of them. The AFL-CIO, the largest of the lot, organised a grassroots movement against the Pacific deal that made use of phone banks to bombard House Democrats with calls from angry constituents—the same technique that Republican-leaning groups used to put pressure on House Republicans to support the government shutdown in 2013.

For House Democrats, foreign trade has come to stand for everything the party dislikes about the changes that have swept through America's economy in the past half-century, from the closing of factories to increased inequality. That the Pacific deal is not primarily about tariffs and does not include China does not seem to make any difference. Hillary Clinton, with her acute sense of what the party's core supporters are willing to put up with, has opposed the president on the issue. No doubt Mrs Clinton recalls a similar argument on trade in 2008, when Mr Obama the candidate attacked her for having lived in the White House when NAFTA was passed. On top of all the other things that are working against him, Mr Obama's scepticism about past trade deals is making it harder for him to sell his own. ■

Film-making in California

The Empire strikes back

LOS ANGELES

California bets on more generous tax credits to keep its cameras rolling

AN OLD milk-processing plant with dangling wires, broken glass and spattered walls is not much good to anyone; except in California, where clever location scouts decided it made an ideal war-torn Iraqi site for the film "American Sniper". The Golden State's movie-making sees huge hotel lobbies become NASA facilities, superheroes strafe ships docked at Long Beach and car-racers flock to the Mojave Desert. Even parking lots, doused with enough water, ensure that Moses can conveniently lead his people through the Red Sea.

For the past decade, however, California's glamour and long tradition has proved less and less alluring. Generous tax incentives in about 30 other states and several countries mean studios now look elsewhere before filming. In the ten years after 2003, production spending in Louisiana rose by 800%; Georgia saw an increase of 700% after its tax scheme started in 2005. Both offer tax credits to production companies of up to 30%. Last year Australia even dared to host the filming of "San Andreas", a movie about the impact of an earthquake on California itself. Now the well-shaken state is fighting back.

A newly expanded tax-credits programme for films and television series is starting up next month. It will cover 20% of a film crew's local expenditures. With a pot of \$330m for canny studios, the scheme is



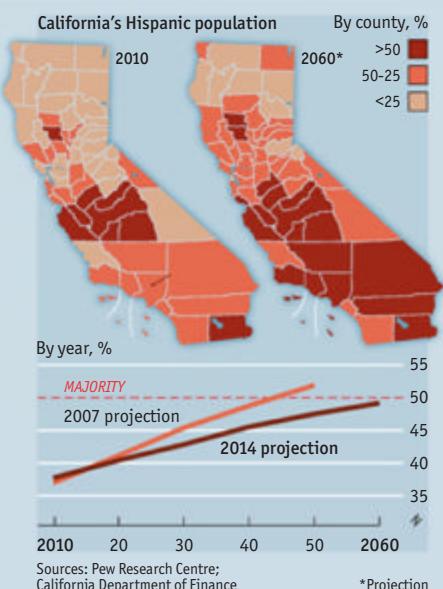
More money! Or we go to Georgia!

more than triple the size of the one it replaces. For the first time, in a bid to lure back blockbusters, makers of movies with budgets over \$75m will also be allowed to apply for credits. That is a clever idea, since 20 of the top 25 films at the global box office last year had budgets of more than that. Amy Lemisch, head of the California Film Commission, admits that the scheme is more modest than those found in other states. But her aim is to focus on "those projects most at risk of leaving".

California hosted the shooting of 21% of the most successful 100-or-so global films last year—not a big share, but up from a paltry 14% the year before. Producers may well be lured back by the new credits: four TV

Latino mojo

Researchers at Pew are wondering whether Hispanics will ever become the majority in California (they probably passed whites to become the largest ethnic group last year). The state's most recent official forecast estimates that Hispanics will account for 49% of the population in 2060, much lower than an earlier projection, to 2050, had suggested. Pew gives several reasons for this, including declining Hispanic birth rates and slowing immigration. But although Latinos may fall shy of a majority, their continued growth will be remarkable, increasing by 2.2m in Los Angeles County (and 1.1m in Riverside), while the number of whites in LA will fall by a third. With triple-digit growth rates in almost all counties, Hispanics should become California's dominant political force.



Interactive: Compare California's population changes for all races by county Economist.com/calirace15

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► series already plan to move to the state. But Hollywood will never again hog the spotlight as it once did. Half as many films were produced in Los Angeles in 2013 as in 1996, and California's share of all the one-hour TV series produced declined from 65% in 2005 to just 28% eight years later. "Because California waited a decade before entering this battle, it allowed other centres to develop just by sitting on the sidelines," explains Paul Audley from Film LA, an outfit that organises permits for those who want to film in Los Angeles.

Studios play a villainous role in this decline. Although many declared their support for California's film industry as the new credits were being discussed, they also pushed other states to expand their schemes. Incentives, not scripts, dictate where movies are made. And taxpayers are relied on to subsidise weaker offerings. After Leonardo DiCaprio pulled out of a biopic about Steve Jobs, the founder of Apple, executives at Sony said—according to leaked e-mails—that they would continue the project only if filming moved to Georgia. They could afford to film in California as long as Mr DiCaprio's pulling power helped cover their costs; with another lead, they would have to go somewhere cheaper. Eventually, Sony cancelled the production.

As long as it is worth their while, studios like to shoot in California. The sun shines reliably, and armies of specialised workers live there (Los Angeles County alone employs 25 times as many people in the movie business as Louisiana does). According to a study last year by the Southern California Association of Governments, for every dollar issued in tax credits under the old regime, \$1.11 made its way back to state coffers in tax revenues. By comparison, recent research in Louisiana found that for every dollar gleaned in film revenues, the state doled out more than four in credits. Ms Lemisch also points out that hundreds of jobs depend on productions: blockbusters may require the help of as many as 1,000 firms. Producers need massages, assistants require stationery and starlets want scented candles and fresh roses; let alone what props managers, set-builders and costume departments will holler for.

Joseph Henchman at the Tax Foundation, a think-tank, remains sceptical about the benefits that film and television tax credits bring to states. The loyalty they inspire is obviously flimsy. He praises California's governor, Jerry Brown, for increasing official scrutiny of film companies claiming tax credits. "You need to have some clawbacks in case the production doesn't do all that the promoters said it would," Mr Henchman argues. The supporting role the new credits play in California's long-running fiscal drama will have to be watched just as closely. ■

The Rachel Dolezal case

White is the new black

A curious case of fantasising reopens the racial debate

WHEN she was a teenager, her parents adopted four black children whom she adored. She went on to marry a black man and to attend Howard University, a mainly black college, where her degree focused on black culture. So although her hair was blonde and her skin was lily-white in the early 2000s, it did not cause great surprise when Rachel Dolezal began to say, first, that she was part-black, and then that she identified as black pure and simple.

This might have stayed a private matter, but she was a public person: teaching in the Africana Studies department at East Washington University, and rising to become an energetic president of the NAACP in Spokane, in Washington state. Her increasingly loud declarations of blackness, as her skin and hair grew gradually darker, annoyed her estranged white parents, who declared the whole thing rubbish. The press and the blogosphere caught her out in multiple fibs; the social commentariat, both black and white, lambasted her. On June 15th she resigned from her NAACP post, but without apology.

Her argument was that racial heredity did not constitute identity. Identity was a subjective, fluid thing: "From my truth", and "in this moment", "nothing about being white describes who I am." Younger Americans increasingly speak that language. Confining yourself to a racial box, as for the census, can be irksomely imprecise. People can also feel trapped in the wrong body; something which, in

sexual terms, now draws sympathy rather than abuse. Ms Dolezal's troubles erupted soon after Caitlyn (née Bruce) Jenner had graced the cover of *Vanity Fair* as a transsexual. Wasn't Ms Dolezal just the same, in racial terms?

Not as far as blacks are concerned. For a white to love black culture or even make black music is one thing; it is quite another to put on blackface, as Ms Dolezal did in effect. As many blacks point out, she decided to be black from a position of long-established white privilege, a choice none of them enjoyed; some scoffed that she might take blackness off, as it suited. As Terry McMillan, a writer, tweeted, "I wonder what race Rachel would become if she got stopped by the police?" Her case also revisits, in a bizarre reversal, the old Jim Crow laws: she seemed positively to want a ruling that even one drop of black blood would be enough to make her black.

Yet the tangles go further. Whites have seldom wanted to be taken for black in America; it has tended to be the other way around. But this is changing. Minority voices often carry more weight, and Ms Dolezal was well aware of this. As a minority white at Howard, she sued the university for not helping her financially for partly racial reasons; but she gave her race as black (as well as white and mixed-race) when she applied to be an ombudsman in Spokane. In most of the jobs she went for, being black was an advantage. Perhaps that was why she felt so compelled to be something she never was.



As she is, and as she used to be



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Louisiana's budget

The Norquist wriggle

NEW ORLEANS

When is a tax increase not a tax increase?

EVEN in a place inured to budget trickery, the stratagem was absurd. Louisiana's treasurer, John Kennedy, called it "nonsense on a stick". He was referring to the "tax credit" that would apparently balance Louisiana's budget for the coming fiscal year, closing a deficit gap of \$1.6 billion.

This was the plan. The state's cigarette tax, the third-lowest in the country, would be raised substantially, with the proceeds going to higher education. But rather than declare it as a tax increase, the state would create a phantom fee of about \$1,600 applied to each of its 220,000 university students. The students would not actually pay the fee, because it would come with a matching tax credit. This credit would then be handed over to the universities, which would in turn receive the actual money generated by the cigarette-tax increase and a few other things.

Two words explain such gimmickry: Grover Norquist, or, as some in Louisiana have begun calling him, "Governor Norquist". Mr Norquist runs Americans for Tax Reform (ATR), a powerful Washington lobby group, whose bread and butter is a never-raise-taxes pledge signed by politicians around the country. Being on the list, and staying in ATR's good graces, have become litmus tests of ideological purity in some Republican circles.

Louisiana's governor, Bobby Jindal, who is expected soon to leap into the crowd of Republican presidential hopefuls, is desperate to be among the fiscally untainted. Since April he has been wrestling with the problem of how to close the budget gap without either raising taxes, which would inflame Mr Norquist, or inflicting further damage on programmes like higher education. Louisiana's colleges, on his watch, have already sustained some of the deepest cuts in the country.

A simple solution might have been to pare back some of the state's lucrative and questionable tax breaks for business. But Mr Norquist would frown on that. According to his rules of engagement, any legislative change that results in extra revenue—even eliminating a poorly crafted give-away—is a tax increase. In February (as furious legislators point out, before he had consulted them), Mr Jindal sought advice privately from the guru himself.

As a result, in came the SAVE Act, an acronym for "Student Assessment for a Valuable Education". (One legislator moved to amend its title to the DUMB Act, for "Don't



L'éminence grise (et barbe)

Understand Meaning of Bill".) Mr Norquist has previously blessed tax increases, provided they are paired with offsetting cuts that make the whole package revenue-neutral. He therefore gave the nod to Louisiana's contrivance.

Even the legislators who backed the bill cringed at it, and admitted it served only to protect Mr Jindal's anti-tax credentials. A group of ten Republican legislators, including four who had signed the ATR pledge, added their names to a letter to Mr Norquist written by Joel Robideaux, the chairman of the Ways and Means Committee of the Louisiana House. The letter, released to the media, tartly noted that the SAVE Act was a "purely fictional, procedural, phantom, paper tax credit", and asked Mr Norquist whether he really endorsed it. He replied, the next day, by saying that the SAVE Act was Louisiana's creation, not his. If the conservatives didn't want to use that workaround to balance the books, he suggested, they should make cuts elsewhere.

In the end, lawmakers held their noses and voted for a budget that included SAVE, after Mr Jindal made it clear that he would veto the package otherwise. It was quite a spectacle. One of the bill's chief backers, arguing for its adoption, sold it thus: "Our love for higher education is greater than the embarrassment over the instrument."

Although Messrs Jindal and Norquist won the battle, it is unclear whether they have won the war. The episode has soured many Louisianian lawmakers on ATR for good. Add in resentment at having to please a Washington power-broker, rather than local constituents, and it seems that Mr Norquist may well have pushed his anti-tax crusade too far. ■

Paying for college

A teaspoon of sugar

SANTA BARBARA

A very old solution to a new problem

Nearly three-quarters of the graduates now leaving America's colleges are saddled with debt. On average, they owe \$35,051. By comparison, roughly half of all graduates carried debt in 1995 and it averaged less than a third as much, says Edvisors, which tracks student aid (see chart). As the cost of university has risen, so has the number of "sugar babies" who pay for it by selling companionship and sex to wealthy older men. Monthly pay for this is typically about \$3,000, though some "sugar daddies" offer much more. According to SeekingArrangement, a firm based in Las Vegas, two-thirds of sugar-baby graduates have no student debt.

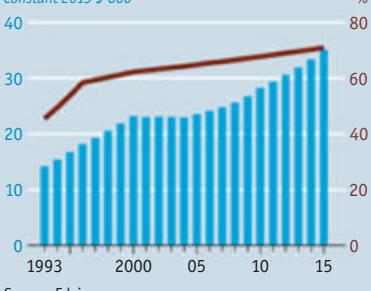
Students who post profiles on SeekingArrangement.com know what they want, so "it's almost like a business partnership", says Angela Bermudo, a spokesman for the company. The site hosts some 900,000 profiles of sugar babies enrolled in American universities, up from 458,000 two years ago. Their ranks swelled during the recession and are still growing fast, says Brandon Wade, the site's founder. A year ago nearly 1,200 students with an e-mail account belonging to an American university posted a profile on the site every day; the daily average has risen to about 2,000. The site has even stopped advertising online. Its ads used to pop up with search results for terms such as "student loan".

The boom is fuelled by increased acceptance of "sugaring" (dating for money), says Steven Pasternack, the owner of a Miami firm known as Sugardaddie. The company's site gets more than 5,000 new profile uploads worldwide every day. A quarter are students. Astute marketing helps. Sugardaddie's pitch notes that it does not "discriminate against people's de-

College crush

Average student debt
at graduation
Constant 2015 \$'000

Students graduating
with loan debt
%



► sires". Sugar babies are increasingly advised to negotiate not an "allowance", but rather a certain "lifestyle" in exchange for dates. These arrangements can remain discreet. New Yorker Keith and the younger woman he met online, seeking a sugar daddy to pay for college, both tell friends that they met in a bar. His weekly \$500 deposits into her bank account will cease, he says, if she becomes unavailable.

Young men keen for cash from a "sugar mama" have few prospects. The vast majority of website sign-ups willing to pay for sex are men. This is how it should be, says Allison, a 23-year-old sugar baby near New York City whose online name is Barbie-withabrain. Her college, rent and car expenses have been covered since she was 18 by monthly allowances of \$5,000-10,000 from three successive sugar daddies.

Might any of this qualify as prostitution? The websites say no. A sugar daddy doesn't want his sugar baby to leave,

whereas no client of a prostitute "wants the hooker to stick around", as SeekingArrangement puts it. This argument has prevailed in America's courts. If a relationship exists, payment can be labelled as compensation for companionship, not sex.

States that attempt to close that loophole fail, says Scott Cunningham, an economics professor at Baylor University in Texas who has studied prostitution markets. Proposed legislation against the practice might, he says, inadvertently prohibit marriage—which could, after all, be defined as intercourse for financial support. This is why, he adds, laws target streetwalking, pimping and other practices connected with types of prostitution. Finding a man online sidesteps all that. It is telling that PayPal, faced with a lawsuit, is dropping its refusal to process payments on SeekingArrangement, Mr Wade says. He expects the discreet payment option to become available this summer. ■

New World on boats, coast-hopping their way around the Pacific Rim.

It was to this second group that Kennewick Man, based on the physical characteristics of his skull, had been tentatively (and, it turns out, wrongly) assigned. Interpreting the physiology of a skull is difficult, says Dr Rasmussen, for although the skulls of different groups of humans do show subtle but persistent differences on average, the variation among individuals in any given population can be large. The genetic evidence, by contrast, is much more conclusive. Two particular types of Kennewick Man's DNA—those derived from his Y-chromosome and from his mitochondria, passed down only the paternal and maternal lines respectively—are of lineages that are found almost exclusively among modern-day Native Americans.

Dr Rasmussen's work looks likely to settle a long-running legal dispute, too. When the bones were discovered a row broke out between scientists keen to study them and several Native-American tribes—including the Colville—who were convinced, despite his unAmerindian appearance, that Kennewick Man was one of their own, "the Ancient One", and wanted him reburied with appropriate rituals. The tribes claimed his bones under the Native-American Graves Protection and Repatriation Act, which gives tribes rights over artefacts and remains which have some historical connection with them. A series of legal manoeuvres ended in 2004 when a court granted scientists access to the skeleton, ruling that the tribes had failed to provide any evidence of kinship. The bones are held at present by the University of Washington, appointed by the court as a neutral custodian.

Now that science has provided exactly the evidence the court was looking for, it seems there is little to prevent the reburial going ahead, for all the dismay that would cause anthropologists. For the Colville, though, it would come as a rare piece of good news. On the 1.4m-acre reservation near the Canadian border that they share with 11 other tribes, none with more than a few hundred members, education seldom goes beyond the ninth grade, and neighbours in towns outside do not welcome them. Plans a few years ago to open a molybdenum mine, which might have brought precious jobs and revenue, were cancelled when tribal members voted it down. In 2013 the administrative building of the tribe's business council, and many tribal records, were reduced to ash in a fire.

But it may be that the saga still has some way to run. Of the tribes claiming Kennewick Man's body only the Colville, says Dr Rasmussen, were willing to provide the researchers with modern DNA. Were the others to do the same, it is possible that one of them might turn out to be an even closer match. ■

Anthropology

Kenne-which Man?

DNA analysis settles a mystery—and perhaps a bitter legal wrangle

IN 1996 two spectators at a boat race on the Columbia river in Washington state found a human skull in a reservoir. It was obviously old, and at first the skull—and its accompanying skeleton—were thought to be those of a white fur-trapper. But radiocarbon dating put its age at 8,500 years, and suddenly Kennewick Man (named after a nearby town) became one of the best-preserved and most complete ancient skeletons ever found in the Americas.

Working out exactly who he was has proved difficult. Attempts during the 1990s and 2000s to sequence what little DNA could be recovered from the bones failed. But technology marches on, and in a paper published in *Nature*, Morten Rasmussen of Denmark's Natural History Museum and his colleagues report that they have at last persuaded the bones to speak. The researchers find that Kennewick Man's DNA make him more closely related to modern Native Americans—and specifically to the Colville tribe, who live in the north-west of the United States—than to any other group of people.

That may sound like a statement of the obvious. After all, Native Americans have lived in the Americas for thousands of years. But they—or more properly, their ancestors—may not have been the only group to colonise the New World during its pre-history. Archaeological and genetic evidence suggest that there may have been

two waves. One, the precursors of today's Amerindians, crossed a land bridge from Siberia about 15,000 years ago, when the most recent ice age was ending and sea levels were much lower than they are today. The second group, who also gave rise to the Ainu, the first settlers of Japan, seem to have originated in South-East Asia. The present best guess is that they reached the



No knowing how he identified himself

Lexington | Time past and time future

Republican candidates are dividing between those who gaze back and those who look ahead



HYPHENATED America, a fast-growing country of fluid, overlapping and proudly worn identities, makes lots of conservatives uneasy. Jeb Bush, the former Republican governor of Florida, is so comfortable in this new America that on June 15th he launched his bid for the White House there. Serenaded by Cuban musicians and flanked by his Mexican-born wife, Mr Bush announced his candidacy in a gymnasium at Miami Dade College, a diverse, no-frills academy offering mostly technical and vocational degrees to 165,000 students.

In content, Mr Bush's speech could have been given by many former Republican governors. He boasted about his record of cutting taxes and vetoing spending bills. Daringly for the son and brother of former presidents, he managed to denounce the "pampered elites of Washington" without blushing.

What marked his speech out was its stated audience. Mr Bush explicitly appealed to voters beyond the flinty core of conservative activists who dominate the primary contests that will choose his party's presidential candidate next year. He promised to woo the many Americans who express their love of country in a different language, a message he underlined by dropping into fluent Spanish. During the campaign ahead, he promised to face all political issues "without flinching".

Fans at the Miami rally had no problem deciphering this coded talk. Sam Guan, a Chinese-American who brought 200 supporters and a banner reading: "It's the right time to be RIGHT! Asian-Americans for Jeb", praised Mr Bush for working to improve schools in Florida and for supporting "compassionate" immigration policies. Ricardo Arana, a 20-year-old student and self-declared independent, approvingly called the former governor "a bit more moderate" than his Republican rivals.

Lots of Republicans call Mr Bush a moderate, though the historical record is more complicated. Mr Bush mostly governed as a conventional conservative, whether curbing access to abortion, granting new rights to gun-owners or exposing public schools to more competition. Where he breaks with more doctrinaire rivals is on questions of tone. He is, for instance, willing to call government a force for good when it gets a "few big things right", such as raising standards in education. His launch was filled with tales of how he had expanded state assistance for the most vulnerable

Floridians, such as disabled children. There are echoes of the compassionate conservatism that carried his brother, George W. Bush, to the presidency in 2000. On one big question, immigration, Jeb Bush is an outlier in the 2016 field: one of the few Republicans willing to call for a pathway to legal status for the millions living in America without the right papers.

His strategy is a gamble. Plenty of grassroots activists single out Mr Bush as one candidate they cannot abide. This was true in spades at a campaign rally in Iowa earlier this month, hosted by that state's newest senator, Joni Ernst, crafted as a triple tribute to military veterans, Harley-Davidson motorcycles and barbecued pork, and billed as "Joni's Roast and Ride". Many spectators simply growled that they do not consider Mr Bush a conservative at all. Often this is a judgment on specific policies, such as immigration and Mr Bush's support for Common Core, a set of education standards that many on the right consider a plot by federal bureaucrats to indoctrinate America's children. But listen carefully and another divide separates Mr Bush from many rivals. Most other Republicans with White House ambitions do not sound like politicians speaking to the America of the 21st century. Instead, they pander to voters whose beliefs and assumptions were shaped in a previous age.

Mr Bush skipped the Roast and Ride. Seven other presidential hopefuls turned up, offering tributes to conservative culture that at times verged on performance art. Rick Perry, a former governor of Texas, rode to the barbecue on a Harley belonging to a disabled war hero, accompanied by decorated ex-Navy SEALS, to raise funds for a charity that gives puppies to military veterans. Most of the seven offered laments for a country led astray by Barack Obama and Democrats who, in their telling, do not truly believe in American exceptionalism. Mr Perry assured Iowans that a few good policies and a change of leadership could bring an extraordinary country roaring back. The best-received speech, from Governor Scott Walker of Wisconsin, accused Democrats of fostering dependence on government, and so betraying the American Dream. America's rare strength, Mr Walker said, is that as long as folk are willing to work hard, it doesn't matter what class they were born into, or what their parents did for a living. This was a worryingly complacent statement, ignoring overwhelming evidence that American social mobility has stalled, presenting thoughtful politicians of left and right with a challenge that they cannot duck. The crowd, older and whiter than the national average (as is Iowa), applauded anyway.

Eschewing wistfulness

One candidate at the Roast and Ride, Senator Marco Rubio of Florida, broke with the mood of glib nostalgia. "I love the 20th century, I was born in the 20th century," he told the crowd—but now is a new century, with an economy transformed by such forces as globalisation and automation, eliminating jobs that once sustained middle-class lives. Mr Rubio, a young Cuban-American from Miami and a Jeb Bush protégé, wants Republicans to be the party that stands for the future, with education and tax policies to fit Americans for a competitive new world.

No candidate has a lock on the Republican presidential contest, and certainly not Mr Bush, who is merely one of a top tier that also includes Mr Walker and Mr Rubio. But a divide is emerging among the crowded field. Too many contenders have messages wistful for a lost past. Only a few sound excited about a changing America. Their party should heed them. ■



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The pope and the environment

What would Jesus do about global warming?

BRASILIA, QUITO AND ROME

As the pope cries out for the planet, Latin America listens attentively but quizzically

AS RELIGIOUS statements go, the one by Pope Francis on the environment is readable and in places, beautiful. With a clear eye on some global climate-change diplomacy which will come to a head in December, it affirms that carbon emitted by humans is the main reason why Earth is warming, and urges rapid action, especially by rich countries, to curb it.

The document was formally presented on June 18th but leaked in draft form three days earlier. It was the first time the world's largest religious body had devoted a big, set-piece pronouncement to the welfare of the planet, and it was a new style of papal statement. Encyclicals used to be letters to bishops; then they became missives to all Catholics; this one seems to address humanity in general. Although it often cites the green ideas of the Orthodox church, it avoids theological talk about sin and draws on non-Christian as well as non-religious sources. Many of its 190 or so pages could have come from a secular NGO; but there are tender and lyrical passages which call for a "change of heart" among consumers and decision-makers.

The inspiration, as Pope Francis has explained, came from his experience in Latin America; and its influence depends a lot on the reaction in his native region, which is home to 425m Catholics (nearly 40% of the global total) and the locus of some sharp environmental dilemmas.

In left-wing Catholic circles, especially Hispanic ones, the document was hailed as vindication of a newish stream of thinking, which aims to speak for the poor and the global South without being Marxist; it first emerged clearly at a Latin American bishops' meeting in the Brazilian town of Aparecida in 2007. The current pope, who was then Cardinal Jorge Bergoglio of Argentina, was a key voice at that meeting and is now seen as a bearer of its message.

Saving the world

And the anti-colonial spirit of Aparecida is clearly present in his encyclical; it quotes the bishops' warning that green proposals for "internationalising" the Amazon could be thinly veiled assaults on sovereignty. Still, it was only at Aparecida, the pontiff has said, that he realised that trees were worth saving. "When I heard the Brazilian bishops speak of the deforestation of Amazonia, I ended up understanding [that the trees of] Amazonia are the lungs of the world," Francis told an air-borne news conference earlier this year.

It is true that many woes, including deforestation, can best be seen from high up. But at ground level in some ecologically stricken places, the image of papally inspired Catholics resisting Latin America's polluters and tree-fellers gives way to a more complex reality. For one thing, the Catholic church's ability to fight for any

collective cause has been limited by the rise of Protestant sects offering an atomistic path to salvation and wealth; some Latin Catholics now mimic that style.

In Brazil, a land where many forms of Christianity abound, some of the loudest political voices are of evangelicals with ties to agribusiness; and one of the most zealous Catholics in Brazilian public life is Blairo Maggi, a senator from Mato Grosso state who is known as the king of soya and is sceptical about tree conservation.

Meanwhile Edilberto Sena, a leftist Catholic priest in the city of Santarém, acknowledges that some poor people struggle to grasp his concern with illegal logging in the nearby forest; and he has to compete with preachers who promise help with more personal worries. He hails the fact that the pope is acting as "shepherd to the whole world, not just Catholics" but he doubts whether it will change his country's masters. Other Brazilians are more upbeat. Valdir Raupp, a devoutly Catholic senator, hopes that thanks to the encyclical, education will replace repression as the best way to preserve forests.

In Ecuador the paradoxes are even greater. President Rafael Correa sees the encyclical as boosting his personal eco-Catholic credentials; he attended a Vatican conference in April that heralded the papal initiative. But Mr Correa faces a wave of protest over his own environmental act.

In 2013 he broke a vow not to drill for oil in the Yasuni national park, prompting more than 750,000 people to sign a call for a referendum on the issue which was turned down on a technicality. He dissolved an NGO, Pachamama, as a "threat to national security" after it made a small protest against oil tenders in the Amazon. His push to start open-pit mining in remote forested valleys has led to open conflict ►

► with local indigenous leaders. In recent weeks, a plan which might have altered the status of the Galápagos National Park, on the islands whose fauna inspired Charles Darwin, was a factor behind a wave of demonstrations in the cities of Ecuador and the archipelago.

And in Argentina, too, environmental problems can present ironies rather than straight fights between good and evil. One of the biggest green concerns in Buenos Aires is a paper mill in Uruguay which discharges into the river between the two countries; there was fury in 2013 when Uruguay announced a rise in its output. The main object of Argentine wrath was not some northern capitalist but Uruguay's President José Mujica, who is usually seen as a liberal-leftist hero.

But these ideological puzzles will hardly daunt a pope who takes all earthly doctrines with a pinch of salt; he spent his early career parrying the fury of a right-wing junta, and when he visits America in the autumn, he will have to persuade some people he is not a communist. ■

Food and Venezuela

Let them eat Chavismo

CARACAS

The UN honours Venezuela for curbing hunger—which is actually getting worse

NEWS that the UN Food and Agriculture Organisation (FAO) had given Venezuela a diploma for its “notable and exceptional” efforts to curb hunger did not reach Joseína Rodríguez. Recently unemployed, and living with her family in a farm out-house in the south-west of the country, she was too busy working out where her next meal was coming from.

“Joseína” (not her real name) helps run one of the community councils that are the building blocks of the “socialist revolution” set up by the late President Hugo Chávez. “Chávez used to say that with the revolution everything would keep getting better,” she sighs. “I don’t know why this president (his successor, Nicolás Maduro) hasn’t kept the promise.” Sitting on an upturned bucket in the dusty yard of a farm that was taken over (before Chávez) by its workers, she says she used to work making meals for her neighbours, but stopped “because they can’t pay the prices I have to charge.” Staples reaching her community via the main state-subsidised food network cover only 200 of the 1,000 families who are supposed to benefit.

The word “hunger” has been heard a lot in Caracas lately, mostly thanks to a hunger strike by Leopoldo López, the jailed opposition leader, and dozens of his supporters.

Fantasy figures

Official Venezuelan statistics v independent sources



Area	Government claims	Independent estimates
Extreme poverty*	Down from 12.2% of homes in 2004 to 5.4% in 2013.	Extreme poverty in 7.3% of homes in 2014. No net fall in the number of poor since 2000.
Meals	95% of Venezuela’s 31m people eat at least three meals a day.	88.7% of Venezuelans eat that often.
Nutrition	Malnutrition down by four-fifths since 1990; among children it halved.	Consumption of nutritional staples fell from 2011 to 2014.
Food subsidies	22m use subsidised supermarkets, food chains and free food for the poorest.	Only 11.7% of the genuinely poor benefit from these subsidies.
Food in schools	4m children get free meals under PAE, a government programme.	PAE is deficient in quantity and quality, and suppliers are often not paid.

Sources: National Living Conditions Survey 2014 (ENCOVI); INE; Observatorio Venezolano de la Salud, Fundación Bengoa and Centro de Investigaciones Agroalimentarias; Datanálisis; Provea

*Based on the “unsatisfied basic needs” definition

Their demands—that political prisoners be freed, and a date set for parliamentary elections with foreign observers watching—have so far been ignored. This week some Brazilian senators were the latest senior foreign visitors to back the detainees.

So the UN plaudit was a relief for the government. According to the FAO, which presented the diploma on June 8th, Venezuela is one of 72 countries that have reached the UN Millennium Development Goal of halving the percentage of their populations suffering from hunger. But the prize, based on government data up to 2012, comes amid growing evidence that the trend has reversed.

In his speech to the FAO, Vice-president Jorge Arreaza cited the government’s claim that 95% of Venezuelans eat three meals a day. But in a survey carried out last year by three leading universities, more than 11% said they ate just twice a day or less.

The FAO said it saw no reason to doubt the statistics it used. But many of the numbers needed for a full evaluation have not been published for years. The central bank has issued no monthly inflation or food scarcity figures for 2015. In November, even

by official accounts a minimum wage only bought 76% of the food required for the average family. Independent estimates suggest three-and-a-half minimum wages are now required. About 40% of those in work get the minimum wage or less.

Mariella Herrera, a nutritionist at the Fundación Bengoa, a private foundation, calls official data partial and inconsistent. “Other studies show an increase in malnutrition,” she says. “Children are showing up in hospital emergency wards with severe malnutrition, and some are dying because of a lack of basic supplies.” The government’s own figures, which show it reached the UN target for reducing malnutrition in children by 2008, indicate that by 2013 Venezuela was close to crossing the line again, in the opposite direction.

Joseína finds it a mercy that local authorities help where central agencies fail. “Last week they brought chicken, the week before it was milk.” Another lifeline comes from plantain from local farms and occasionally fish. Getting to a supermarket takes an hour and a half by motorcycle-taxi and bus; queues are long. “Sometimes when we get to the door, nothing is left.” ■



Fear and loathing in the Caribbean

Dread swept immigrant areas of the Dominican Republic, fanned by a history of discrimination against the country’s poorer, darker, Haitian neighbours. An unknown number of Haitians and others faced expulsion after the passing of a deadline to apply to stay legally. Some had queued for days to get paperwork in. Only just over half of the 500,000 immigrants, mostly Haitian, had filed their forms shortly before the deadline expired on June 17th. Those under threat include people of Haitian descent born in the Dominican Republic decades ago. Many have never lived in Haiti. “People could be expatriated from the country in which they were born. That would make them stateless in Haiti,” says Bridget Wooding of Obmica, a think-tank in Santo Domingo.



Bringing down Japan's national debt

Hoping for growth

TOKYO

There's nothing like optimism—except where it's unrealistic

WHEN, in November, Shinzo Abe postponed a second planned increase of Japan's consumption (sales) tax it was the right thing to do: after all, the first in April 2014, had knocked an already fragile economy. But with Japan running a far looser fiscal policy than any other rich country—the budget deficit is 6.9% of GDP—the prime minister needed at the same time to promise a credible longer-term plan for lowering the country's mountain of public debt, which stands at 246% of GDP and rising. The plan is due to be published this summer, though its broad outlines are already known. Worries are growing that it will shirk the task.

Several economists say the plan makes

highly optimistic assumptions about future economic growth, and therefore also about tax revenues. The government has laid out two scenarios for the national debt. The gloomier one envisages that Mr Abe's efforts to revive the economy will fall short, with average growth of just 1% a year, and that Japan will barely escape from the deflationary trap in which it has been caught for years. If so, the country would miss by a mile the 2020 target that politicians promised in 2010 of bringing the primary budget into surplus (ie, before interest payments are taken into account). This is the political establishment's main commitment to bringing down the national debt, so missing it would matter.

Also in this section

38 Japan's Olympic kerfuffle

38 The K-cop wave

39 Little Hot Pepper power in Taiwan

39 Politics in Malaysia

40 Compassionate Commies in Vietnam

42 Banyan: The shadow of the caliphate

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Unsurprisingly, the government says it believes in the alternative scenario of "revitalisation". In this case deflation gives way to inflation of 2% or so, and the government initiates sweeping structural reforms that boost productivity and foster economic growth of more than 2% a year until 2023. That is a zippier rate than some are predicting even for America, where the population, unlike Japan's, is rising.

Under these optimistic assumptions, the government predicts a flood of tax revenues, alleviating the need for big cuts to spending or for tax increases beyond the second rise in the consumption tax from 8% to 10% (postponed from this year to April 2017). Yet even so Japan would fall short of the promise to bring the primary budget into surplus by 2020: it would still be 1.6% of GDP in deficit.

In terms of the government's finances, perhaps it does not matter right now which scenario proves to be the more accurate. After all, the national debt, despite its gargantuan size, is not an immediate risk to financial stability. Nine-tenths of the debt is held domestically, so the government

The debt mountain

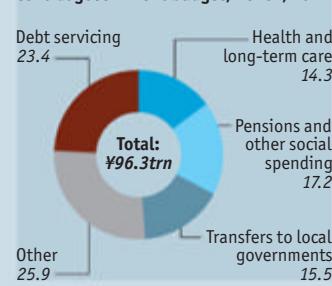
Japan government:

gross debt, % of GDP

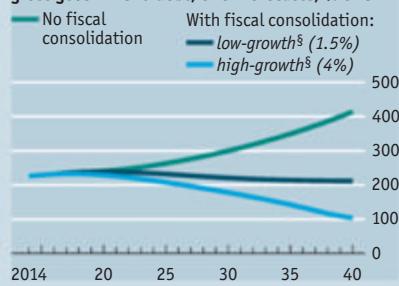


Source: OECD

central government budget, 2015†, ¥trn



gross government-debt, OECD forecasts, % of GDP



*Estimate †Forecast ‡Year beginning April 1st §Nominal

► bond market is not at the mercy of jittery foreigners. What is more, the Bank of Japan's huge programme of quantitative easing has brought bond yields down to record lows. However, the government cannot keep those yields at rock bottom unless it remains credible, and the central bank will at some point want to end quantitative easing. As it is, the cost of servicing the national debt consumes nearly a quarter of the budget—more than pensions or health care. The cost would shoot up were bond yields to climb.

The government thinks that recent economic news justifies its optimism. After a period of slow growth, GDP expanded at an annualised rate of 3.9% in the first three months of the year, as inventories in-

creased and businesses boosted investment in the hope of higher consumption. But such growth will be hard if not impossible to sustain. Not least, the government's prediction for productivity growth seems unrealistic. It posits that between 2016 and 2020 the growth in Japan's total factor productivity, that is, the efficiency with which labour and capital are used, will leap from 1% a year to 2.2%, the level that prevailed during the go-go 1980s.

The revitalisation scenario implies a series of deep reforms in the labour market, health care and other areas. Yet there are few signs of such radical change except in the fields of corporate governance and farming. Elsewhere, says Robert Feldman of Morgan Stanley, not nearly enough

structural reform is under way to raise productivity growth in the way the government promises. Meanwhile its forecasts of bumper tax receipts (Mr Abe's advisers say that they will prove much higher even than in the revitalisation scenario, actually bringing the budget into surplus by 2020) put it at sharp odds with the IMF, which says that over-optimistic assumptions in the revitalisation scenario risk "harming confidence in the authorities' ability to restore fiscal sustainability".

Certainly, Mr Abe wants to avoid making spending cuts that are politically difficult before his government's term is up in 2018. Nor does he want even to cap future outlays—not least because he will want to ensure plenty of stimulus to offset the contractionary effect of the second tax rise. Mr Abe will try to rein in costs in health care, by encouraging wider use of generic drugs, for instance. But bolder steps, such as means-testing pensions, raising the retirement age or dealing with the surging cost of end-of-life care, are to stay on the drawing board for now.

That will bring further disapproval from the central-bank governor, Haruhiko Kuroda, who thinks that the government is not doing enough to bring down the budget deficit. The government remains defiant. Pooh-poohing the IMF, one of Mr Abe's advisers bluntly says that the fund is "hardly ever right in its predictions, and we don't want to follow their advice." ■

Japan's Olympic games

A capital spat

TOKYO

A huge turtle, or a white elephant?

BEFORE a single girder has been raised, the stadium for Tokyo's 2020 Olympic games is unloved. The city is at odds with the central government over the estimated cost of ¥169 billion (\$13.6 billion). A local architect likened the design, by the Iraqi-British architect, Zaha Hadid, to a giant turtle "waiting for Japan to sink so that it can swim away". Protesters vow to block the start of construction next month, before the site, which encroaches on the outer gardens of the historic Meiji shrine, is ruined and elderly local residents are evicted.

Spiralling budgets and architectural vandalism are an Olympic staple. Much of old Tokyo was razed to make way for the 1964 games. Still, the plans for the 2020 games are a mess, says Toyo Ito, a contestant in the competition to design the stadium. The company meant to build the stadium's retractable roof only learned that the idea had been scrapped after Hakubun Shimomura, Japan's sports minister, let it slip on television.

To cut costs, Mr Shimomura has ordered the stadium lowered by 5 metres (16 feet) and a fifth of its 80,000 seats removed. But his demand that Tokyo fork out ¥50 billion toward its construction has led to a face-off with the city's governor, Yoichi Masuzoe. Despite no agreement on who will foot the bill, the Japan Sport Council, the government body overseeing the stadium, this week reportedly hired a contractor to build it. The council is worried that the project will not be finished in time for the rugby world cup, which Japan will host in 2019.

Mr Masuzoe may in the end be presented with the city's share of the final cost—likely to be much higher than original estimates—and have no choice but to cough up. Yet he grumbles that even the new plan is too grandiose. He resents the city having to pay for its upkeep after the games. The government's reassurances that the project is still on course, he says, are like Japan's imperial army insisting it was winning the second world war.



"Like a turtle waiting for Japan to sink so that it can swim away"

South Korea's police force

The K-cop wave

SEOUL

Policing proves to be another South Korean export

GAINTING the public's trust has been a slog for South Korea's police. They were long resented as the henchmen of dictators. Few South Koreans have forgotten the police role in crushing pro-democracy student protests in the 1980s, when beatings and waterboarding were common interrogation techniques. In 1980 police played a part in putting down a pro-democracy uprising in Gwangju in which hundreds were killed.

The Gwangju massacre was a turning-point, and in 1987 South Korea embraced democracy. Since then, protests about unpopular policies have often been raucous but they are almost never anarchic—even rioters wielding iron bars aimed for policemen's shields, not their bodies. And since 1999 sweeping reforms of the police force have been coupled with an ambitious PR campaign. Tear gas was ditched. A well-known cartoonist was hired to design ►

► beaming, big-eared police mascots, printed on everything from road signs to stationery. Unarmed women officers, known as the “lipstick line”, were deployed during protests to defuse tension.

Now the police want to take their professionalism abroad as part of a self-styled “K-police wave”—in emulation of a Korean wave of popular culture that has carried soaps and singers around the world. Since 2005 the police have invited almost 1,000 officers from 69 countries, from Niger to Indonesia, for training. The programme’s budget has just been increased fivefold, to \$20m over four years. A new centre aims to send 300 South Korean cops abroad by 2018. Experts on managing protests will teach in the United Arab Emirates and Oman. Guatemala is setting up a cyber-crime unit, with South Korean guidance.

The police agency says its aim is to encourage less-developed countries to see good policing as the path to public order, democracy and prosperity. Kim Seong-geun, who heads its foreign-affairs bureau, says the country’s own turbulent modernisation makes the force well-placed to advise others. Public safety in South Korea is exemplary, with low crime rates—a draw for tourists. Thanks to a cutting-edge IT industry, the country has developed tools for digital forensics and tracking cybercrime.

It is all good business. In 2013–14 South Korean firms sold \$60m of gear to Oman, including water cannons and riot shields. But Pyo Changwon, formerly at the National Police Academy, says the move could backfire if Gulf demonstrators resented being assaulted with South Korean-made equipment. Byongook Moon, a criminologist in America, worries that protest-management skills could be used by undemocratic leaders to quash dissent. Last year the government blocked sales of tear gas to Bahrain over concerns it was being used to quell pro-democracy rallies.

Mr Kim is sensitive to such concerns, but says South Korean techniques make life safer for protesters, especially in countries where they might otherwise be shot. Yet the police’s heavy-handed response to recent rallies at home has worried some. In April, on the first anniversary of the sinking of the Sewol ferry, victims’ families and their supporters gathered in central Seoul, the capital. Over 470 police buses and 13,000 officers aggressively barricaded the route to the president’s office. Large amounts of diluted pepper spray were used against protesters. Some have asked the courts to ban its use.

Mr Pyo says such severity is curious for a police force with years of experience in handling protests. It has more to do with politics than with policing, he says; as citizens’ displeasure grows, the police have become “a shield for the government, thus reviving its old ghost”. If so, the K-cop wave will soon dissipate. ■

Politics in Taiwan

Female face-off

TAIPEI

Taiwan will soon get its first woman president

WHEN the standing committee of the ruling Kuomintang (KMT) made Hung Hsiu-chu (pictured) the party’s presidential candidate on June 17th, it was clear that Taiwan’s next leader will be a woman. The country goes to the polls in January; term limits demand that President Ma Ying-jeou step down.

Ms Hung, deputy speaker of the Legislative Yuan, the parliament, had earlier passed a KMT primary, consisting of two public-opinion polls, with flying colours. Assuming Ms Hung’s candidacy is formally approved at her party’s congress on July 19th, she will take on Tsai Ing-wen, the presidential candidate of the opposition Democratic Progressive Party (DPP). Neither Taiwan nor indeed China, which claims it, has had a female leader before.

For an old-style KMT type, Ms Hung, who is 67, has an unusual background. She grew up in poverty. And though her father came from mainland China with Chiang Kai-shek’s forces in the 1940s, he was for some of Ms Hung’s childhood locked up in the island’s harshest prison for alleged Communist connections, while Chiang’s thuggish police harassed the family.

Ms Hung was first a teacher before entering politics. With a fiery style, she got the nickname of “Little Hot Pepper”. Last month she put herself forward as a presidential candidate when none of the party’s titans volunteered. Morale has been at rock-bottom thanks to Mr Ma’s listless presidency, and a painful drubbing for the KMT in local elections in November.

Ms Tsai, who is 58, is the better-known politician. A lawyer who studied in America and Britain, she has led her party since 2008, a nadir for the DPP following the disgrace of its president, Chen Shui-bian, over corruption. With an air of steady competence, Ms Tsai has done much to raise her party’s standing—and morale.

Deals with China, as ever, will be central to the presidential campaign. Mr Ma has eased tensions across the Taiwan Strait by signing business agreements with China. But these policies have lost broad support because of the belief that they serve big companies. Last year huge if peaceful protests came out in Taipei, the island’s capital, against the agreements. Ms Hung’s lack of business connections may help her. But she is stridently in favour of unification—on balance a political liability. More Taiwanese than ever think their culture is not China’s.



Little Hot Pepper power

Many in the DPP favour declaring outright independence rather than upholding the figleaf that Taiwan is part of China. Ms Tsai herself sounded pragmatic on a recent trip to Washington, DC, by promising to pursue peaceful relations with China. It will have reassured her hosts, who do not want a cross-strait crisis. The presidential race will be gripping, but probably not attended by fireworks. ■

Politics in Malaysia

The trouble with trebles

Malaysia’s opposition comes unstuck

MALAYSIA’S opposition coalition, Pakatan Rakyat, came close to snatching power at the general election in 2013. But instead of regrouping for a fresh assault on the United Malays National Organisation (UMNO)—which has ruled the country, in a coalition it dominates, since independence in 1957—the three-party Pakatan partnership seems to have torn itself apart. On June 16th the Democratic Action Party (DAP), one of its components, declared that the coalition “effectively ceases to exist”. The following day leaders of the People’s Justice Party (PKR) agreed that Pakatan “no longer functions formally”.

Pakatan was founded by Anwar Ibrahim, a charismatic reformer and a turncoat from UMNO. It is anchored by PKR, his centre-left and multi-ethnic party. Yet the coalition’s survival has always depended on a truce between the DAP, a secular ethnic-Chinese outfit, and the Pan-Malaysian Islamic Party (PAS), a devout ethnic-Malay one. Their relationship has been battered by PAS’s determination to introduce *hudud* (harsh sharia punishments, such as stoning and amputations) in the northern state of Kelantan, its stronghold. ■

In March the DAP said that it was no longer willing to co-operate with Hadi Awang, the president of PAS and architect of its campaign to strengthen sharia. But at PAS's conference this month the party faithful re-elected him in a landslide—and then passed a motion of their own cutting ties with the DAP.

The bust-up might have been better handled had Mr Anwar been around to manage things. But he was imprisoned in February on a sodomy charge—trumped up, it seems, to keep him from power. UMNO has been playing mischief too behind the scenes, quietly backing PAS's sharia campaign.

Pakatan's implosion could not come at a better time for Najib Razak, the prime minister. His government has lurched from crisis to crisis. He is currently fighting allegations of mismanagement at 1MDB, a state investment firm he helped create (it is struggling to service debts of more than \$11 billion). Some of the fiercest criticism of Mr Najib has come from within his own party, in particular from Mahathir Mohamad, a mischievous former prime minister, and his allies. Dr Mahathir says that Mr Najib's unpopularity could spell disaster for UMNO at the next general election in 2018. Last month Mr Najib pulled out of a forum which might have seen him forced to debate with the elder statesman, citing fears that crowds were planning to get rowdy.

The coalition's collapse could lead to complicated negotiations in Selangor, a rich state near Kuala Lumpur, the capital; it is currently governed with the support of all three Pakatan parties. In the longer term Malaysia's opposition leaders must decide how (or whether) to regroup. The DAP and PKR will probably muddle along together. But without an Islamist partner they may struggle to gather support from across the electorate, which consists of a Malay Muslim majority with Chinese, Indian and Christian minorities. Some moderate members of PAS who have been isolated by the success of a conservative faction at last month's party elections say they will break away to set up a less toxic Muslim party which could join DAP and PKR in a new coalition. If that plan comes off it may reinvigorate Pakatan's appeal; many Malaysians have been put off by the strict Islamists lurking on its fringes.

Much hinges on how PAS's dominant conservative wing chooses to proceed. The party's ageing leaders seem to think that time is running out to introduce *hudud* in Kelantan and look willing to reach some form of accommodation with UMNO, despite a history of antagonism, in order to achieve it. Support from PAS, however tacit, would boost UMNO's chances of stringing out its long reign. But it would also see Malaysia's poisonous politics split more cleanly along ethnic lines—hardly a heartening thought. ■

Criminal justice in Vietnam

Compassionate communists

NGHIA TRUNG

The party allows a smidgen of penal reform

ONE ordinary farmer, Nguyen Thanh Chan, is now a celebrity in Vietnam. In 2004 he was sentenced to life in prison for the murder of a woman in Nghia Trung, a village north-east of Hanoi, the capital. Yet he was released in 2013 after a neighbour, confronted with evidence, confessed to the crime. Earlier this month the country's Supreme People's Court announced that it would pay Mr Chan \$360,000—many times what he would earn in a lifetime—as compensation for his nightmare.

The day after the announcement Mr Chan welcomed reporters to his one-storey farmhouse. He said that after his arrest police roughed him up and forced him to make a false confession. Had it not been for his wife's long-shot campaign to clear his name, he might still be rotting in prison.

Mr Chan's case comes as the Vietnamese government attempts to reform the criminal-justice system. Proposed changes to the penal and criminal-procedure codes were discussed this week in the National Assembly, Vietnam's tame parliament. In part, the Communist Party seems to be pursuing change as an easy way to curry favour with Western governments at a time when Vietnam faces heightened tensions with neighbouring China. Yet the reforms seem to be gathering a momentum of their own, including over capital punishment.

As in China, death-penalty statistics in Vietnam are state secrets. But Amnesty International, a rights group, says that at least three prisoners were executed last year



It's still no picnic

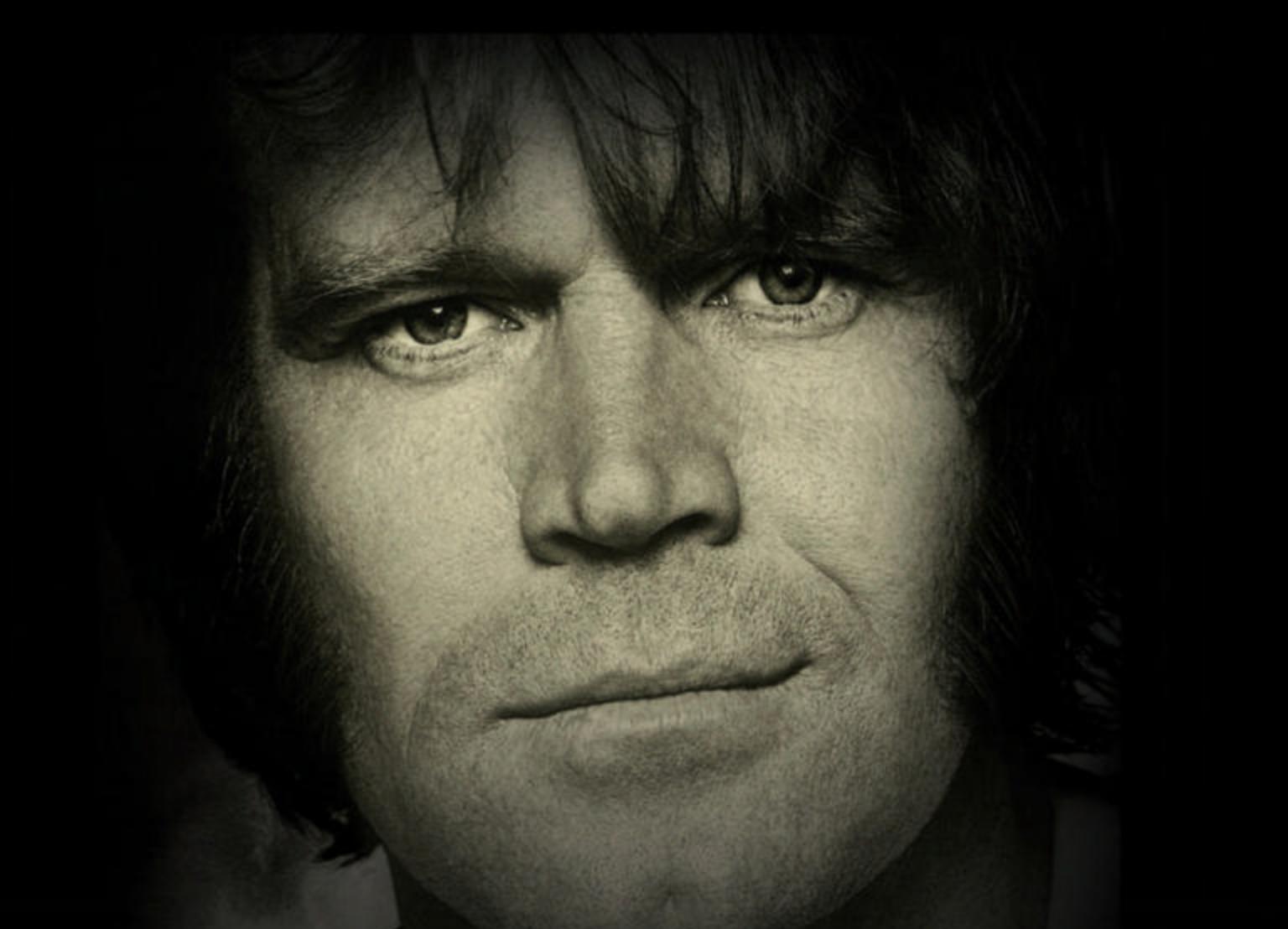
and more than 700 face possible execution. Of the 72 who were sentenced to death in 2014 alone, four-fifths were found guilty of drug trafficking.

Now the assembly is debating whether to cut the number of crimes for which the death penalty applies to 15 from 22. Stealing and disobeying military orders would no longer be capital offences. Drug trafficking will remain one for now. Yet a Western diplomat in Hanoi who follows legal matters thinks that it, too, could go within a year. He adds that if that happened, Vietnam's stance on capital punishment would instantly become among the most enlightened in South-East Asia. Only the Philippines has abolished it altogether.

Yet whatever the assembly decides, Vietnam's criminal-justice system will remain deeply flawed. The criminal-procedure code permits harsh interrogation tactics, while the penal code is littered with clauses that criminalise, on grounds of national security, vaguely defined activities such as "conducting propaganda against the state". In court, the judge is almost always a Communist Party member, while the two jurors who flank him typically have ties to the security state. Most prisoners who attempt to kick against the system are silenced. In one well-known example, Nguyen Van Ly, a Roman Catholic priest, accused the police and the court of practising the "law of the jungle", whereupon a courtroom officer clamped a hand over his mouth. As for death row, inmates there are not told when their executions will take place, while questions swirl around how the executions are conducted. Four years ago the government gave up firing squads in favour of lethal injections. But because of a European Union ban on selling lethal-injection drugs, it switched to home-grown varieties. Doctors have been coerced into administering them.

But at least lawmakers are beginning to acknowledge irregularities in state prosecutors' work. One controversial case they are reviewing concerns Ho Duy Hai, a man in the southern province of Long An who was convicted of murder in 2008. The evidence against him looks questionable. In December Vietnam's president, Truong Tan Sang, suspended Mr Hai's execution after behind-the-scenes pressure from Western diplomats.

Meanwhile, though the farmer, Nguyen Thanh Chan, still believes that the system broadly works, he wonders aloud if all crimes are being properly investigated. In his own case, the only reason the courts finally paid attention to his pleas of innocence was that his wife became an amateur gumshoe. After months of sleuthing, she showed up at the justice ministry, grabbed a bureaucrat by the collar and demanded the right to present reams of overlooked evidence. The ministry should give her a job. ■



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Banyan | The shadow of the caliphate

Islamic State prompts alarm and soul-searching across Asia



WHEN Abu Bakr al-Baghdadi proclaimed the restoration of the Muslim caliphate a year ago this month, the call for Muslims to come to fight for, and build, his Islamic State (is), was heard not just in the collapsing Arab heartland, but also in Muslim communities as disparate as China, the Philippines and Australia. More than half the world's Muslims live in Asia, so the rise of a violent and swaggeringly self-confident strain of global jihadism is bound to disrupt the region. Pre-existing groups of jihadists have been emboldened by the success of is in establishing and defending its domain in large parts of Iraq and Syria. Asian governments worry that young people are being radicalised by is propaganda, encouraged to travel to the caliphate or inspired to make bloody mischief at home. Of the thousands of Asians who have fought with is, many will return home, bringing with them the ideology, networks and know-how of murderous terrorism.

The danger is perhaps most acute in Afghanistan and Pakistan, countries already torn by terrorism and insurgency. But there is also cause for alarm in the volatile post-Soviet republics of Central Asia, where political Islam is an alternative to nasty authoritarian regimes, and an estimated 2,000-4,000 people are among the 20,000 foreigners who have joined is. China has strived in the past few years to root out extremism among members of the mainly Muslim Uighur minority in the vast western region of Xinjiang, and to blame global jihadism. It has estimated that 300 Uighurs have travelled to Iraq and Syria. But China's countermeasures seem only to have sharpened resentment at what Uighurs see as colonial oppression by the Chinese state and its ethnic-Han majority.

Even in South-East Asia, where the numbers of is recruits seem quite modest (some 500 Indonesians, 100 Filipinos, 50 Malaysians and a handful of Singaporeans), the question of how to respond to is has political repercussions. In the Philippines, for example, peace between the government and Muslim rebels on the island of Mindanao is threatened by extremist groups that have pledged fealty to is. Even in democratic Malaysia the introduction in April of new anti-terrorism legislation, including provisions for detention without trial, has angered not just Islamists but also a range of opposition politicians. Many see it as a pretext to restore powers granted by the colonial-era Internal Security

Act, which was at times abused for political ends and was lifted only in 2012. Governments everywhere grapple with an impossible calculation: if they underestimate the threat, they expose their people to terrorist attacks; if they exaggerate it, their heavy-handed reactions may further strengthen the terrorists' cause.

Concerns about the influence of is have grown even in peaceful countries far from the main battlefronts. At a regional conference on "countering violent extremism" in Sydney this month, Australia's prime minister, Tony Abbott, denounced its "brazen claim to universal dominion". He lamented that "the tentacles of the death cult have extended even here," recalling a bloody siege at a café in Sydney last December by an apparently deranged gunman with is sympathies. Several dozen Australians are reported to have joined is or Jabhat Al-Nusra, a Syrian rival affiliated to al-Qaeda. Controversially, Australia plans to strip citizens with dual nationality who are "known terrorists" of their Australian passports.

A few days before Mr Abbott spoke, Lee Hsien Loong, Singapore's prime minister, had devoted part of his keynote speech at the Shangri-La Dialogue, an annual security forum, to the problem of is. The public talk focused on China's expansion in the South China Sea, but much of the backroom talk was about the gathering jihadist threat. Most striking was Mr Lee's sobering assessment that this was a struggle that would last for generations. Looking forward 50 years, he suggested that jihadist ideology would surely have been seen to fail, or at least to have "weakened its hold on the imagination of troubled souls". But he noted that Soviet Communism, "another historical dead end", survived for 70 years before it collapsed. And that, for all its pretensions to absolute truth, was not a creed rooted in religion.

In comfortable, well-off Singapore, Malay Muslims are a largely well-integrated minority. But it was nonetheless a target for Jemaah Islamiyah, a regional jihadist group whose spiritual leader, Abu Bakar Basyir, once linked to al-Qaeda, has pledged allegiance to is. Jemaah Islamiyah, guilty of terrorist atrocities in Indonesia, also planned bombings in Singapore shortly after the September 11th attacks in America. And even in Singapore, the internet is producing fanatics. Recently the authorities arrested a 17-year-old, radicalised online, and detained a 19-year-old student who was planning to join is or, failing that, to assassinate government leaders at home. Singapore knows that it is both a rich country full of attractive targets for terrorists and a "little red dot" surrounded by largely Muslim Indonesia and Malaysia. is has said it wants to establish a *wilayat*, a province of the caliphate, in South-East Asia. "Pie in the sky", scoffed Mr Lee. But he worried that is could establish a base in some ungoverned space in the region.

What do they see in IS?

The difficulty is global: everywhere, efforts to fight extremism make the governments behind them even more of a target. Both Australia and Singapore are contributing to the coalition fighting is in the Middle East. And, as all over the world, governments are becoming more vigilant at home and stepping up "deradicalisation" measures by working with moderate Muslims to counter jihadist propaganda. That is not easy, however. Propaganda—especially the astute use of the internet and social media—is is's forte. As both Mr Lee and Mr Abbott suggested, the appeal is holds for "troubled souls" is incomprehensible to the leaders of prosperous modern states. And it is hard to marshal good arguments against a point of view you do not begin to understand. ■

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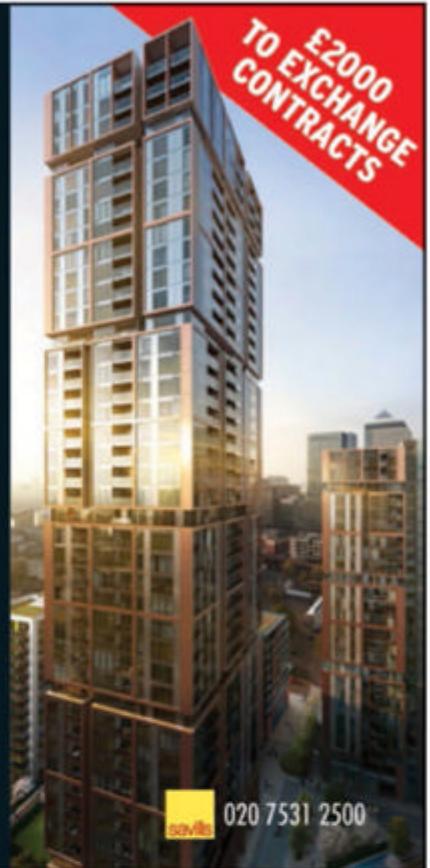


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Hong Kong's politics

A snub to the party

HONG KONG

Legislators veto China's plans for political change

POLITICAL bodies in China rarely defy the will of the Communist Party. On June 18th, however, the legislature in Hong Kong (known as Legco) vetoed the party's plans for what had been touted as momentous political reform in the former colony. Twenty-eight of the body's 70 members voted against the proposal, calling it a sham. But that leaves Hong Kong no closer to achieving democracy. And as noisy demonstrations by rival groups outside the debating chamber suggested, public opinion is deeply divided.

The outcome of the vote was no surprise: pro-democracy legislators had long denounced the proposal, which called for the introduction of "universal suffrage" in the next elections for the territory's chief executive, in 2017. Their objection was that the only candidates allowed to stand would be a maximum of three people, all of them nominated and chosen by a 1,200-member committee stacked with supporters of the party drawn from Hong Kong's business and political elite.

The only surprise was a bizarre walkout staged by pro-establishment lawmakers just before the vote. This meant that the plan was defeated far more soundly than expected, with only eight voting in favour of it. Voting rules required support from at least two-thirds of members for the package to pass. Though expected, the outcome is an embarrassment for the leadership in Beijing. It had badly wanted to be seen to

be fulfilling the commitment it gave in its mini-constitution for post-colonial Hong Kong, known as the Basic Law, which says that the territory may eventually enjoy universal suffrage. China never offered Western-style democracy in Hong Kong, but thought it could allow one-person-one-vote while maintaining sufficient control over the process to ensure that a critic of the party would never be elected.

The leadership in Beijing had made it clear there was no other offer. That means the next elections will be held according to the existing rules: a similar kind of committee will choose the chief executive, but without a public vote. This leaves pro-democracy politicians in a quandary. Polls had suggested that public opinion is roughly evenly split between those who wanted legislators to vote down the plan, and those who believed that it would be better to accept it, even if it is flawed. If the outcome of the vote is greater tension between radical activists in Hong Kong and leaders in Beijing who are unwilling to make any concessions on voting procedures, then democrats risk losing support among moderates who fear turmoil. The possibility of growing street unrest became evident late last year when pro-democracy demonstrators staged unprecedented sit-ins on major roads for 79 days.

Democrats hope that elections to Legco next year will vindicate their stance. But Michael DeGolyer of Baptist University

Also in this section

46 A tiger is caged

46 Dog-lovers v dog-eaters

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says they may be disappointed. It is possible, he says, that they will lose seats because of voters' worries about the political impasse. That may deprive the democrats of their veto power, and make it easier to introduce changes in the voting system according to the party's wishes. "They built this trap for themselves and then walked into it," Mr DeGolyer says. Democratic politicians are unrepentant. "Perhaps we are naive, but at least we have a conscience," says Lee Cheuk-yan, a veteran legislator (pictured above, in an orange jacket, with fellow legislators—their banner calls for ►

Hong Kong

Selected events



1984 China and Britain sign Joint Declaration for return of Hong Kong

1989 1.5m Hong Kong people march in sympathy with the Tiananmen Square protests in Beijing

Bloody military crackdown on pro-democracy protesters around Tiananmen Square

1990 China publishes Basic Law for post-colonial Hong Kong saying there could be universal suffrage as early as 2007

1991 First direct elections are held for the Legislative Council (Legco)

1997 China resumes sovereignty over Hong Kong

2002 Hong Kong government releases Article 23 (anti-subversion) consultation paper

2003 More than 500,000 people march against Article 23 legislation

2005 Chief executive Tung Chee-hwa steps down; Donald Tsang takes over

2010 Beijing accepts Democratic Party's compromise offer for Legco elections in 2012

2012 Leung Chun-ying appointed chief executive

2014 China's legislature announces plan for political reform in Hong Kong

Occupy Central protests

2015 Legislators reject China's election package for the chief executive election in 2017

Source: *The Economist*

► genuine elections).

Democrats like Mr Lee see their struggle as part of a broader campaign for democracy in the country as a whole. Younger activists, however, believe the two issues should be separated, and that it is time to adopt a more militant stance in the pursuit of democracy in Hong Kong—even if that means sometimes breaking the law, albeit peacefully. Political frustration is causing some to reconsider their feelings for the mainland and its culture. This was evident earlier this month when Hong Kong's football team played fellow minnows, the Maldives and Bhutan, in qualifying matches at home for the World Cup. As China's national anthem, "March of the Volunteers", struck up at both games, some Hong Kongers in the crowd began to boo. At the Maldives game, many also raised their middle fingers.

China is in no mood for a serious reassessment of its stance on democratic reform. Since taking power in 2012 President Xi Jinping has stepped up efforts to stifle dissent on the mainland. He does not want to make concessions in Hong Kong that might encourage pro-democracy activists on the other side of the border. Dozens of mainlanders who expressed sympathy with last year's Occupy Central protests were detained or given warnings by mainland police.

In 2017, when Hong Kong is next due to choose its leader, Mr Xi will be engrossed in preparations for sweeping changes in the central leadership later that year. The last thing he wants adding to his headaches is any uncertainty about the outcome in Hong Kong. The current chief executive, Leung Chun-ying, may not be popular at home. But for now he has the support of Mr Xi, whose vote is the only one in China that really counts. ■

Corruption

After Zhou, who?

BEIJING

Many wonder what Xi Jinping plans next in his anti-corruption drive

THE sight of China's former security chief, Zhou Yongkang, white-haired and grim-faced as he was sentenced to life imprisonment on June 11th, will surely become an iconic image of the anti-corruption campaign that was launched by Xi Jinping after he became China's leader in 2012. Mr Zhou is the highest-ranking party member ever indicted for graft. A guilty verdict had been expected since he was put under investigation last July for taking bribes, abusing power and leaking state secrets. What comes next?



A tiger caged

Mr Zhou was once a man of awesome power who, until his retirement in 2012, controlled the secret police, the police and the courts. He also held a seat in the Communist Party's innermost sanctum, the Politburo Standing Committee. By jailing him, Mr Xi has displayed extraordinary political muscle. But he has also rewritten the rules of Chinese politics, making it harder to predict what his next move might be. Views diverge to an unusual degree. Some believe that the anti-corruption campaign may now lose momentum; others that Mr Xi is getting into his stride.

There are reasons to suppose that Mr Xi may prefer to wind down his efforts. One is that Mr Zhou's case was almost certainly about more than just graft and other abuses of power (he and family members were found to have pocketed more than \$20m). It is thought that Mr Zhou was also seen by Mr Xi as a linchpin of resistance to his authority. With Mr Zhou now neutralised, Mr Xi may conclude that his campaign has served a major purpose. Another reason he might scale it back is that by continuing to pursue such political giants ("tigers", as Mr Xi calls them), he risks a backlash. Some normally sober Chinese analysts worry in private about a possible coup—albeit without any evidence of such a thing in the offing. Many of the senior officials Mr Xi has taken down are generals.

But there are reasons too to believe that Mr Xi's ruthless pursuit of wrongdoers will persist. The main one is that the public appears to applaud it. Since Mr Zhou's trial—conducted in utter secrecy to spare the party's blushes—more anti-corruption measures have been announced. On June 12th six state-owned enterprises were criticised for graft. A few days later state media reported that China's armed forces had begun a six-month probe into misuse of army properties and had sacked two senior officers. If Mr Xi is afraid of upsetting powerful constituencies, he has yet to show it. ■

Dog-lovers v dog-eaters

Pet food

BEIJING

Too posh to eat pooch

"**I**FF FOWLS, pigs, dogs and swine are properly bred without missing their proper seasons, there will be meat for septuagenarians." So said Mencius, a revered Confucian philosopher who lived more than 2,300 years ago. Since then dog meat—prized both for its earthy flavour and for its purported medicinal benefits—has been a minor but regular part of the diet in many regions of China. But for the second straight year, a dog-meat festival in southern China, timed to coincide with the summer solstice, is coming under attack.

A big concern is that the dogs are not properly bred. Campaigners say many of the animals to be consumed in the city of Yulin in Guangxi region are either strays or stolen pets, and are treated abominably. Those objecting to the festival include Chinese who have learned to love dogs at the end of a leash rather than on a skewer. They belong to a new middle class that has fallen in love with pets. Urban households now own more than 30m dogs and cats.

Animal activists say at least 10,000 dogs will be slaughtered at the Yulin festival (and served with the traditional pairing of lychee wine). Local officials have declined to endorse the event, which is due to begin on June 22nd—but neither do they plan to ban it.

Dog-lovers have made better progress in bigger cities. In Beijing, dog-meat restaurants were common until a few years ago. A large one near the foreign ministry offered every imaginable part of the animal. But the city cracked down on them to avoid offending foreign visitors during the Olympic Games in 2008. They remain hard to find.



A dog is not just for dinner



The
Economist

SPECIAL REPORT
NIGERIA
June 20th 2015

Opportunity
knocks

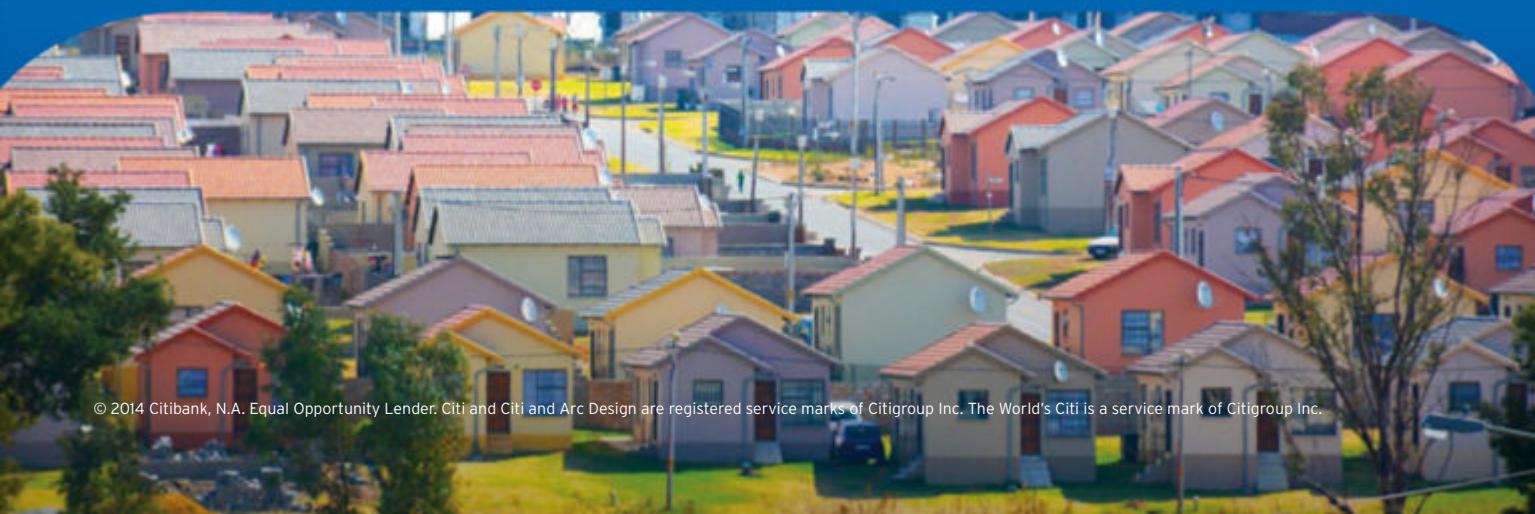
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Opportunity knocks

Having consistently failed to live up to its huge potential, Nigeria now has a rare chance to turn itself round. Jonathan Rosenthal assesses its prospects

ACKNOWLEDGMENTS

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A list of sources is at Economist.com/specialreports

An audio interview with the author is at Economist.com/audiovideo/specialreports

CONTENTS

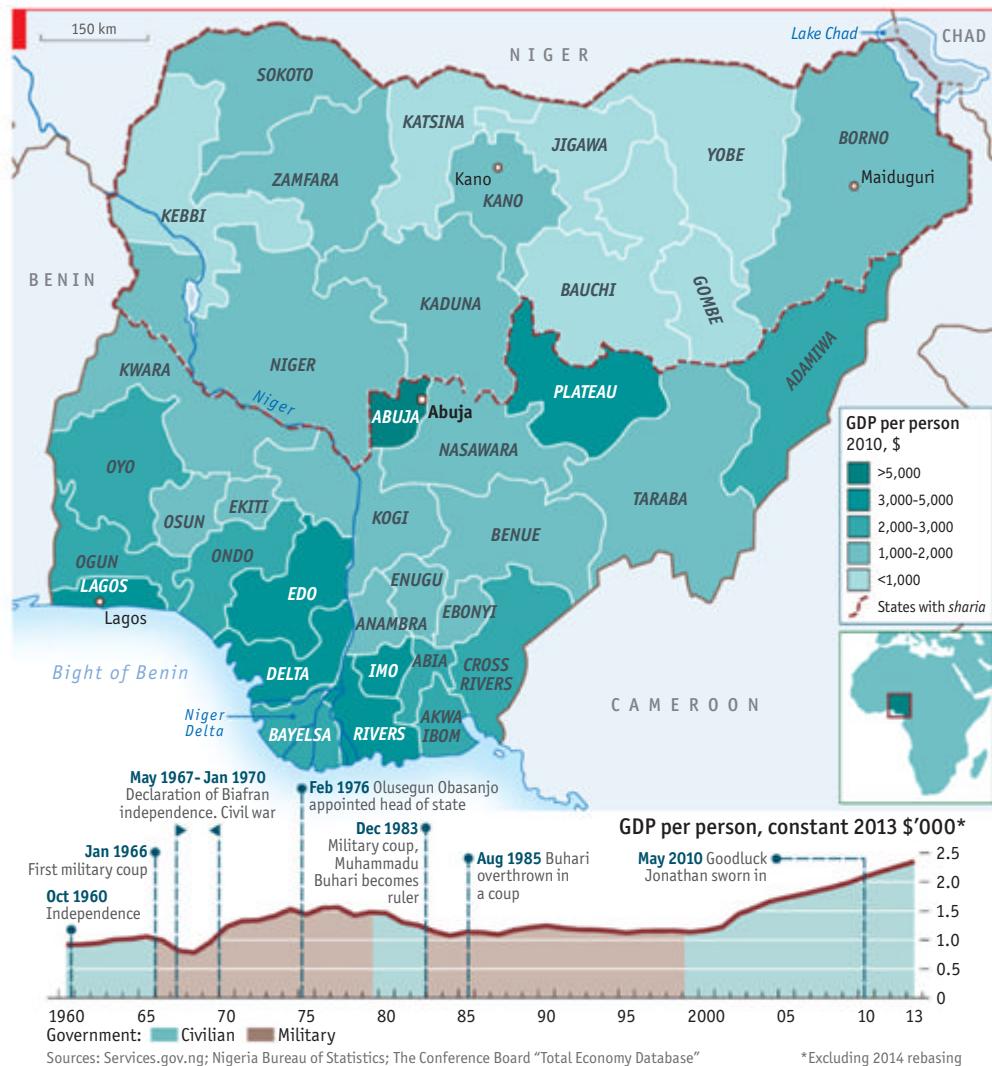
- 5 Population**
We happy few
- 6 Politics**
Miracle in Abuja
- 7 The economy**
After oil
- 8 Nigerians abroad**
Secret weapon
- 10 Infrastructure**
Can't spend, won't spend
- 11 Corruption**
The only thing that works
- 13 Security**
Keep it calm
- 15 The north**
Down on its luck
- 16 Buhari's chances**
Can he do it?

"CHANGE". THE ELECTION-CAMPAIGN slogans of the All Progressives Congress (APC) emblazoned on large billboards across Nigeria in March were light on policy prescriptions. Nigeria's main opposition group at the time, and now its governing party, offered a simple promise: it would be bound to be better at governing Africa's most populous nation than the incumbent government of Goodluck Jonathan and his People's Democratic Party (PDP). "A lot of people were in the anybody-but-Jonathan camp," says a prominent Nigerian businessman. Yet in the days before the vote on March 28th, amid fear of violence and talk of another military coup, many Nigerians would have been happy just to see a peaceful outcome. The previous election in 2011, Nigeria's least violent in recent years, still claimed some 700 lives in outbreaks of violence across the north.

So Nigerians' expectations were limited, which made the latest election all the more remarkable. In the face of vigorous attempts by both parties to rig it (with the PDP seemingly somewhat better-resourced and more successful at it), Nigeria's independent electoral commission presided over a vote that was the country's freest and fairest in decades and could broadly be said to reflect the will of its people.

More significant still was the result. The election of Muhammadu Buhari, a former military strongman, marked the first time in Nigeria's 55-year history as an independent state that a ruling party was ousted by the ballot, not the bullet. After being governed by military dictators interspersed with elected politicians (see chart, next page), Nigeria confounded the world by showing that a fragile democracy had taken root. Among the most surprised were leading figures in the PDP, which had held pow-





► er since the end of military rule in 1999, successfully rigged every election since and fully expected to do so again.

The change in government has brought a new sense of optimism to a country that has generally failed to live up to its enormous promise. The one bright spot in recent years has been Nigeria's rapid economic growth, averaging over 7% a year over the past decade, making it one of the world's fastest-growing economies. Last year the country's statisticians recalculated its GDP figures to take account of new industries such as mobile telecommunications and discovered that it had become Africa's biggest economy, ahead of its main economic and geopolitical rival, South Africa.

Yet the benefits of that growth have been unevenly distributed and the economy has failed most of Nigeria's people. The impressive growth rates hide a series of government failures that have held the country back from achieving its potential. Economists reckon that it could be growing about four percentage points a year faster, a rate that would allow GDP to double every six years or so. Such growth is desperately needed in a country where tens of millions still live on less than \$2 a day.

Nigeria has vast oil and gas wealth, fertile soil, untapped mining riches and entrepreneurial people who excel abroad. But at home poverty has barely declined, inequality is rising and cor-

ruption is rife. A country that should be the region's breadbasket cannot even feed itself. It ought to be Africa's biggest oil and gas producer, yet it suffers crippling fuel shortages and the whole country produces only as much electricity as a single medium-sized European city.

And even such economic growth as it has achieved in recent years is now under threat. Lower oil prices will reduce growth by about one-third this year. They will have an even greater impact on the government's finances, which still depend largely on oil, trimming its revenue by almost 40%. Many of Nigeria's states are bankrupt, and the new government has inherited massive unfunded liabilities.

Worse, an insurgency in the north has claimed about 20,000 lives and forced some 1.5m people from their homes. Just a few months ago Nigeria seemed to be at risk of fragmenting. Most of three states in the north-east, Adamawa, Borno and Yobe, covering an area about the size of Belgium, were under the control of Boko Haram, a jihadist group bent on murdering and raping its way to the establishment of a self-proclaimed "caliphate". A siege of Maiduguri, the capital of Borno state, and fighting in its streets in January raised the

prospect that it might fall. The loss of a city of almost 2m people would have forced Nigeria's army to cede much of the north to the jihadists.

The turnaround has been extraordinary. An offensive against Boko Haram that got under way in February has driven the militants from most big towns and pushed them back into a few forest and mountain redoubts. Mr Buhari, who enjoys wide respect within the army, has promised to pursue this campaign with vigour. His asceticism and intolerance of corruption were on display even before his inauguration. One of his first orders was that his motorcade should obey the rules of the road and not inconvenience other drivers by blocking crossroads so that he could whizz through.

Quick, hand me my moral compass

Kleptocratic ministers and state governors who had expected another term at the public trough were soon looking for safe havens at home or abroad. Billions of dollars that had been stolen from the public purse were said to be making their way back. Officials were negotiating amnesties in return for handing back their loot, driven by a new fear that rules long put aside when Mr Jonathan was in office would now be enforced. "A lot of guys I know are getting their income tax in order," says one Nigerian ►

► businessman. Civil servants have taken to turning up for work at 8am sharp instead of shambling in hours later.

That spirit of change has spread through the ranks of the country's businessmen too. Investors are dusting off business plans for factories, hotels and shopping malls that had been languishing because the bribes to get them going had proved too much, or because they feared someone else might pay bigger ones. Foreigners have been snapping up Nigerian bonds and shares again, hoping that Mr Buhari's government will revive economic growth. Even women selling groceries in the markets are filling up their stalls again, having run down their stock before the election because they feared it would be looted.

This report will argue that at last Nigeria has a realistic chance of fulfilling its potential. For that to happen, the new government has much to do, perhaps too much. It needs to focus ruthlessly on a few areas where it can make a difference quickly. The most urgent of these will be to improve security, not just in

the north-east but also in the fractious "middle belt", a stretch of states that more or less bisect Nigeria from east to west, as well as in the Niger Delta.

Mr Buhari will also need to restore faith in the institutions of government by clamping down on corruption. A good way to start will be to end energy subsidies that have become a perfect breeding ground for graft as well as a drain on the public purse. To unleash growth, he should forget about plans to promote industry by imposing high import tariffs, and instead concentrate on helping farmers get their crops to markets. With less meddling in markets and more private investment, electricity generation could quickly double. Given cheap and reliable energy, other parts of the economy, from manufacturing to film-making and e-commerce, could take off. But none of that will happen without a clean-up of Nigeria's rotten politics, dominated by political "godfathers" whose interests lie in preserving the status quo, not the change that a majority of Nigerians voted for. ■

We happy few

Nigeria's population has been systematically exaggerated

NIGERIANS, THEIR NEIGHBOURS grumble, think of their country as the Texas of Africa, where everything is bigger and better. On size, at least, they are largely right. By land mass Nigeria is about as big as France and Germany combined, dwarfing many other African countries. After a recalculation of its GDP in 2014 it was found to have overtaken South Africa to become the continent's biggest economy. Its population, too, at an estimated 183m, is the largest of any African country. And it is growing so rapidly that the United Nations Population Division expects it to overtake America's by 2050.

Numbers such as these play a big part in getting people excited about Nigeria as a potentially vast consumer market and investment destination. There is just one snag: they are almost certainly wrong. Many of the figures about the country that are making the rounds are patently absurd, and few more so than the population statistics, for an obvious reason: allocations of revenue from the central government and voting power in the capital depend on population estimates, so every region has an incentive to bump up its own count.

In colonial times the numbers were probably roughly right, but the first post-independence census in 1962 was already shamelessly rigged. An initial count suggested massive growth in eastern and western districts, which claimed that their population had increased by an average of 70% over the previous decade, compared with a 30% increase in the north. That would have shifted power from the northern elites who controlled the country, so they quickly scrapped the count and started again. This time,

It may never happen

Population, bn



miraculously, the north's population was found to have increased by 84% (an extra 9m people), just enough to ensure it had slightly more than half Nigeria's population. Almost every census since then has been disputed. One in 1991 was ditched when it seemed to show that the country's total population was about 30% smaller than expected.

The latest one, conducted in 2006, put the total at 140m, a number that provides the basis for current estimates and forecasts. But some academics reckon that the population of some northern states was inflated by about a quarter, whereas that of some southern areas was trimmed in response to political pressure on the statisticians. The number of people in Lagos, the main southern commercial centre, was said to be just over 9m. That allowed northern rulers to claim that Kano, the main northern commercial centre, had more people and was thus entitled to more resources. Lagos officials subsequently

did their own count and claimed 17m.

Even allowing for all these swings and roundabouts, some researchers, using sophisticated satellite imagery and geographical information systems, reckon that the 2006 census considerably overstated Nigeria's urban population, mainly in the north but also in some southern cities. That means Nigeria's current population may be closer to 160m than 180m. The forecasts suggesting that Nigeria's population will overtake America's within a few decades are probably also wrong because they are based on high fertility rates observed in the past, whereas newer data suggest those rates are falling fast, especially in the south.

If Nigeria's population is indeed much smaller than widely believed, that could have considerable implications. The locals would have to scale down their Texas-sized opinion of themselves, and the country's potential consumer market would look somewhat less enticing. A more accurate count could also prompt a change in government policy. Much of the overcounting seems to have happened in cities, which could help explain a conundrum which has long puzzled economists: that Nigeria seems not to have reaped as large a productivity gain from urbanisation as it might have expected. If this explanation is correct, it suggests that many of those benefits are yet to come. Moreover, if the rural population is larger than previously believed, the government should invest in rural infrastructure to support farm incomes. That would be one of the most efficient ways of lifting large numbers of people out of poverty and, in the north in particular, reducing the appeal of militant jihadism.

Politics

Miracle in Abuja

A largely democratic and peaceful handover of power

"THEY RIGGED AND RIGGED right until the very last moment," says one Western diplomat of Nigeria's March election. A variety of techniques were employed. First, the police and the army insisted on the election being postponed by six weeks, arguing that they needed extra time to ensure security. But most people believed that the delay was instigated by the ruling party, which feared it was at risk of losing and hoped that this would give it more time to buy votes. More blatantly, states around the Niger Delta saw ballot-box stuffing and submission of false counts, and across the country bags of cash were being handed out to prospective supporters. As a result the local currency, the naira, weakened as politicians converted it into dollars. These came in high denominations, taking up less space in the suitcases used to cart them about on the campaign trail.

To be fair, both sides were guilty of malpractices. Observers in the north say that supporters of the governing PDP were threatened, and many stayed at home. Some also reported seeing large numbers of children voting for the winning APC. All the same, the outcome broadly reflected the will of the electorate in what most observers said was the fairest election in decades—even though some informed sources reckon that a more accurate count of the vote would have delivered about 60% of the total to Mr Buhari, rather than the 54% he was officially credited with. So how did democracy triumph against the odds?

Much of the credit goes to Attahiru Jega, a soft-spoken academic who was put in charge of the independent electoral commission in 2010. His appointment came too late to influence the 2011 election, but he has spent the past five years cleaning up the voters' roll and introducing electronic ID verification that makes it much more difficult to stuff ballot boxes. He has also proved to be stubbornly non-partisan, to the chagrin of many in the PDP.

A second factor was the PDP's sheer incompetence. With little leadership or direction emerging from Aso Villa, the presidential compound, the party had become so weak in government that it seemed incapable of defending its position. "They were too incompetent even to rig the election properly," says one insider.

Third, many voters had become deeply frustrated with Mr Jonathan's government and were desperate for change. Tempted by the ruling party's bribes, they may have worked out their own moral compromise. As one observer put it, "people took the money and then voted their conscience."

Last, across the country independent monitors kept an eye on the polling stations. Many took photos of the results recorded at each station and posted them on social media, making it difficult for offi-

cials subsequently to fiddle with the numbers. Others submitted results to a parallel vote count run by the Transition Monitoring Group, a non-government organisation. This flagged up instances of ballot-box stuffing by the PDP in the Niger Delta and helped limit its extent. It also encouraged the police and army to stay largely neutral, even as senior figures within the PDP tried to get them to take sides. Pressure from abroad, mainly America and Britain, played a part too.

Though Mr Jonathan's presidency was in most respects a failure, even his sternest critics give him credit for stepping down quickly once it became clear he had lost, even before the final tally was in. In doing so he pulled the rug from under senior PDP members who were said to be plotting to try to keep the party in power. One plan was to try to kidnap Mr Jega to disrupt the count, according to Reuters, a news agency.

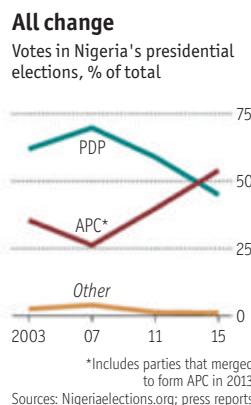
The democratic outcome, however tenuously achieved, sets an important precedent. Having spent the past 16 years under the rule of a single party, and most of its history before that under military rule, Nigeria has matured into a multi-party democracy that is not ruled along ethnic or religious lines. The PDP, for all its failings, was a largely national party. When it came to power in 1999 under Olusegun Obasanjo, it managed to unite the country's north behind a president from the south. Mr Obasanjo, a Yoruba-speaker from Ogun state in the south-west of the country who had ruled as military dictator in 1976-79 before handing over to a short-lived civilian government, managed to win the trust of northerners.

North v south

Nigeria's population is about half Muslim and half Christian, and for some time it was widely argued that the PDP was the only party that could overcome the country's religious and ethnic divisions, not least thanks to its policy of "zoning" whereby the presidential candidates it nominated would alternate between northerners and southerners. The opposition, by contrast, was seen as dominated by northerners and Muslims, who are concentrated in the north and west of the country, and was ➤



Even Mr Jonathan's sternest critics give him credit for stepping down quickly once it became clear he had lost



Mr Buhari has since said that he is committed to democracy, but many Nigerians fret that he may try to rule by decree. Before his inauguration he threatened to expel critical journalists from press conferences, but his party did a swift about-turn on that.

Even if democracy has now taken root at the centre, it has yet to establish itself in state governments, most of which are little more than the fiefs of their governors. State governors often control the party apparatus in their states and thus dole out seats in the assemblies to loyal followers, and the state assemblies that should hold the executive to account are often vehicles for patronage. Many local governments are still more of a mess. There may be a need for constitutional reform to make all levels of government answerable to the citizens as well as to clarify how powers are to be divided among states and central government.

The election also highlighted the urgent need for political reform, not least in campaign finance. Contesting elections in Nigeria costs a fortune. Rigging them costs even more, leaving presidents and state governors in hock to various "Ogas", the local slang for big-man or godfather. Ngozi Okonjo-Iweala, a long-standing PDP finance minister, recalled in her memoir, "Reforming the Unreformable", that in the latter part of Olusegun Obasanjo's second presidential term, in 2006, businessmen and party patrons asked her to waive a 50% tax on imports of rice. She reckoned such a waiver might be worth \$1 billion to the importers and party funders, but would ruin many rice farmers who had been encouraged to plant by an import-substitution policy that included hefty tariffs. So she refused, and was kicked out of the finance ministry soon afterwards.

Keeping the Ogas at bay

The way Nigeria's main political parties are run, too, needs to be made more democratic. Voters get to vote for one presidential candidate or another, but there is very little transparency over how each party selects its nominee. For the two main parties this is meant to be done at party congresses, yet there is talk of bidding wars as Ogas buy votes for their preferred presidential candidates. Once in office, politicians can dispense patronage to their supporters and influence legislation to benefit their Ogas. One solution might be to move to American-style open primaries in which voters elect their parties' candidates directly. If overseen by an independent electoral commission, such primaries might make parties more responsive to voters and force them to come up with new ideas and policies. Nigeria's recent election was fought mainly on perceptions of which candidate would be more effective and less corrupt, rather than on their policies or ideologies. But policies also matter, not least on how the government collects and spends money. ■

The economy

After oil

The oil shock has left a deep hole in the government's finances, but the economy is beginning to diversify

IN THE DAYS before Mr Buhari's inauguration, wags in Abuja's watering holes were joking that the new finance minister would find a note on his desk: "Sorry, there's no money left." They had a point: lower oil prices and the profligacy of Mr Jonathan's government have hit Nigeria's finances hard.

Oil contributes only about a tenth of Nigeria's GDP, but directly accounts for around 70% of government revenue. Add in indirect taxes, and its contribution rises to about 85%, government officials say. When oil prices were high, there should have been plenty of money to run the country while also saving for a rainy day. Yet over the past two years the government spent when it should have saved.

Government officials are now frantically trying to plug the gaping hole in the public finances that the fall in oil prices has opened up. The value of Nigeria's oil exports is expected to drop to about \$52 billion this year, from \$88 billion in 2014. Government revenues will decline by about 40%, and spending will slump. Economic growth is expected to slow to about 4.5% this year, from an average of over 7% a year during the past decade. The government's capital spending will probably fall by more than half, halting construction of desperately needed roads, bridges and railways.

These difficulties are compounded by the state governments' murky finances. Some analysts reckon that more than half the states are bankrupt. Many have not paid civil servants' salaries for three months or more. Lower oil prices also threaten to spill into other sectors of the economy. Consumer spending, much of which is kept going by civil-service salaries, has stagnated. Banks face a wave of bad debts from Nigerian oil firms that bought oilfields when prices were high and are now struggling to repay their loans. In short, Nigeria risks repeating a pattern of wild swings in growth caused by gyrations in the oil price.

Aside from facing an immediate cash crunch, the government will find it hard to fund the new programmes it is hoping to introduce. Mr Buhari has outlined an ambitious programme aimed at reducing extreme poverty. These include a scheme to provide conditional social grants for the country's 25m poorest people (modelled on Brazil's *bolsa familia* scheme), payable if families do sensible things like enrolling children in school and having them immunised, which will cost some 1.25 trillion naira (\$6.3 billion) a year.

APC officials say they hope to find the required cash through a combination of plugging "leakages", short for corruption and waste, and new taxes. An obvious place to start would be subsidies on petrol. Nigeria spends about \$6 billion a year (about 1% of its GDP) on these and about half as much again on kerosene, used by the poor for cooking and lighting. Yet it does not appear to be getting value for this money. Subsidised kerosene is nowhere to be seen: many think it is swiftly resold to airlines as jet fuel. Petrol, which is meant to sell in Nigeria for 87 naira (\$0.43) a litre, is often smuggled to neighbouring countries where it fetches a higher price. For much of this year Nigeria has been suffering from dire fuel shortages that have forced residents to queue for hours, sometimes days. Traders on the black market, meanwhile, do brisk business selling the stuff for 200 naira a litre ►

► outside the official stations, and a lot more at times of extreme shortage.

The new government also urgently needs to reform a tax system that collects much less revenue from companies and from value-added tax (VAT) than do most other developing countries. That is because taxing stuff that comes out of the ground is a lot easier than getting people to hand over some of their own hard-earned cash. Nigerians have long tolerated the theft and squandering of oil wealth, but if the government wants to spread the tax net more widely, it will have to show that the money will not simply leak into the offshore accounts of politicians and senior civil servants.

Yet for all the short-term pain, Nigeria's economy has made enormous strides to wean itself off oil in recent years. Almost half of its economic output now comes from services. Nollywood, the country's home-grown film industry, has become the world's second-largest by output. Innovative startups offering everything from fashion to software development are popping up all over the place, helping to soften the oil shock. And although the naira has fallen sharply against the dollar, food infla-

tion has not speeded up as it usually does when the currency weakens because Nigeria has vastly expanded its own food production over the past few years. The finance ministry reckons that between 2009 and 2013 food imports declined by about \$2 billion, to \$4.3 billion.

Efficiency cubed

This is partly thanks to food factories like Nestlé's in Nigeria's industrial heart of Agbara, to the west of Lagos, one of the Swiss company's largest. Together with a sister plant farther to the east, it ferments, mixes and presses some 90m soup cubes a day, about one for every two Nigerians. The management is facing the usual problems with infrastructure: it has to generate its own power, clean up its own water and provide health care for its employees, and poor transport links drive up the cost of its raw materials. Even so, it is one of the company's most efficient factories on the globe, in part because of the benefits of scale from producing a narrow range of products for a huge market. It is also stupendously profitable. Return on investment at Nestle's Nigerian subsidiary is twice as high as for its global parent. ►

Secret weapon

Nigeria's diaspora is a source of money, markets, skills and ideas

AGBO JEDI JEDI is a Nigerian herbal preparation that claims to treat just about anything from back pain and haemorrhoids to impotence, for a bargain £4 (\$6). It is on sale in the shops of south London's "little Lagos", in Peckham, along with many other Nigerian products including yam, pepper soup, paw-paw and spicy jollof rice. This area has the largest concentration of Nigerians in Britain. But just as there are question marks over how many Nigerians live in Nigeria, nobody is sure about the number living abroad. Some Nigerians like to claim a diaspora some 17m strong, which would suggest that about one in ten Nigerians lives overseas, but that is surely fanciful.

Yet official statistics probably greatly underestimate the size of the diaspora, since they are not likely to include illegal immigrants. What is certain, though, is that the number of Nigerians living abroad has increased rapidly in recent decades. Census figures in Britain show that the number of British residents born in Nigeria more than doubled in the decade to 2011, to 191,000, making this the immigrant population with the second-fastest growth, after Poles. A census in America estimated the country's Nigerian-born population at 221,000. Add in their children, and the diaspora in America swells to just under 400,000, according to the Migration Policy Institute. The UN reckons that some 1.2m Nigerian-born people currently live abroad.

Whatever the exact numbers, that diaspora is an important source of money,

markets and skills for its home country. The World Bank estimates that Nigerians abroad sent back some \$21 billion in remittances in 2013. That adds up to a quarter of their country's earnings from oil exports, and more now that the price of oil has fallen. Nigerian expats also buy a lot of stuff made back home. For example, they enjoy films produced in Nollywood, as well as familiar packaged foods, including Maggi condiment cubes. The ones made in Nigeria contain fermented soya, which is reminiscent of Hausa cooking in the country's north, and are sold in British supermarkets.

Nigerians abroad are generally keen on education; in Britain their children achieve considerably higher marks than white British

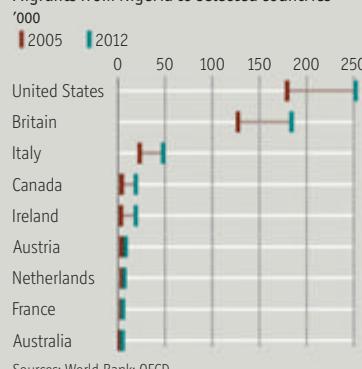
ones and those of many other immigrant groups. And some American studies suggest that Nigerians are the best-educated ethnic group there. Happily for their home country, many of its young expatriates return after a while, often to start a business. Lagos is awash with bright young graduates of foreign universities who during their stay abroad have acquired an intolerance for corruption and higher expectations of public service. Their impact is pervasive.

Take Amy Jadesimi, the managing director of Ladol, which is building a new dry dock and port. She studied medicine at Oxford, went on to do business studies at Stanford and worked for Goldman Sachs in London before returning home, filled with optimism. "There are very few places in the world where the opportunities are as great, especially because the arbitrage between perceptions and reality is so wide," she says.

In an airy fashion store and spa, L'Espresso, in a smart part of Lagos started by a former expat, a small group of fellow entrepreneurs swap stories about power cuts, shakedowns by officials and the city's dire fuel shortages. All met through the Harambe Entrepreneur Alliance, a network that encourages and supports young Africans who are trying to start businesses. The place may be frustrating, but there are big compensations. Oluwasoga Oni, who returned just a few months ago after studying and working in America, is now trying to start up a medical-devices business. He sums up the feeling: "I just feel alive in Lagos."

Looking for a better life

Migrants from Nigeria to selected countries '000



An economy that has doubled in size over the past decade is an irresistible target. Verod, a Nigerian private-equity firm, has earned some 15 times more than it spent on building Nigeria's first factory to make drinks cans. It is now investing in fruit-juice makers, a fish farm and a packaging firm. "Our business model is to look for anything that comes into Nigeria by boat and asking if we can make it more cheaply here," says Danladi Verheijen, the firm's co-founder and a graduate of Stanford and Harvard Business School. IHS, a firm that is buying mobile-phone towers and managing them more efficiently, has raised more than \$5 billion in debt and equity over the past few years.

The proliferation of consumer industries in Nigeria is transforming its economy in more ways than one. The first, and most obvious, is that they are making its economy far less dependent on oil and therefore less vulnerable to oil shocks. Manufacturing now accounts for almost as big a share of GDP as oil, though there is more to do. Services, which include mobile phones and the like, make up about half the economy now. Nollywood employs about 1m people who between them produce some 50 films a week, and is winning viewers right across the continent.

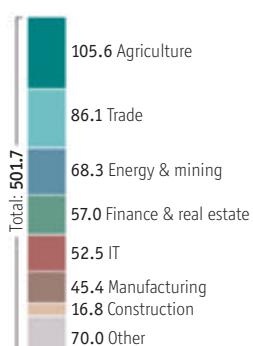
This diversification is also driving a far more important change. As the country moves from pumping oil out of the ground to producing wealth through its industry and talent, it is creating a vast new middle class of entrepreneurs and professionals who want to make money through their own efforts instead of seeking government jobs to siphon off oil revenues.

Some industries in Nigeria still earn huge margins thanks to tariff protection and friends in the government. But in many areas tariffs are falling and new domestic competitors are emerging. Dangote Cement, a Nigerian firm, used to earn margins of more than 60% thanks to import curbs, but competition from other cement-makers, including Lafarge, a French producer with operations in Nigeria, has forced it to cut prices by more than 40% in recent months.

Government efforts to industrialise have not been blessed with much success. Nigeria has spent billions of dollars building vast steel plants that have yet to produce a bar of steel. It is now trying to encourage carmaking at home by levying import tariffs

Keep diversifying

Nigeria's GDP by sector, 2013, \$bn



Source: Nigeria Bureau of Statistics

of up to 70% on imported cars. Official car imports into the country have fallen to about a third of their previous level, but those to neighbouring Benin, a minnow of 10m people, have surged to a level about three times higher than Nigeria's, pointing to a flourishing car-smuggling industry.

Investment in agriculture seems a lot more promising. At independence in 1960 Nigeria was the world's largest exporter of groundnuts as well as a leading cotton and cocoa grower, but output collapsed in the 1970s as rural infrastructure crumbled. Firms such as Nestlé are trying to buy more

of their raw materials in Nigeria, including starch made from cassava, a drought-tolerant plant that produces large tubers. Nigeria is the world's biggest grower of cassava, but does not do it particularly well: yields per hectare are a quarter of those in some Asian countries. As a result, most of what Nigeria produces is eaten as a subsistence crop on the farms where it is grown, and very little is processed into higher-value foods.

Researchers at the International Institute of Tropical Agriculture, a multinational research centre with headquarters in Ibadan, Nigeria's third-largest city, have been working with Nestlé on developing high-yielding varieties of the crop and teaching farmers how to grow it. The results are impressive. On a lush green hillside in the institute's grounds, Alfred Dixon, nicknamed "Dr Cassava", points to plots of tall, green-leaved bushes that are producing 50 tonnes or more of cassava per hectare, about five times as much as the current Nigerian average.

McKinsey, a consulting firm, reckons that Nigeria could easily double its agricultural output over the next 15 years by introducing some simple reforms. To be fair to Mr Jonathan's government, his agriculture minister, Akinwumi Adesina, one of the few stars in a generally lacklustre cabinet, had already started to introduce some of them. For example, he pulled the government out of the corruption-ridden business of distributing fertiliser and seeds to poor farmers, introducing smart cards and electronic vouchers distributed through mobile phones. Almost overnight he eliminated a major source of corruption and created booming private markets that attracted investment by big agricultural suppliers. That is reducing poverty, particularly in the restive north, and channelling raw materials into the sort of unflashy industrialisation that creates jobs.

Paradoxically, the depth of Nigeria's fall is one of the reasons to be optimistic about its future: there is so much to be gained by getting just a few things right. Perhaps the most important of these is to improve its rural infrastructure so that farmers can get their produce to market, and to generate sufficient power to allow businesses to operate unhindered. ■



A mixed blessing

Infrastructure

Can't spend, won't spend

Ropy transport links and energy shortages are the biggest obstacles to a flourishing economy

TO UNDERSTAND THE impact of Nigeria's hopeless infrastructure on its businesses, look at Gloo.ng, a fast-growing startup that has already become the country's largest online supermarket. In a crowded office young programmers huddle around MacBook computers, designing the website and intelligent-mapping systems that look for the most efficient routes to guide delivery vehicles through the perpetual gridlock which Nigerians call "go-slows". Its slick website is hosted in the "cloud", the massive international data centres run by internet behemoths such as Amazon and Microsoft. Yet at the back of this cutting-edge office sits a pile of fuel cans to keep delivery vans on the road during the regular shortages. And near the front is a sparkling white generator, neatly branded with Gloo's logo, chugging away to keep the lights and the computers going. "This is my primary source of power," says the firm's founder, Olumide Olysanya, adding only half in jest: "The grid is my backup."

Nigeria ought to be able to generate about 5.5 MW of electricity, but because of breakdowns, gas shortages and decrepit transmission lines, it struggles to churn out more than half that amount. Large areas of the country are left without power for weeks at a time. Even the luckier ones generally get only a few hours a day. Political connections are no help. In 2012 the governor of Sokoto, enraged by the regular power cuts and suspecting they were deliberate, was reported to have summoned a regional manager of the state-owned power company and beaten him and some colleagues with a horsewhip. In response the power company cut off the entire city for a few weeks. The governor dismissed the allegations as false and said he had merely handed over the power workers to police for proper investigation.

No power to your elbow

The economic consequences of this power shortage are catastrophic. Experts reckon the economy could be growing by two to four percentage points faster each year if it had sufficient power. A large brewer explains that energy accounts for about 5% of his total costs, ten times as much as at similar outfits in other countries. At banks, where each branch needs its own generator, fuel accounts for about 6% of total costs, and at mobile-telephone companies, which have to provide power to each of their cellphone masts, it can be 10% of total costs.

Many other basic bits of infrastructure are also falling apart. The main ports in Lagos are overcrowded and inefficient. Cargoes can take weeks to be unloaded and moved from the port. Railways that once linked the north and south of the country, moving raw materials and finished goods to and fro, are now overgrown and rust-



ed. The 3,500-plus km of track Nigeria had in 1960 has shrunk to almost nothing, though some has recently been refurbished. Petroleum pipelines built to move fuel from refineries and oilfields near the coast to the interior stand idle. All the country's petrol and diesel is now transported by road, at huge cost. On the highway from Lagos to Ibadan, hundreds of fuel tankers belch smoke and thousands more are parked by the side of the road as they wait to collect their cargoes from one of the country's main depots. The lorries are brightly decorated and hand-painted with colourful logos, but many lack licence plates or working lights. And that is just on the paved roads, which make up less than 20% of the total, half as much as in the rest of sub-Saharan Africa.

The lack of decent transport links has pervasive consequences. In the north factories and farms have stopped producing. This part of the country is a big tomato grower, producing large, firm, bright red fruit. But without roads to move it and a network of refrigerated warehouses to store it, about half the crop is lost on the way to market. So a country that should be exporting tomato paste (a staple in the region's cooking) on a large scale imports about half of what it needs.

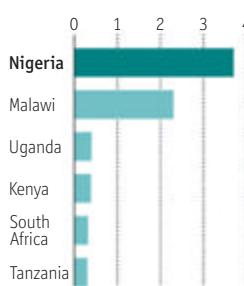
High transport costs mean that food is expensive, whether home-grown or imported. That in turn drives up factory wages, pushing up production costs. With big cities bursting at the seams, workers have to travel for hours to get to work, wasting time and money, so Nigeria is missing out on many of the productivity gains that usually come with urbanisation.

Setting things right will not be cheap. The World Bank reckons that Nigeria needs to spend some \$30 billion-50 billion a year on infrastructure, which is about three times more than it currently spends. Little of that is likely to come from the public purse: the drop in oil prices caused the government's capital spending to be lopped by two-thirds this year.

One solution is privatisation, for which the mobile-phone industry offers a model. Back in 1999 the government-owned ►

Egregious

Cost of power cuts as a % of GDP
Annual average, late 2000s



Source: World Bank



► telecommunications utility had installed a mere 450,000 phone lines, of which up to a third were not working. Yet when the government liberalised the telephone industry and auctioned off mobile-phone licences in 2001, the effect was stunning. Within six years 38m mobile phones were in use, a number that has now increased to well over 140m, or nearly one for each Nigerian.

The power industry, too, has been experimenting with liberalisation. The Power Holding Company of Nigeria (PHCN), a state-owned power monopoly that became jokingly known as "Please Hold Candle Now", was broken up and privatised in 2013. But electricity production has barely increased since, mainly because the new generating companies cannot get natural gas to fuel their power stations, not least because the pipelines carrying gas are regularly blown up by militants in the Niger Delta.

The biggest problem with gas, though, is that the government has been meddling with the market. It has set regulated gas prices so low that oil-and-gas companies simply burn (flare) it as it comes out of the ground because that is the cheapest option. More than \$1 billion-worth of such gas is thought to go up in smoke each year. But the message seems to be hitting home. In January 2014 the government raised the gas price from \$1 to \$1.5 per 1,000 cubic feet (still only about half the international price), and last August it increased it by another \$.1. Importantly, it also allowed gas companies and electricity generators to set their own prices, which triggered a spate of new investment.

Cheap at the price

Most firms in Nigeria, of whatever size, are forced to generate their own power at a cost ranging from \$.35 to \$.5 a kilowatt-hour (kwh), a little less if they run large, efficient generators, more if they have small, inefficient ones. You might have thought that a reliable supply of power at anything less than that would be pounced upon. But when the national electricity regulator earlier this year tried to raise grid prices to about \$.2 a kwh

to encourage investment in generation, manufacturers were outraged. After much lobbying and legal sabre-rattling, the regulator quickly issued a new maximum price of about \$.1 a kwh, which put an instant blight on investment in new electricity generation. "They were cutting off the legs of people like me who are trying to build power plants," says Najim Anamisham, who has been trying to establish an independent power generator.

To show what private investors and competitive markets can achieve, take a short boat ride across Lagos lagoon towards Tin Can Island, where the Teras Conquest, a massive oil rig, rises almost 100 metres above the Lagos skyline. Hard-hatted workers are buzzing about, refuelling it and doing essential maintenance so it can head back out to the oilfields as quickly as possible.

Construction workers nearby are completing west Africa's largest shipyard, a \$300m joint venture between South Korea's Samsung Heavy Industries and Ladol, a Nigerian oil-services firm. Plans have been drawn up to build a dry dock close by, the first in west Africa, that will allow Nigeria to repair ships and oil rigs that would otherwise have to travel to Cape Town, Houston or Portugal. Other investors are waiting to pour billions of dollars into port and other infrastructure. Yet even here vested interests get in the way.

The local market for servicing and refuelling oil rigs and the like is dominated by Intels, which is a private company but operates almost like an arm of the Nigerian state. Its investment in new port facilities has been underwritten by the government, which also guarantees the returns it earns on them. Shipping firms say it offers an efficient, if pricey, service, but it has little reason to become more competitive because the government has pushed oil firms to use its terminals instead of rival ones. Mr Jonathan's outgoing administration in effect granted Intels a monopoly by forcing shipping companies to use its terminals for oil- and gas-related cargoes. A court ruling swiftly put a stop to that, but investors were taken aback. If the new government wants to rebuild the country's tattered infrastructure, it needs to offer stable rules to encourage private investors. Equally importantly, though, it will have to tackle the endemic corruption that has led to so much public investment being squandered. ■

Corruption

The only thing that works

Changing an ingrained culture will take time

"WHAT HAVE YOU got for me this Sunday?" says the policeman, using his flashlight to tap on the window of your correspondent's car at a roadblock in downtown Lagos, his AK47 dangling menacingly from one arm. Less than an hour earlier, an immigration official at the international airport had asked: "What have you brought me?" From the moment a traveller sets foot in Nigeria, he is confronted with the corruption that has afflicted the country for decades.

Nigerians are thankful for small mercies, and there has been some progress on fighting petty corruption. In the past travellers often faced harassment by policemen and officials if they refused to pay bribes, but your correspondent was told "you are welcome in Nigeria" whenever he politely declined to grease palms, including that of a guard at the central bank.

The improvement has several causes. First, the government ►

► has been trying to end the pervasive culture of impunity. Immigration officials' names are now prominently displayed on counters, for instance, and documents are often scrutinised by two different people. Technology and social media play a part, too. Thanks to ubiquitous smartphones with cameras, every demand for baksheesh could quickly become a hit on YouTube. In one video, viewed more than 100,000 times, policemen demand cash from an American of Nigerian parentage. When their victim says he has no dollars, they amiably point him to a place where he can change money.

Several websites give victims a platform on which to complain. One such, stopthebribes.net, maps incidents of corruption. Another site, Nigeriapolicewatch.com, provided links to videos showing an armed and drunken policeman assaulting two young women that prompted an investigation by the inspector-general of police.

Yet even as petty corruption declined somewhat under the previous government, theft on a grand scale increased exponentially. "Under Jonathan everything was for sale," says one local businessman. Although no one accuses Mr Jonathan of personal corruption, many mention demands for cash from those in his inner circle. One businessman says he was told, "don't bring \$20,000, bring \$200,000." One way to launder such loot was to buy property in Nigeria, where large transactions are often settled in cash. Another was to take it out of the country. "There was a chartered plane flying cash to Lebanon and Cyprus," says one businessman. "They have houses full of cash."

This penchant for cold cash was widespread. The chief executive of a large firm in Nigeria says that when he was invited into the study of a senior Nigerian politician, he saw bundles of dollar notes neatly stacked in the drinks cabinet. After Diepreye Alamieyesigha, a former governor of Bayelsa state in the oil-rich delta, was arrested by British police on charges of money-laundering, they found almost £1m in cash in his London home.

The numbers involved in grand corruption in Nigeria soon become mind-boggling. Lamido Sanusi, a former governor of the central bank, claimed that over a period of about 18 months some \$20 billion in oil revenues had gone missing from the Nigeria National Petroleum Corporation (NNPC), a state-owned firm that manages the government's shares in oil companies and pays subsidies for fuel imports. Mr Sanusi was promptly fired for his trouble, but a public outcry forced the government to commission a forensic audit by PwC, an international accounting firm. Its report paints a picture of chaos and lawlessness within the NNPC. Billions of dollars were paid for subsidies on kerosene, yet none seems to have been sold at the subsidised price. It was generally available in markets for about three times the official price. In short, some \$3.4 billion had simply vanished. Subsidies on petrol are only marginally better-managed.

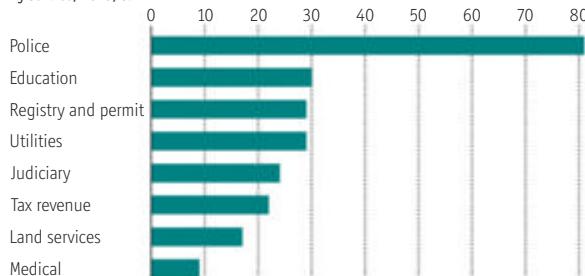
Even murkier are losses of crude oil being pumped out of the country. Oil theft, which is euphemistically known as bunkering, is thought to account for anything from 100,000 to 500,000 barrels of oil a day, siphoned off from pipelines or illegally pumped. If estimates at the upper end of the range are correct, perhaps one in five barrels of oil produced in Nigeria is stolen. Such thefts require a huge infrastructure, which relies on the connivance of senior politicians and security officials.

Corruption trickles down through most arms of the government. Procurement contracts in particular are notorious for graft. The bigger the project, and the longer it takes to complete, the greater the opportunity to divert cash. Thus big projects in Nigeria routinely take far longer than planned and cost far more

You have to hand it to them

Respondents saying a member of their household paid a bribe in the past 12 months to:

By service, 2013, %



Source: Transparency International

than originally budgeted. Many seem to have been built primarily for the purpose of stealing money. One state governor extolled the virtues of a large stadium he had built ("you can see it from space"), but seemed to have a poor grasp of economic indicators in his state, including poverty and literacy levels.

The good life, for some

Extravagant travel and living are two more ways of looting the budget. Many state governors and ministers fly around the world in private jets, stay in palatial mansions and drive expensive cars, all at the taxpayer's expense. Bullet-proof sedans and SUVs are so popular that Nigeria has become the world's biggest market for armoured cars, says one executive.

The legislature gets in on the act too. The chairmen of parliamentary committees routinely ask for kickbacks in exchange for an easy ride in hearings. Those who refuse to pay are pilloried. In one incident, screened on live television, the head of Nigeria's Securities and Exchange Commission, Arunma Oteh, accused the chairman of the House Committee on Capital Markets of demanding bribes before the hearing. The chairman was charged with accepting \$4,000 for a trip to a conference that he did not attend, but the court threw out the charges on appeal.

Shakedowns by local government often take the form of

Many state governors and ministers fly around the world in private jets, stay in palatial mansions and drive expensive cars, all at the taxpayer's expense

taxes and may even have a thin veneer of legality. Small businesses say they get stung for licence fees that are suspiciously negotiable and have a tendency to rise before Christmas and Easter, when officials need cash. In Lagos few firms display their names on their offices or factories because that would attract the attention of the Lagos State Signage and Advertising Agency, which would require many forms to be filled in and hefty annual fees to be paid. Other government agencies also put their hand out. The boss of one Nigerian consumer-goods company says he has to get the permission of eight government agencies each time he wants to run a promotion. The boss of another curses Nigeria's lottery commission, which demands a fee worth 25% of any prizes offered to winners of promotions. Local authorities in small towns along major highways insist that lorries travelling through their territory must be licensed—for a fee. Such wheezes

► drive up the cost of distributing consumer goods by about a quarter, says the boss of one big firm.

The judiciary, which is meant to prevent such excesses, actually serves as a useful tool for extortion. One common practice employed by legal trolls is to wait until a large project such as a factory or apartment block is almost complete and then to ask the courts for an injunction against it being finished, often on spurious grounds. The courts may impose a temporary injunction that can take years to be reviewed and lifted. The quickest way to resolve these is to make a large out-of-court settlement.

It is difficult to find an arm of government that is not crooked. A survey in 2013 by Transparency International, a Berlin-based anti-corruption watchdog, found that large numbers of respondents had paid bribes to officials in the previous year (see chart, previous page).

Many of the institutions intended to fight corruption have themselves been compromised. The country's most efficient anti-corruption agency is the Economic and Financial Crimes Commission (EFCC), but a weak judiciary and presidential pardons have undermined its successes. Its convictions are often overturned on appeal or end in a pardon. A striking example was that of Mr Alamieyesigha (the man with the \$1m cash stash in London). After jumping bail in Britain, he returned to Nigeria and was convicted by a court, but Mr Jonathan pardoned him.

Cleaning the stable

Many Nigerians also believe that anti-corruption investigations are used as a cover to settle scores and eliminate political rivals. Mr Buhari will have to ensure that such investigations are not partisan: a few scalps from each of the two big parties would send the right signals, as would a requirement for public figures to publish details of what they own. Mr Buhari has insisted that members of his cabinet do so. State governors, senators and members of the national assembly should follow suit.

Mr Buhari says that fighting corruption will be one of his main priorities, but it will be a long, hard slog, despite his own impeccable credentials. He leads an austere life and will not brook any excesses in his inner circle. According to one report, soon after his election he gathered his extended family together to tell them they could expect no immunity if they broke the rules. But many in his party, including some of those thought to have helped fund his campaign, may have had their fingers in the till. "By the time you've lifted the veil, you may be shocked by what you see," says Bishop Matthew Kukah, a leading religious figure and moral authority in Nigeria. "This is not a country that is morally convinced about [the evils of] corruption: corruption is the only thing that works."

In order to reduce opportunities for graft, Mr Buhari needs to go much further in making government transparent. The most shocking revelation at the NNPC was not that money had gone missing but that a state agency responsible for billions of dollars in revenue did not publish independently audited accounts.

The cost of all this graft vastly exceeds the actual amounts stolen. Investors are reluctant to put money into a country if they cannot be sure that contracts will be honoured. Local businesses deliberately stay small, hoping to stay beneath officialdom's radar. Citizens are generally loth to pay taxes because they assume the money will be stolen. Billions of dollars in state spending are wasted on useless projects. On the outskirts of Sokoto in the far north of Nigeria a brand new power plant is going up, years behind schedule and over budget. The delay may be a mercy, for once it is switched on it will instantly start racking up big losses.

Graft has also been one of the factors behind an insurgency in Nigeria's north which its army, hollowed out by corrupt generals, has struggled to contain. ■

Security

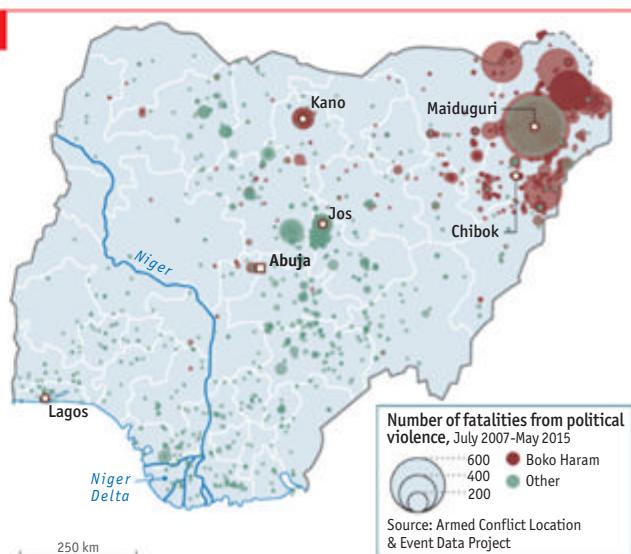
Keep it calm

Violence, mainly but not exclusively in the north, has exacerbated Nigeria's many problems

THE GRAINY IMAGES looked like relics of a bygone era: white mercenaries riding on armoured vehicles through burned-out African villages. In fact, it was the characters themselves who were military relics. Many of the men recruited to fight Nigeria's war on Boko Haram were in their 50s, veterans of apartheid South Africa's bush conflicts in the 1980s. A good proportion were thought to have come from Koevoet, a special-forces unit in the South African police that ruthlessly hunted insurgents in what is now Namibia. Age may have wearied them, but not through lack of activity.

Many have been fighting on, more or less continuously, in almost every big conflict in the past three decades, including Angola and Sierra Leone and more recently Iraq and Afghanistan. This "army-in-a-box" was the thin khaki line that helped the Nigerian forces hold Maiduguri, the capital of Borno state. Only in January Boko Haram militants fought their way into the city, which has seen its population swelled by refugees to around 2m. That it did not fall also had much to do with Boko Haram's strategic incompetence.

Last year the militants overran large parts of three states in the north-east of Nigeria and then spread chaos into neighbouring countries, attacking villages in Niger, Cameroon and Chad. They are said to be skilled tacticians who can rapidly concentrate their forces before dispersing again. Yet they seemed to have no real plan for what they would do with the territory they had conquered. Whereas the jihadists of Islamic State in Iraq and Syria established rudimentary administrations in their self-proclaimed caliphate, Boko Haram seems not to have bothered with governing at all. It routinely massacred villagers under its control and abducted women and children. Rape was not just ubiquitous, but apparently used as a weapon of ideological propagation: the militants are thought to believe that any children they ►



► father will inherit their jihadist beliefs.

Boko Haram had been successful in driving the Nigerian army from smaller towns and border garrisons, but seems to have had no clear strategy for Maiduguri beyond launching direct attacks on the city. For several months just one narrow road led in and out of the state capital. Although military supplies and reinforcements were airlifted in, the civilian population relied on the road for its food. Had the militants closed that road they could have starved the city out, which would have forced the army to abandon much of the north-east.

A combination of factors swayed the fight. The most important was support from Chad's army, which wanted to keep the country's own supply lines to the south open. It quickly cleared Boko Haram from border areas and then pushed it back from major towns inside the Nigerian border. The Nigerian army, too, upped its game, putting effective commanders in charge in the north-east and kitting out its soldiers with plenty of arms and ammunition. Intelligence support from Western allies also played a role, as did training provided by British and American soldiers. The trainers found that the recruits were eager to learn and to fight. This suggests that Nigeria's army will, with some help, be able to take the lead in the north.

When Mr Jonathan delayed the election by six weeks from February to push back the insurgents, most people thought it was an excuse for more vote-rigging. Remarkably, though, that short period made all the difference. The election went off peacefully in most parts of the country. Boko Haram's fighters have since been confined to remote areas, and thousands of women and children who had been taken captive have been freed, though 276 schoolgirls kidnapped about a year ago from a school in Chibok, in Borno state, have not been found (apart from a few who escaped). The government's failure to recover them played a big part in Mr Jonathan's electoral defeat.

Despite Boko Haram's recent setbacks, the fight is likely to drag on for some time. The rainy season will hamper the movement of soldiers into the mountains and forests where the rebels have taken refuge. More worryingly, the policemen who are supposed to secure liberated towns are woefully ill-equipped and undertrained. And this part of the country, already desperately poor before the insurgency, has now been totally devastated by it. Few schools and hospitals have been left standing. More than 1.5m people fled their homes, many of which have been burned down. "Think of South Sudan and Somalia and you'll get the picture," says one observer.

Quelling this insurgency and rebuilding the north-east will be one of the new government's main priorities. As a northerner and a Muslim, Mr Buhari will have greater licence to use force than his predecessor, but he will have to rein in human-rights abuses by both the police and army or risk alienating many in the north-east, as well as Western allies who want to help but will not be party to war crimes.

Mr Jonathan's government, for all its failings, launched an ambitious plan to counter the radicalisation of young northerners, including training religious leaders to speak up against jihadist ideology and helping people suffering from post-traumatic stress. An important part of the plan was to improve the justice system in the areas concerned. Thousands of young men who



Where are our girls?

have been rounded up as suspected militants have been held for long periods without being charged and are rubbing shoulders with committed jihadists, so prisons have turned into radicalisation factories. In the longer term the government will need to undertake deeper reforms to contain radicalism, including making local and state governments more accountable, fighting corruption and eventually redeveloping the north to deal with some of the underlying causes of its wretchedness (see box, next page).

Trouble, trouble everywhere

But the north is not the only trouble spot. In the Niger Delta, the source of most of Nigeria's onshore oil and gas production, armed militants hold sway. In order to keep the oil flowing, the government and the oil companies have bought off criminal gangs in imaginative ways. The biggest of these was the Niger Delta amnesty, a peace plan unveiled in 2009 under which militants who handed in their weapons would be pardoned for their crimes and paid about \$410 per month until they found legitimate work. Meanwhile many oil companies hired local groups to protect pipelines and oil wells. If such payments stopped, militancy would probably resume overnight.

Elsewhere in the country political violence is so widespread that it is barely reported. In the seven days from May 2nd this year, for instance, the Council on Foreign Relations, a think-tank based in New York, recorded more than 200 deaths in serious political violence throughout Nigeria. These included the killing of 80 civilians by soldiers in Plateau state in revenge for the killing of six soldiers by Fulani tribesmen in Taraba state a few days earlier. Sectarian violence elsewhere in Taraba in the week in question resulted in 21 deaths. The list continues, and this was by no means an extraordinary week: large parts of Nigeria's so-called Middle Belt are riven by conflict and violence.

This takes many forms and involves many different groups, but it always involves a struggle over resources among desperately poor people in a country where peaceful means of dispute resolution do not exist and where nobody trusts state institutions. "A lot of communities have reserves of arms and access to people who know how to use them," says Oliver Owen of Oxford University. "They think that if the state can't take care of us, then we will take care of ourselves."

Ordinary murders are commonplace too, along with most ►

► other sorts of crime. Nigeria's official murder rate is 20 per 100,000 people, not quite as bad as South Africa's shocking 31, yet many experts believe that murder is being widely underreported. Victim surveys seem to bear that out. In a study in 2013 conducted by the Cleen Foundation, a Nigerian NGO, 5% of respondents said that they had been victims of attempted murder. Violence against women is particularly widespread. Some 30% of respondents said they had suffered domestic violence. Women are also at risk of people-trafficking. Many are promised good jobs abroad, then forced into prostitution. Much of this is not reported to the Nigerian police. One survey found that only one in five crime victims reported the incident.

That is probably because Nigerians generally see their police as unaccountable and corrupt, as well as deeply implicated in human-rights violations. In the 1980s the Mobile Police, a federal anti-riot unit, became known as "kill-and-go". Suspects are generally beaten until they confess. Some Western donors involved in police reform think the way to professionalise the force

is to start small, training and equipping new detective departments one at a time. They are also trying to improve ancillary bits of the justice system that would support the detectives, such as providing new offices for state prosecutors and building modern cells where detainees can be held in humane conditions.

Another approach may be to make police more accountable to local communities. Nigeria's federal constitution nominates state governors as the chief security officers in their states, but policemen throughout the country report directly to headquarters in Abuja. Some states have set up their own quasi-police forces of uniformed men, but there are doubts about the constitutionality of such a move. Mr Buhari's government is keen to devolve policing powers to the states, which makes good sense in the better-governed ones, such as Lagos. But in badly run ones it may be a slippery path to localised autocracy. To avoid that risk, the government would need to professionalise other elements of the justice system, including the federal judiciary and federal anti-corruption agencies. ■

Down on its luck

Can Nigeria's north rise again?

CAMELS AND GOATS jostle with cars and motorcycles on the narrow roads cutting though the dry scrub of Sokoto, Nigeria's northernmost big city. The state, of the same name, is a long way from Lagos, the commercial centre, not just geographically but in almost every way.

Where Lagos has lush jungle lining the roads, Sokoto has desert. Where Lagos has bustling commerce, Sokoto has miserable destitution. About eight out of every ten people in the state are classified as living in poverty. Local government is on the verge of collapse. Electricity supplies are intermittent, even on good days. No water has flowed through the city's taps for the past three years, residents say, although officials still try to collect charges, threatening to cut off people who do not pay. "Cut me off, please," said one resident. "Nothing comes out anyway." Only about a third of the state's children attend primary school, and less than a quarter finish it. Only one in five adults can read or write in English, the country's official language, although by some estimates 70-80% of northerners can read some Arabic. By contrast, in Lagos state four out of five adults can read English.

Such desperate conditions provide ample tinder for ethnic and religious conflict. Nigeria's population is roughly half Muslim and half Christian, but the faiths are not evenly spread. Muslims predominate in the north among the Hausa- and Fulani-speakers, and are well-represented in the southwest among the Yoruba, who live in Lagos and its surrounding states. Nine states have adopted *sharia*, or Islamic law, as their main

body of civil and criminal law, although this applies only to the Muslim population. Christians are much more prevalent in the southern and south-eastern parts of the country.

Ahead of the election thousands of Christians and immigrants from southern states left Sokoto, fearing a repeat of the violence after the 2011 election, when about 700 people were killed in the north. Mr Buhari's victory headed off any pogroms, but ten or 15 people were killed in wild celebrations in the town after the results came out.

Sokoto itself has not suffered much from Boko Haram's activities, but it epitomises many of the problems that have made the north an incubator of misery, jihadism and insurgency. Matthew Kukah, the bishop of the Catholic diocese of Sokoto, argues that the emergence of Boko Haram is largely a symptom of the Nigerian state's failure to deliver basic services, decent governance and economic growth.

The north, he says, is riven by faultlines that constantly threaten violence, not just between Muslims and Christians (many of whom were told ahead of the election that they would be killed if they voted against the APC) but also between different strands of Islam. Politicians in both the north and the south, for their part, have shamelessly inflamed religious tensions in disputes with the central government or other big power blocks. Both the states and the federal government deploy scarce resources on subsidising pilgrimages: to Mecca for the north, to Jerusalem for the south.

Part of the reason for the north's economic decay is the decline in manufac-

ting and agriculture in response to an inflow of riches from oil. As oil revenues started to rise from the 1960s onwards, Nigeria's currency appreciated, making it cheaper to import food and textiles, two mainstays of the northern economy.

But a host of other factors also conspired to hold the north back. From the earliest days of Britain's colonial rule in Nigeria, the authorities found it easier to rule the north indirectly through the local emirs and sultans. Christian missionaries flooded into the south, establishing modern schools and educating a new elite, but were kept out of the mostly Muslim north. That cemented educational inequality. In many northern cities young boys, or *almajiri*, line the streets begging for scraps all day. In the evening they learn to recite the Koran. As many as 9m children are enrolled in this unregulated and largely dysfunctional schooling system. Cultural practices compound the problem. Women in the north on average have 6.1 babies, compared with 4.5 in the south, and are far less likely to have jobs, leaving households with less to invest in their children's education.

What the north does have in abundance, however, is arable land and people to work it. In the 1960s the north of Nigeria was one of the world's leading producers of groundnuts. Other poor and restive areas, including southern states in the Niger Delta, were once leading producers of cocoa. Given access to markets, credit and modern farming techniques, Nigeria's poorest regions could rise to become big employers and exporters once again.

Buhari's chances

Can he do it?

After so many false dawns, this one might just possibly be for real

"THIS IS A wonderful day, and it is all the more wonderful because we have awaited it with increasing impatience, compelled to watch one country after another overtaking us on the road when we had so nearly reached our goal." It might have been Mr Buhari speaking at his inauguration on May 29th, a colourful ceremony attended by more than 20 heads of state.

In fact, the speaker was another Nigerian leader at an equally hopeful event, the country's independence celebrations in October 1960, which Abubakar Tafawa Balewa, the first prime minister, hailed as Nigeria's "great day". Yet little over five years later a military coup set off a slide towards bloody civil war. Ever since then, every time Nigeria seemed to be getting close to fulfilling its enormous potential, it suffered yet another crushing disappointment. Various civilian governments elected amid great optimism soon degenerated into instruments of patronage and graft. They, in turn, were overthrown by military dictators promising to root out corruption and restore Nigeria to greatness. Yet the generals, too, soon discovered a taste for the good life and found that greasing the right palms could make it even better.

Despite these frequent disappointments, Nigeria remains hopeful, and for good reason. It does not require a miracle for its economy to grow at a consistent 7-8% a year. What it does need is better roads, rail connections and power lines. If the poorest states had the infrastructure to allow farmers to get their produce to market, it would open up the prospect of vast numbers of new jobs in farming and agricultural processing, giving young men an alternative to joining the jihadists or ethnic militias and lifting tens of millions of people out of poverty.

Yet the cure is not as simple as it sounds, for at the root of many of Nigeria's problems are well-entrenched vested interests and pervasive corruption. If the country's roads are crumbling, it

is not for lack of competent engineers or money to repair them: it is because the money has been diverted to someone else's pocket so that many of the engineers sit idle. If people pay more than they should for food, power and imported manufactures, it is not because Nigeria is inherently a high-cost economy: it is because politicians, officials and their friends in business have found nefarious ways to profit from shortages and waste. If large parts of the country are ruled by armed gangs, it is because so many of the state's institutions, from local government to the national police and army, have been hollowed out by corruption.

Vast numbers of Nigerians voted to change this state of affairs on March 28th, and were surprised and delighted to find that their voice made a difference. Since Mr Buhari's election a current of optimism has been surging through the country. Could this time be different?

There is just a chance that it might be. In his first public speech after the election, Mr Buhari singled out corruption as a "form of evil that is even worse than terrorism", adding that it "soon comes to undermine democracy". For all his flaws, he seems determined to lead not by talk but by example. "I belong to everybody and I belong to nobody," he said at his inauguration, signalling that he will not be beholden to any faction. Unlike most of the Nigerian elite, he has refused to enrich himself. He has already announced an ambitious programme that includes giving legal protection to whistleblowers. If he can prosecute and jail even a few senior politicians who have been on the take, he may be able to end his country's pernicious culture of impunity. Much thus depends on the character and will of one man.

A breath of fresh air

Much, but not all. Mr Buhari also has the backing of a party that, although it includes large numbers of suspiciously wealthy individuals, has proved itself competent at governing. Lagos, which has been ruled by the APC's predecessor parties, is the country's best-run state by far. It has improved public services and built new roads and bridges, many of them privately funded. And it has proved accountable to taxpayers in pretty much the only state that has raised significant revenues of its own.

More important even than the character of the president and his party is the principle of alternation. Nigeria has shown that an unhappy electorate can make its voice heard. Its often chaotic federal constitution has offered opportunities for different forms of governance to flourish in which the parties can demonstrate their competence (or lack thereof). The new ministers and state governors know that they are on notice. Hearteningly, Nigeria's success will depend not just on this new crop of politicians but also on a young, tech-savvy and vocal electorate that can voice its displeasure on social media and hold officials to account in ways that even ten years ago did not exist. ■



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If the infrastructure allowed farmers to get their produce to market, it would create vast numbers of new jobs



China and the Arab world

The great well of China

BEIJING, CAIRO AND RIYADH

Oil is bringing China and the Arab world closer economically. Politics will follow

FOR hundreds of years travellers have haggled over carpets, jewellery, spices and copperwork in the winding alleyways of Khan al-Khalili, Cairo's traditional souk. Today the goods are more likely to have been mass-made in a factory in China than handcrafted in a local workshop.

Trade is central to growing ties between China and the Middle East. It has increased more than 600% in the past decade, to \$230 billion in 2014. Bahrain, Egypt, Iran and Saudi Arabia all import more from China than from any other country. China is the top destination for exports from several countries in the region too, including Iran, Oman and Saudi Arabia. In April Qatar opened the Middle East's first clearing bank to handle transactions in yuan.

The trade is driven by China's thirst for oil. In 2015 it became the world's biggest importer of crude, half of it—more than 3m barrels a day—from the Middle East (see chart). By 2035 China's imports from the region will roughly double again, reckons the International Energy Agency, far exceeding that of any other nation. "This is a big shift rather than incremental change," says Chaoling Feng of Cornell University.

Even the Middle East's poorer countries offer a fertile market for cheap Chinese wares. In 2013 Xi Jinping, China's president, proposed reviving the Silk Road, an ancient trade route linking China to Persia and the Arab world. Chinese cars crowd

the streets of the Egyptian, Syrian and Iranian capitals. Chinese-made clothing, toys and plastics are ubiquitous. China sells a lot of small arms too, according to the United States Institute of Peace, a think-tank in Washington, D.C.

As China looks west, Arab countries turn east. In part, this reflects the revolution in the energy market wrought by fracking. America is relying more on its own shale oil and gas and buying less fuel from the Middle East. In 2000 the region exported 2.5m barrels of oil a day to America; that dropped to 1.9m by 2011. By 2035 the Inter-

national Energy Agency predicts America will buy only 100,000 barrels a day and 90% of Middle Eastern oil will flow to Asia.

Arab leaders such as Egypt's Abdel-Fattah al-Sisi are keen to woo Chinese investors. They need cash to fix their crumbling roads and dilapidated ports. Mr Sisi and almost every other Arab head of state have visited Beijing since 2012. Chinese firms are building Tehran's metro, two harbours in Egypt and a high-speed railway between Saudi Arabia's holy cities of Mecca and Medina. Factories in a Chinese-run special economic zone at the Suez Canal churn out plastics, carpets and clothing. On June 15th Egypt and China signed an agreement for \$10 billion-worth of new projects.

So far a purely economic partnership has worked well. Few Arabs worry that China is exploiting the region—a feeling widespread south of the Sahara. But the relationship may change in time. Many leaders in the Middle East fret over a perceived American withdrawal. Although officials recognise that China does not have America's military or diplomatic clout, some want it to help fill the void. Alan Hakim, a Lebanese minister, says China should play a "leading political role" in the region. The Gulf, which has long relied on America for security, "is looking to diversify our political relations", says an official in the Gulf Co-operation Council, a club of six states. "China is foremost among the targets."

China may not have the soft power of America—despite an Arabic television channel run by the state broadcaster and ever more Arabic-speakers in China—but it is finding admiration in some quarters. Authoritarians such as Mr Sisi, who took power in a coup in 2013, seek to emulate the Chinese model of economic development without political pluralism. Abusive rulers in the Middle East like the fact that China ➤

Also in this section

- 48 Egypt's filthy hospitals
- 49 Protecting the Druze in Syria
- 49 Iraq's oil boom
- 50 Uganda's hopeful opposition
- 50 What Africans Google
- 50 Ghana's economic crisis



▶ doesn't nag them about human rights—and return the courtesy. Saudi Arabia forged diplomatic relations with China only months after the massacre of pro-democracy protesters in Beijing in 1989.

Beijing has long espoused a policy of "non-interference" in other countries' internal affairs. It opposed the American-led invasion of Iraq in 2003 and has voted with Russia to block action to end Bashar Assad's rule in Syria. It has tried to remain friendly with both Israel and the Palestinians, and with the regional foes, Iran and Saudi Arabia. It is not taking part in the coalition of 60-odd countries fighting Islamic State (is), despite its oil interests in Iraq and unsubstantiated reports of 300 Chinese Muslims fighting there. "We don't really have the ability to lead in solving Middle East matters, nor have we ever thought about it," says Li Weijian of the Shanghai Institute for International Studies.

It is notable that neither Mr Xi, nor his prime minister, Li Keqiang, has set foot in the Middle East, despite visits across the world. Mr Xi postponed a visit to Saudi Arabia in April, probably to avoid commenting on its air strikes in Yemen.

Too big to be neutral for ever

But China is finding it ever harder to stay aloof. By vetoing resolutions on Syria, for example, it is seen as one of the powers supporting Mr Assad. Chinese flags were set on fire in various Arab capitals after it vetoed a UN Security Council resolution calling for Mr Assad's removal in 2012. Despite the vetoes it is also talking with the opposition in Syria.

And it has started to play a more active role in other parts of the region. It is one of the six countries trying to negotiate a deal to curb Iran's nuclear programme, even as it engaged in joint naval exercises with Iran last year. Its navy also protects commercial shipping from Somali pirates around the Gulf of Aden.

The tumult following the Arab spring has fostered caution: China is increasing its stores of oil and seeking to forge more friendships in the region. Still, Mr Xi says he wants to co-operate in nuclear power, aerospace technology and renewable energy. Some Chinese investors have been scared away from turbulent countries such as Yemen, where nearly 600 nationals were evacuated in March amid fighting there, but many have looked to quieter spots such as Dubai. Chinese firms are eyeing opportunities in Iran, which will open up if a nuclear deal is struck this month.

As its economic interests grow, China may be sucked into the Middle East's snake-pit politics, whether it likes it or not. Last year Barack Obama criticised China for avoiding the fight against is. He accused it of having been a "free rider" for too long, offering little in return for a steady flow of oil. Some Arab leaders agree. ■

Health care in Egypt

Dirty sheets and stray cats

CAIRO

Egyptian medicine, once renowned, is now an embarrassment

IN EGYPT, the men are more skilled in medicine than any of human kind," noted Homer in "The Odyssey". Egyptian doctors knew how to set bones and perform surgery before others. The "shepherd of the anus", a proctologist-like figure described by Herodotus, suggests they even specialised. Little wonder that the rulers of other empires sought out their care.

How times have changed. Today even Egypt's rulers avoid state hospitals. That was evident on June 6th when Ibrahim Mahlab, the prime minister, visited two and was shocked by their dreadful state. Doctors have mocked him by setting up a Facebook page with photos of grim conditions at other hospitals, "so that he won't be surprised if he visits". The images show dirty equipment, sewage overflowing and patients surrounded by stray animals.

The quality of care is so poor that many Egyptians shun the state-run system. A government insurance programme covers public workers, their families and schoolchildren—about 54% of the population. But only 8% of those insured in this way use public outpatient clinics. "People resort to the private sector and pay with their own money," says Ayman Sabae of the Egyptian Initiative for Personal Rights, a pressure group. Nearly three-quarters of health costs are paid out-of-pocket.

Still, there are those who cannot afford private doctors, or who live too far away from them. Although clinics run by charities and religious groups care for some of these people, many must use the public

system, which is meant to be affordable. The sick may apply to have their treatment covered by the state, and emergency care is nominally free. But patients often face informal charges, without which many facilities could not operate.

Government spending on health care is slated to reach 42.4 billion Egyptian pounds (\$5.6 billion) this year, up 27% on the year before. That is still just 1.75% of GDP, well below the global average. The constitution adopted last year mandates that spending on health care rise to no less than 3% of GDP and there is talk of expanding coverage to everyone. But the strapped government still splashes out for bread, sugar and fuel subsidies. And it plans to spend the equivalent of this year's health budget, and then some, on the construction of a glitzy new capital city.

Ill-paid public-sector doctors have called several strikes to demand better funding. Mahmoud Beshir, a doctor in Port Said, says he makes about \$200 per month, which is close to the civil-service minimum wage. "I've thought about leaving," he says. Many already have. Some join the private sector, where they earn much more. Others go abroad. There are more Egyptian doctors in Saudi Arabia than there are in Egypt's primary-care system.

About 500 of Egypt's 4,000 state-run clinics do not even have a doctor, says Mr Sabae. Resources are also mismanaged. Some facilities boast new kit even if they do not have the doctors to use it. Corruption is rife: nearly three-quarters of Egyptians think the health services are crooked, according to a poll by Transparency International, a watchdog.

Patients have little recourse, so some have physically attacked doctors, who in turn have called on the health minister to resign. Meanwhile, new Facebook pages have sprung up condemning other public services. But health care is probably the worst of the lot. ■



At least there are no mice on this ward

Syria and Israel

Don't bruise the Druze

JERUSALEM

Israel has warned Syrian rebels to steer clear of one particular minority

FOR more than four years since the outbreak of the Syrian civil war, Israel has studiously avoided getting sucked in by the fighting on its border. Aside from a number of air strikes on convoys transferring weapons to Hezbollah, a Lebanese militia, the Jewish state has refrained from taking sides. That may be about to change as Israel warns that it will act if Syria's Druze minority is endangered.

More than a million Druze live in the Middle East, about two-thirds of them in Syria with the rest split between Lebanon, Israel and Jordan. The Arabic-speaking Druze, followers of an esoteric religion containing elements of all the monotheistic faiths as well as Greek philosophy, have a complex relationship with the states un-



Cousins in arms

der which they live. Their code emphasises loyalty to the ruler, along with a strong independent streak. In Syria many of the Druze have remained true to Bashar Assad's regime, whereas in Israel they extol their "covenant of blood" with the Jewish state, which has led most of their men to

volunteer for combat units in the Israel Defence Forces (IDF). Many pursue military or police careers that include senior positions in elite army units. The small communities of Druze on the Golan Heights, occupied by Israel since 1967, have mainly chosen to remain Syrian citizens while enthusiastically working in the Israeli tourism industry.

As the remnants of the Syrian army—backed by Iran and its Lebanese ally, Hezbollah—have lost ground, Islamic State (is) has drawn near the main Druze population on the Jebel Druze mountain range. (Elsewhere is has lost ground to Kurdish forces, including a key border crossing and supply route at Tel Abyad on Syria's border with Turkey.) Druze villages on the Syrian part of the Golan have also been coming under fire from rebel groups including Jabhat al-Nusra, an affiliate of al-Qaeda. These threats are fraying the Druze's traditional loyalty to the government, and they have appealed to their cousins in Israel for help.

An Israeli deputy minister, Ayoob Kara, himself a Druze, says that "for the first time Syrian Druze have been making direct contact." Officially Israeli policy remains strictly non-interventionist but the government has discreetly promised the local Druze leaders that it will not stand aside if their Syrian brothers come under attack.

On June 16th the normally taciturn IDF chief of staff, Lieutenant-General Gadi Eizenkot, said that "Israel will prevent a massacre of refugees on its border with Syria." The next day, as rebels advanced on the Syrian Druze village of Hader, just a mile from the border, Binyamin Netanyahu, the prime minister, said Israel was "closely monitoring" the Druze situation and had ordered "all necessary measures". The army's plans may include setting up an emergency field hospital in no-man's-land on the border. And if thousands of Druze refugees stream towards the frontier, Israel may be the first of Syria's neighbours to establish a buffer-zone with it. ■

Iraq's oil

Gush but worry

Oil production is surging, but insecurity makes investors nervous

THE news from Iraq is not all bad. Despite the war against Islamic State (is) in the north and west, for three months in a row Iraq has pumped record amounts of oil. New wells operated by Lukoil, a Russian firm, at the vast West Qurna oilfield have come on stream. Iraq has found a way to separate light crude from the heavier sort, enabling it to sell two types rather than an unpredictably adulterated blend, raising exports from 3.1m barrels a day (b/d) to almost 4m.

Kurdistan's autonomous government is pumping out more oil, too. Thanks to the pipeline it opened in November that bypasses the is-held city of Mosul, it is sending a record 550,000 b/d to Ceyhan, a port on Turkey's Mediterranean coast. Despite the Kurds' seizure last year of the oil-rich area around Kirkuk, whose ownership is disputed by Iraq's Arabs, Kurdish oil officials are getting on better than before with their counterparts in Iraq's central oil ministry in Baghdad. All told, a decade of investment is at last starting to pay off.

Why then are faces at international oil shindigs still glum? Perhaps because the good times may soon be over. The cost of fighting is, coupled with the current low price of oil, has left Iraq struggling to pay its bills, let alone maintain investment.

The oil ministry in Baghdad has cut investment in the vast Rumaila field run by BP from \$3.5 billion to \$2.5 billion. Lukoil, Shell, an Anglo-Dutch giant, and ENI, an Italian one, have scaled back. Plans to improve the port at Faw, at the top of the Persian Gulf, which are vital if exports are to rise, have been put off. A scheme costing \$13 billion to sustain pressure at the wells is in doubt. And Kurdistan's reserves are proving harder to exploit and scarcer than expected.

Corruption and indebtedness also hamper development. Oil companies worry that Shia militias, which have been left alone in the south as the regular army heads north to take on is there, may start demanding protection money.

Optimistic oil officials used to predict production of 13m b/d by 2020. Now even the oil minister, Adel Abdel Mehdi, hesitates to bet on half of that. Meanwhile, the oil majors are looking avidly at prospects in neighbouring Iran, ahead of a widely predicted loosening of sanctions if a nuclear deal with America is reached. "The Iraqis have had quite a few chances to get their oil industry running, and it keeps stalling," says the representative of a foreign oil company in Iraq. "If the Iranians come on stream, they'll have missed the boat."

Ugandan politics

Bored of the Big Man

KAMPALA

Is the Ugandan president's 29-year rule coming to an end?

THE buildings stormed by Israeli commandos in 1976 still stand on Entebbe airfield. Now they are joined by the occasional C-17 Globemaster of the United States Air Force, part of an American presence trying, among other things, to hunt down the Lord's Resistance Army. Over the years, Uganda's allies and foes have chopped and changed.

But one fact stubbornly endures: since independence from Britain in 1962, Uganda has never experienced a peaceful transition of power. In the coming year though, opponents of President Yoweri Museveni think they at last have a chance to unseat him at the ballot box.

In 1986 Uganda's current ruling party, the National Resistance Movement (NRM), emerged victorious from a protracted civil war that had started with the ousting of Idi Amin in 1979. Mr Museveni, as the NRM's head, has been president ever since; 80% of Ugandans have known no other leader. Many Ugandans care less about past glories than the frustrations of the present, especially over corruption, jobs and housing. But a divided opposition has provided no plausible alternative and, in any case, removing Mr Museveni through the ballot will be difficult. The NRM is woven into the

fabric of Ugandan society and has a long reach. Opposition parties may continue to find it hard to compete against it, even if many Ugandans are no longer enthralled by Mr Museveni. Even so two recent events raise the possibility that an election due next year may offer a change.

On June 9th the main opposition parties and civic leaders came together to form the Democratic Alliance (DA). Similar groupings have emerged before but have failed to dent the NRM. This time lengthy consultations and a wide acceptance that only unity can lead to change have created a more resolute collaboration, says Zac Niringiye, a former Bishop of Kampala. "I do not hate Museveni," he says, "I love him because he is a human being. But he is the source of all instability and needs to go."

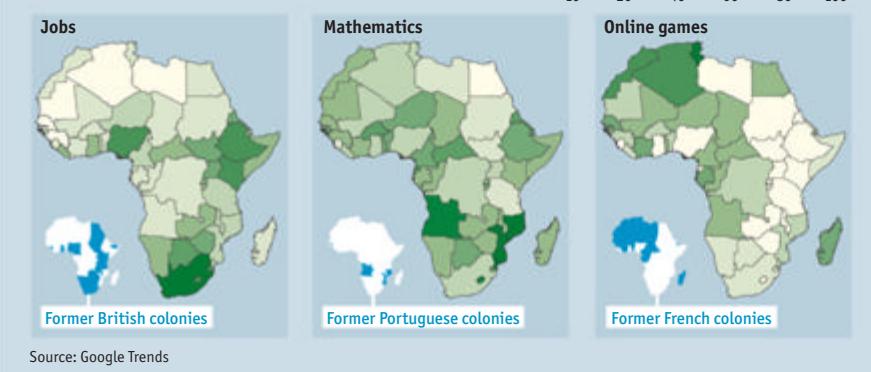
Another development is the declaration on June 15th by Amama Mbabazi, a former prime minister and chief thorn in Mr Museveni's side, that he will fight for the NRM's nomination as presidential candidate in place of Mr Museveni at the party's convention on October 4th. As a leading NRM figure he hopes to win support from party members thirsting for change. But Mr Museveni knows a thing or two about holding on to power. The NRM is full of bigwigs who owe their positions to the president. Challenging from within the party is a risky strategy.

Should the NRM stick with Uganda's longstanding president, Mr Mbabazi says he may talk to the DA. But having been at the hub of power so long, he may struggle to win over the anti-NRM vote. Whether he is the man to offer it or not, change is needed, especially at the top. ■

Googling in Africa

OVER the past five years the number of Google searches made in Africa has increased 500%. By mining data from Google, trendspotters hope to find out what interests Africans. Those in Francophone nations, it turns out, are more likely to search for video games. Anglophones are more likely to Google for jobs or pornography. African countries once ruled by Portugal are more interested in themes related to children, such as school subjects and bullying. What any of this says about the legacy of different colonial regimes is no doubt already the subject of a PhD thesis somewhere.

Google search-term volumes
Selected categories, by African country, 2004–2014



ACCRA

Africa's former jewel struggles to regain its gleam

HOW do you spot an economic crisis from afar? Abandoned building projects are one red flag. So are relentless power cuts. Ghana has plenty of both. Its problems grew more dramatic this month when torrential rain flooded the capital, causing an explosion at a fuel station that claimed up to 200 lives.

This was a disaster that Ghana could ill afford. Until a few years ago, the West African country was an economic success story. Yet things have gone wrong under a government that ratcheted up spending on salaries and fuel subsidies just as commodity prices began to fall. The IMF came to the rescue in February, agreeing to lend Ghana almost \$1 billion. But its problems are far from over.

Public debt could reach 70% of GDP this year, up from 43% in 2011. Annual growth, which topped 14% that year after oil began flowing, may dip to 3.5%; a budget-deficit target of 6.5% of GDP will be breached; and the cedi's fall shows no sign of ending.

Ghana's currency has fallen by over a quarter so far this year, in part because investors continue to shun its bonds. It has lost over 99% of its value against the dollar since 1992, calculates African Alliance, a bank. Inflation, at 16.9%, continues to make life a misery, especially for the quarter of Ghanaians who are poor. In marketplaces, locals complain that business has dried up. President John Mahama will have to rein in spending, notably on salaries, which gobble up most tax receipts. Yet Ghana's leaders have a history of splurging in election years; and he seeks re-election in 2016.

More worrying are the structural problems which were ignored when the economy was rising. Ghana relies on gold and cocoa for foreign earnings, leaving it skint when prices fall or crops fail. Successive leaders have failed to save during boom years, leading to an unhealthy addiction to the IMF, to which it has turned no fewer than 16 times since 1966. A crippling power crisis and seasonal floods have exposed infrastructural shortages which are costing lives as well as dollars.

Meanwhile corruption is a growing concern. A draft oil bill has been panned for handing too much power to the oil minister, a major problem in corruption-prone Nigeria. As Ghana's oil production increases, so too will scope for mismanagement. "The worry," says one Accra-based diplomat, "is that they are moving in the direction of Nigeria, not Norway." ■



France's reforms

Almost out of time

PARIS

The French government's economic reforms may be welcome, but they risk proving too little, too late

BACK in 2000, the French voted to shorten presidential terms from seven years to five. The aim was to make the presidential mandate coincide with that of parliament, in the hope of streamlining decision-making. One unforeseen effect was to compress the period during which worthwhile reforms can be carried out, before the next campaign season opens. President François Hollande, the Socialist incumbent, was elected just over three years ago. Yet there is now a sense that his time for doing anything useful is running out.

A drama in parliament this week hinted at the end of a cycle. On June 16th Manuel Valls, the prime minister, said he would force through a bill to liberalise services without a parliamentary vote. (Amazingly, French prime ministers can do this. Parliament can stop them only with a vote of no confidence, which would mean a fresh election.) Mr Valls has already used this power once, for the bill's first reading, and his government survived. Once again, opposition deputies have called a vote of no confidence, due after *The Economist* went to press, which Mr Valls was likely to win.

For Mr Valls and Emmanuel Macron, an investment-banker-turned-economy-minister who piloted the bill, the use of force for the second time represents both a failure to persuade fellow Socialists of the merits of deregulation and a determination to go ahead anyway. Their business-friendly law is far from the bold overhaul

that some wanted. But it does ease open some protected professions, liberalise Sunday trading in tourist zones, allow coaches to compete with intercity trains, speed up labour-tribunal hearings, limit redundancy pay-outs and lower taxes on some employee shareholdings to encourage start-ups. All of which is supposed to help kick-start job creation and growth.

In some quarters on the left, even these changes have been denounced as a betrayal of Socialist values. "Has the left now got nothing else to suggest for the organisation of our lives than a Sunday walk in a shopping centre?" sniffed Martine Aubry, the left-wing mayor of Lille and one-time architect of the 35-hour working week. So it is a measure of Mr Valls's resolve, and of his desire to appear a steely reformer, that he is pressing ahead regardless. "We need to move fast," he insisted. The prime minister was doubtless also keen to put behind him the most foolish cock-up of his 15-month stint in office, when he used a government jet to fly him and two of his sons to watch Barcelona, his home town, play in a European football cup final in Berlin—and took days to admit his error and decide he would pay for his sons' plane ride.

Once the Macron bill is through, however, the risk is that all else will stall. For one thing, France has elections in December to its 13 new regions, cut from 22, at which the ruling Socialists face heavy defeats. The relentless local-election calen-

Also in this section

52 Gay marriage in Germany

52 Kosovo and war crimes

53 How Ukrainians see Russia

54 Charlemagne: The new awkward squad in the East

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dar—departmental elections were held in March—leaves precious little space for unpopular decision-making. For another, even once those elections are over, thoughts in the new year will turn to the 2017 presidential election. The unpopular Mr Hollande, whose poll rating of 19% is at a near-record low, has his work cut out. "The real question is whether we can do any more reforms in the next six months," says one person close to government. "After that, things will come to a standstill."

Already, Mr Hollande's diary looks like a campaign trail, between photo opportunities with Fidel Castro in Cuba and selfies with local crowds in the countryside. Never one to prefer controversy to compromise, Mr Hollande hinted recently that he wants to move on from tetchy subjects. On a visit to Carcassonne in May, he sounded more like a candidate on the stump than a president in office. Recalling a 2012 speech at Le Bourget, in which he promised to squeeze the rich and the banks, he reminded voters that he had promised to "redistribute" after a phase of "reforms". Such a moment, he seemed to imply, had now come. There is talk of a civil-service pay

More rules, less work

France:

Unemployment rate, %

SARKOZY ELECTED PRESIDENT

12

10

8

6

4

2

0

3

1

0

Labour code, pages

HOLLANDE ELECTED PRESIDENT

4,000

3,000

2,000

1,000

0

Sources: Eurostat; amazon.fr

*April

► rise, and even the voter-friendly idea of a year without income tax if France moves to a deducted-at-source system in 2017.

A couple of other bills are in the pipeline, one on labour reform, the other on the digital market. The first, which includes extra measures Mr Valls announced a week ago, will let employers renew short-term contracts twice, not just once as now. The point is to encourage job creation by giving firms more flexibility, at a time when the economy has started to pick up but confidence remains fragile. Yet the rest of the labour-reform bill is extremely modest, and does little to prune France's code of labour rules, which now runs to 3,809 pages, al-

most twice the length of the Bible.

There are other reasons to expect an easing off. Lower oil prices and interest rates, along with a cheaper euro, have stirred the economy. After three years of near-zero growth, GDP should expand by 1.1% this year and 1.7% next. Mr Hollande once gave university lectures on economic cycles, and has an unbending faith in bad things getting better. So he may be tempted to sit back and let growth do the job for him, hoping that unemployment, which has risen to over 10% on his watch, will start to drop. The pressure on the public finances is also off. Bond yields remain low, and the European Commission has given

up berating France for missing its deficit targets, after it did better than expected in 2014 and seems finally on track to cut the deficit below 3% of GDP in 2017.

The real worry over all this is not just the risk that Mr Hollande may give up on business-friendly reform, but that he started so late. Mr Valls has confessed that the government (before he led it, naturally) lost time and adopted bad policies, notably tax increases all round. The upshot is a narrowing space, in which an unloved president will be increasingly concerned about shoring up his base in the hope of re-election, rather than giving France the bigger shake-up it still so badly needs. ■

German same-sex unions

At the end of the Regenbogen

BERLIN

The Irish vote for gay marriage reverberates through Germany

SINCE Ireland voted in May to allow same-sex marriage, Europe has had a clear divide: liberal in the west but more illiberal going east. Germany is in the middle. Since 2001 gay and lesbian couples have been able to enter civil unions, and 35,000 have done so. They enjoy the same rights as heterosexual spouses for tax and inheritance. But same-sex couples do not have full adoption rights, and their union is not called marriage.

Many Germans find this embarrassing. A 2013 poll found 74% in favour of full marriage rights for homosexuals. So are the opposition Greens and Die Linke (The Left) in parliament, as well as the Social Democrats, the junior party in the ruling grand coalition. The upper-house Bundesrat, where these three parties have a majority, recently passed a non-binding resolution urging the government to make marriage available to all.

That was largely symbolic, because of opposition within Chancellor Angela Merkel's centre-right block, consisting of two "Christian" parties: her own Christian Democratic Union (CDU) and the more conservative Bavarian Christian Social Union. The phrase "Christian union" came from a post-war confessional alliance between Catholic and Lutheran parties from the Weimar Republic. But conservatives now invoke Christian values to argue against same-sex marriage. Annegret Kramp-Karrenbauer, the premier of Saarland, who is often touted as a possible successor to Mrs Merkel, recently argued that if you allow gay marriage, incestuous or polygamous nuptials might be next.

Yet within the CDU attitudes are changing. The defence minister, Ursula von der Leyen, another possible successor to Mrs Merkel, this month told the

party's executive committee that "something fundamental has changed in society." If Irish Catholics can relax about gay marriage, so can German ones, says Jens Spahn, a gay member of the committee. Mrs Merkel, the daughter of a Lutheran pastor, has been coy but is thought to be tolerant in private. She visibly squirmed when asked during the 2013 campaign to explain her party's rejection of gay marriage. But she knows she has moved the CDU leftward in the 15 years she has led it. Many blame her for the emergence of a new party on the right, the Alternative for Germany, which attracts disgruntled former Christian Democrats.

Such objections are tactical, says Alexander Vogt, leader of the gay-and-lesbian club within the CDU. As is her wont, Mrs Merkel chooses battles carefully. Right now—with Brexit, Ukraine—she faces many. She might also like to keep gay marriage alive as an issue to concede to the Greens, whom she may prefer as a coalition partner after the 2017 election. One way or another, says Mr Vogt, Germany will have same-sex marriage soon afterwards.

West to east

Same sex-partnerships in Europe, June 2015

- Marriage
- Other legal union
- No legal recognition

Source:
The Economist



Kosovo and war crimes

Where the past isn't even past

PRISTINA

A special court to try Kosovars for war crimes moves closer

SOME 16 years after NATO's air campaign ended Serbian rule in Kosovo, the law may at last be catching up with high-ranking Kosovar politicians who allegedly committed crimes at the time. After long delay and years of witness intimidation, a special court may soon be formed to try some ten men, including a few said to be Kosovo's organised-crime bosses.

In December 2010 Dick Marty, a Swiss prosecutor, reported to the Council of Europe his claims that former commanders of the wartime Kosovo Liberation Army (KLA) were criminals who had ordered murders and overseen torture. His report focused on the "Drenica Group", led by Hashim Thaci, then Kosovo's prime minister and now foreign minister. Most sensationally the report alleged that some victims had been murdered for their organs. Mr Thaci denied the claims. Many Kosovars thought Mr Marty had been fed fake stories by Serbian intelligence.

Following the Marty report a branch of EULEX, the European Union's law and justice mission in Kosovo, was set up in Brussels. Its findings were "largely consistent" with the Marty report, and it concluded that there was enough evidence to charge "certain senior officials" of the former KLA. But there was no court. The UN Yugoslav war-crimes tribunal in The Hague did not have jurisdiction because most of the crimes took place outside the former Yugoslavia (in Albania) or after the end of the war. So plans were drawn up for a special Kosovar court, also based in The Hague.

Publicly Kosovar leaders called this a chance for those indicted to clear their names and that of the KLA. Privately they have tried to block the court. The plan has ►

stalled in parliament, where opposition is growing. After recent convictions in a EU-LEX court in Kosovo of several Drenica Group suspects for murder and other war crimes, Mr Thaci accused the court of trying to "tarnish the just war of the KLA", though he insists Kosovo will not allow the issue to endanger his country's "partnership with the international community".

Tracey Ann Jacobson, America's ambassador in Kosovo, says that if the parliament refuses to set up the court, her country will not stop the UN Security Council from doing it. America and the EU have made their "best and final offer" over its remit. If it goes to the UN, Russia, a bitter foe of Kosovo's independence, will have a say. An EU trade deal may also be delayed.

Opposition figures oppose the court because it infringes on Kosovo's sovereignty. One, Ramush Haradinaj, was detained in Slovenia this week on an old Serbian warrant for war crimes. Another politician says his peers "are scared to death" of a court. He wonders if there is a link to recent violence in Macedonia, when eight police and ten armed men died. He suggests that a grey cardinal of Kosovar politics had a hand in these events, hoping to show that, were he sent to the court, he could let slip the dogs of war. When the Kosovars killed there were buried with full military honours by former KLA comrades, Enver Robelli, a Swiss commentator, noted: "A country that honours criminals does not have a bright future." ■

Ukraine and Russia

Putin the uniter

KIEV

The war has made most Ukrainians see Russians as enemies, not friends

MIKHAEL ZABROD SKY, the broad-shouldered commander of Ukraine's airborne troops, came of age in the Soviet Union. After the Soviet collapse he even served in the Russian army. When he moved home to Ukraine he stayed in touch. "We were all friends," he says, shaking his head. When Russia turned its guns on Ukraine last year, Mr Zabrodsky "couldn't believe it." He was not alone.

Ties between the two countries, forged over more than a millennium, are deep. Russia and Ukraine both trace their lineage to a Slavic prince, St Vladimir (or Volodymyr), who appears on both countries' banknotes. For centuries, tsarist Russia claimed Ukraine as an extension, calling the territory "Little Russia". Under the Soviet Union, the narrative shifted to one of brotherhood, with the Communists presenting Russia and Ukraine as parts of an



A message to Russia

inseparable Slavic family. When Khrushchev as Soviet leader gave Crimea to Ukraine in 1954, he was marking the 300th anniversary of the Pereyeslav Rada, a compact joining Cossack-ruled territory in Ukraine to the Russian empire. In 1982 a silver titanium "Arch of Friendship" in honour of "the reunification of Ukraine and Russia" was erected on a hilltop outside Kiev overlooking the Dnieper river.

Even after Ukraine voted for independence in 1991, bilateral relations remained mostly cordial. But by annexing Crimea and waging war in Ukraine's south-east, Russia's Vladimir Putin has made an enemy of erstwhile brothers. In the past 18 months, a psychological shift has seen public opinion in Ukraine turn sharply against Russia. In September 2013, just before the Maidan revolution, 88% of Ukrainians felt "positively" about Russia, says the Kiev International Institute of Sociology. By May 2015, that number had fallen to 30% (it would be a lot lower if it excluded people in the rebel-held south-east). As Mr Zabrodsky concludes, "the brotherhood is over." That will hamper the Kremlin's efforts to pull Ukraine back into Russia's orbit, which it managed after the 2004 Orange revolution. Mr Putin still speaks of Russians and Ukrainians as "one people", but Ukrainians don't see it that way.

The changing mood manifests itself on Ukraine's streets. There is a movement to boycott Russian goods: markers noting "Russian products" dot Ukrainian supermarket shelves. A sign in Kiev's Museum of Mikhail Bulgakov (a Kiev-born writer who wrote in Russian) tells visitors who "support the military occupation of Ukraine" that they are not welcome. Not far from the Friendship Arch, vendors who once sold Soviet kitsch now tout patriotic Ukrainian wares and anti-Russian souvenirs. "The selection has changed with the people's tastes," says Artyom Shumilov, who sells varieties of toilet paper plas-

tered with Mr Putin's face at his stall in Kiev's Andreevsky Descent.

The longer the war drags on, the more entrenched opinion becomes. Alexander Scherba, a Ukrainian diplomat, eschewed the Maidan protests, calling himself "a Eurosceptic and Russophile" on his Facebook page in late 2013. "I was ready to forgive Russia a lot," says Mr Scherba, now Ukraine's ambassador to Austria. "But now it's absolutely clear: they are an enemy." Even many who made allowances over Crimea have begun to see Russia differently. And in the last three months of 2014, the share of eastern Ukrainians who viewed Russia positively fell from 83% to 51%.

Polling by the International Republican Institute finds a majority of Ukrainians in government-controlled territory favouring membership of the European Union, whereas only 13% want to join Russia's customs union. Ukraine's government has begun building a wall along its border with Russia, a symbolic gesture attuned to the country's mood. Support for Ukrainian independence has never been higher. "Putin has done more to unite Ukraine than anyone else," says an official in Ukraine's presidential administration.

Yet some fret that this may not last. Petro Poroshenko, Ukraine's president, warns against a "revanche of pro-Moscow political forces" in forthcoming local elections. Regional divides are deep: despite the war, many in the south-east are sympathetic to Russia. Practical economic concerns make cutting ties with Russia impossible. A failure to deliver on the promises of the Maidan could leave Ukrainians disenchanted. But though patience with Ukraine's new leaders may wear thin, a return to Russia's embrace is unlikely. "We were stabbed in the back by our own people," says Vladimir Paniotto, director of the Kiev International Institute of Sociology. "Once people you know have suffered, restoring relations becomes very complicated." ■

Charlemagne | The new awkward squad

East Europeans get tough with Greece—and several others



BACK in April Peter Kazimir, Slovakia's austere finance minister, faced down trade unions that wanted a "13th month" top-up pension payment. A few days later, in Riga for a meeting of euro-zone finance ministers, he was dismayed to find himself embroiled in an identical argument with Yanis Varoufakis, his disputatious Greek counterpart. Seeking relief from his country's onerous bail-out terms, Mr Varoufakis argued for the restoration of a 13th-month pension, scrapped during an earlier phase of the crisis. The memory of his spat with the unions still fresh, Mr Kazimir rounded on Mr Varoufakis, telling him that responsible finance ministers offer citizens benefits only when they can afford to. His Slovene counterpart chimed in, pointing out that his country had escaped a bail-out in 2013 only by taking the tough decisions Greece was now avoiding.

It is Greece's biggest creditors, notably Germany, that will determine whether it has a future in the euro, trading a pension cut here for a lower primary-surplus target there. But that frees smaller, poorer countries to act as vigilantes for rules they consider the Greeks to be flagrantly violating. Greece's recession has been brutal, thanks in part to the austerity imposed by its creditors. But its tales of hardship fall on deaf ears in countries like Slovakia, where GDP per head is 85% of Greece's and pensioners live on far less. For months central and east European euro-zone members have urged officials to start formal planning for a "Grexit". Last week at a meeting of senior officials in Bratislava, they succeeded.

These countries have memories of hardship at least the equal of Greece's, and not just from the Communist era. Latvia's GDP fell by 25% between 2008 and 2010, when the country opted for a brutal internal devaluation to restore competitiveness. Their public institutions are young and often weak, so politicians have an unusual reverence for fiscal rules. Among the sanctions of Slovakia's debt-brake law, the fiercest in the euro zone, is a freeze on ministerial salaries when public debt is above 53% of GDP, as it has been for two years (the aggregate euro-zone figure is 92%). Slovakia and Latvia enjoy reasonable growth and declining budget deficits, turning them into advocates of the notion of growth-friendly austerity, against which Mr Varoufakis has long been railing. Ask Germans about their tough approach to Greece and you are often told that the real hardliners are farther east.

For Slovakia, this is a far cry from 2010-11. Back then its government first recused itself from a Greek rescue, leading other euro members to accuse it of showing insufficient solidarity towards a country in need, and then collapsed over its contribution to a bail-out fund. In part the change has come about simply because Greece's government has turned itself into a pariah. But it also reveals, 11 years after the European Union's "big bang" enlargement to the east, the increasing diplomatic confidence and competence of countries that, as a Slovakian minister puts it, are no longer simply "the object of EU policies".

It helps, of course, to be arguing alongside Germany. As Slovakia has progressed towards Europe's core it has hugged its largest trading partner, and Europe's paymaster, close. But in some areas the easterners are willing and able to take on Old Europe. They have won victories in areas like climate policy and the EU's "cohesion funds" (spending on poorer parts of Europe). And a club of easterners led by Poland will provide the stiffest opposition to one of the main goals of Britain's EU renegotiation: to reduce welfare benefits for low-paid migrants.

The EU's traumas over migration provide an even more striking example. In recent weeks Slovakia has helped lead an angry east European coalition of the unwilling in opposition to a European Commission plan to force every EU country to accept quotas of Syrian and Eritrean asylum-seekers. Discussions became "poisonous" at times, says an EU diplomat, but from the easterners' point of view they were highly effective. A meeting of interior ministers this week failed to back the plan, leaving the commission to lick its wounds.

Visegrad is not dead, it's resting

At the heart of east European diplomacy is the Visegrad group, comprising at its core the Czech Republic, Hungary, Poland and Slovakia (though others sometimes join in). The format dates from a meeting in a Hungarian castle in 1335; in its contemporary form it helped usher the four into NATO and the EU. It may be showing its age: differences last year over sanctions on Russia (the Poles were hawkish, the other three lukewarm) weakened the group. It is irrelevant to euro-zone discussions: none of the other three is about to join Slovakia inside the single currency. But rumours of Visegrad's demise, say officials, are greatly exaggerated.

That may be welcome. But the migration spat has revived old fears among other Europeans that some easterners are fair-weather friends, turning cold whenever faced with unwelcome demands. They couch their diplomacy in the language of European responsibility: the Slovaks claim to fear for Schengen, the EU's border-free regime, if asylum-seekers are sent to countries they immediately seek to leave. Poland, the giant of the region, seems torn. But the domestic debate in some countries, notably Hungary, has at times verged on the xenophobic. Nor do they have an alternative to offer. Michal Vasek, a Slovakian sociologist, says the popularity the EU enjoys in his country would plummet were it landed with a few hundred refugees.

That may soon be tested, for the commission now hopes that countries will volunteer to accept something close to the original numbers. Moreover, a possible third bail-out for Greece looms, a big headache for a Slovakian government facing an election next March. For their influence to endure, the easterners need to find thoughtful ways to say yes as well as effective ways to say no. ■



Also in this section

56 Terror-tourism

56 Intelligence agencies

57 Bagehot: England's sensible slumber

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British strategy

Doing less with less

Ambitions for a big global role collide with austerity budgeting

THE subject of defence—and indeed the outside world in general—barely raised its head in last month's general election. Normally, the politics of security favour the Tories. But as work on the next Strategic Defence and Security Review (SDSR) cranks up, doubts about the new government's commitment to the armed forces and its appetite for using them are growing. In particular, its slipperiness over whether it intends to continue honouring its NATO pledge to spend at least 2% of GDP on defence is being seen in Washington as another indication that Britain is becoming an unreliable partner.

SDSRs, like America's more entrenched system of Quadrennial Defence Reviews, are now timed to coincide with the electoral cycle of five-year parliaments. The last one, in 2010, was a painful affair. Against the backdrop of the financial crisis, restoring the nation's fiscal health was seen as the overwhelming security priority. Defence chiefs accepted that they would have to take their share of the cuts. And they did. Despite a headline spending reduction of only 7.5%, the effective cut was over 20%, because of the need to close a £38-billion (\$60-billion) "black hole" in unfunded equipment commitments and the inclusion of the cost of a successor nuclear deterrent in the core defence budget for the first time.

The 2010 SDSR produced one sensible innovation: the idea of national risk as-

essment as a tool for determining strategy. Taking a "holiday" on some aspects of defence spending—for example, it was decided to do without aircraft carriers for a decade—appeared just about tolerable in the fairly benign security environment of five years ago. Today things look different. The explosion on to the scene of Islamic State and a newly adversarial relationship with Russia are threats of a scale and kind that were not anticipated in 2010.

Defence at a discount

Under these circumstances the new SDSR might be expected to recommend increases in defence spending, rather than further cuts. Until recently, that was the assumption in the Ministry of Defence. But that is at odds with the goal of the chancellor, George Osborne, to eliminate the structural deficit by the end of 2018-19. Defence is not one of the three budgets—schools, health and overseas aid—that are "ring-fenced" from spending cuts. So the SDSR is now being conducted in anticipation of real-terms cuts of 4-10% over the next five years. It is not clear how this can be squared with another Tory manifesto pledge, to maintain Britain's "strong global role" and "world-class armed forces".

There is even more devil in the details. David Cameron, the prime minister, has made a series of commitments on defence that will be hard to reconcile with a slimmer budget. A £160-billion equipment plan

(requiring at least a 1% real increase in spending on kit each year) will remain in place; the army will not fall below 82,000 troops; both new aircraft carriers will eventually be deployed; four replacement ballistic-missile submarines will be ordered, to ensure continuous at-sea deterrence.

Michael Clarke, the director of RUSI, a think-tank, says that if Mr Cameron is to be taken seriously, about 80% of the defence budget is effectively off-limits. Something must give. Mr Clarke fears a return to the bad habit of "moving everything to the right"—not cancelling programmes, but delaying them—which is a recipe for inefficiency. Or Mr Cameron may decide that some of his promises can be broken.

The government says that it will not fall below NATO's 2% spending target this year. But it will be tight. This month Mr Osborne demanded a further £500m of cuts from defence. Mr Clarke says that spending could still be made to come out at 1.95%, which under NATO rules can be rounded up to 2%. Ministers have mooted shifting some aid spending, on conflict-prevention, for instance, into the defence budget, in order to beef up the figures. But in the years ahead, Britain is destined to fall well below NATO's threshold, and keep on falling. According to Malcolm Chalmers, also of RUSI, on the basis of current planning assumptions and projected economic growth, spending will fall to 1.7% of GDP by 2020. If Mr Osborne does not relent in his drive for savings, it could sink to 1.5%.

How much does it matter? Britain is still likely to be the fifth- or sixth-biggest military spender in the world and probably the biggest among European NATO members, just ahead of France. Its forces will be smaller than they are now—and much smaller than a decade ago—but they should still be relatively well-equipped and more versatile than those of other ►

► European countries. The 2% target is a crude measurement of military output—although the same could be said of the 0.7% of national income spent on foreign aid, a benchmark now enshrined in law.

But when your most important ally is ringing alarm bells it is a good idea to listen. At a G7 meeting in Germany this month, Barack Obama personally lobbied Mr Cameron to keep to the 2% commitment. “For the Americans, it is totemic. If it looks as if we are sliding away from it, they will take a dim view,” says Mr Clarke.

Mr Cameron talks a good game about Britain’s undimmed strategic ambition and desire to play a role on the world stage. But allies, and not just in America, see only shrinkage and introspection. Paul Cornish, an expert on British defence policy at RAND Europe, a think-tank, reckons that national strategy-making can become “delusional” in one of two ways: when strategic ends are willed while strategic means are not or, alternatively, when husbanding resources becomes a sufficient, rather than a necessary, condition for strategic decision-making. Unless something changes, the SDSR is likely to combine both flaws, Mr Cornish says. “It is not looking good. There is little sense of the government wanting to address unfolding international issues. We seem to be suffering from ‘mission uncreep’: everything has a cost and we don’t want to bear it.” ■

Intelligence agencies

Spies and lies

Who should oversee Britain’s spooks? Judges not politicians, says a watchdog

THE careworn but anonymous-looking types slipping in and out of the riverside ziggurat which houses Britain’s intelligence headquarters have a bit more spring in their step these days, thanks to a popular new chief and a revived appreciation of the value of old-style espionage.

But the spy agencies are still suffering the effects of probably the biggest disaster in recent Western intelligence history: the theft of up to 1.7m secret documents by Edward Snowden, formerly a contractor for America’s National Security Agency (NSA), who then fled to Moscow via Hong Kong. His revelations about the capabilities of the NSA, and its code-cracking British ally, GCHQ, in hoovering up data from the internet and telephone network, outraged privacy campaigners (others thought the real outrage was his spilling of the secrets).

That two-year-old breach still echoes: on June 14th the *Sunday Times* ran a front-page story quoting anonymous officials as

claiming Russia and China had cracked a trove of unpublished (and supposedly encrypted) documents taken by Mr Snowden. This, it said, meant MI6 had to move agents to safety because their identities were known.

The article was short on details, and the timing struck some as odd for two reasons. The Snowden leaks have indeed already exposed the names of some intelligence officers—and thus endangered anyone they may have had secret contacts with. Many more names are in the encrypted files (which Mr Snowden says he did not take to Russia). But intelligence agencies do not dally when security is at stake. That they would wait two years before moving people at risk seems unlikely.

The story did steal headlines from a more topical development: a big report on intelligence oversight by David Anderson QC, an independent lawyer. Last year the government gave him a top-level security clearance, and the job of explaining to the public the threats, capabilities, safeguards and implications of technological change in the spy world—and suggesting reforms to the rules. His 400-page report, issued on June 11th, is gripping reading, not least thanks to some previously unpublished case studies showing how the spy agencies use surveillance and bulk data collection to foil terrorists and criminals.

The report strongly counters the beliefs (fervently held by some of Mr Snowden’s supporters) that the mass collection of electronic information is unjustified, and that the spy agencies are political tools which blithely trample on the privacy of the innocent. Though Mr Anderson blasts the current legal regime as “obscure”, “incomprehensible” and “intolerable”, he does not support an American-style separation of intelligence and law enforcement. He says technology firms should be legally bound to retain users’ data, in case the agencies need the information. But he also argues that an independent judicial authority, not politicians, should be the ultimate arbiters of that need.

Mr Anderson’s report caustically noted the secrecy and lack of consultation surrounding a new draft law on communications data (called the “snoopers’ charter” by critics), which would give the authorities unprecedented powers to collect information on all forms of activity on the internet. That was blocked by the Liberal Democrats in the last parliament. The new government wants it passed.

A row is brewing. Mr Anderson’s critics say that ministers (unlike judges) are available instantly; moreover, politicians bear responsibility for intelligence blunders, so they should be the ultimate decision-makers. But judge-led systems do work abroad—and American firms say they will help British spies more readily if their oversight is visibly independent. ■



Terror-tourism

A 17-year-old from West Yorkshire is believed to have become Britain’s youngest suicide-bomber. Talha Asmal, from Dewsbury, reportedly blew himself up in Iraq in an attack orchestrated by Islamic State (IS) on June 13th. Mr Asmal’s parents say he was groomed by the group online. Separately, three sisters from Bradford, along with their nine children, are thought to have arrived in Syria this week to join IS. The typical age group of foreign jihadis has fallen from 25–35 during the Afghanistan war to 18–29 now, according to the Soufan Group, an intelligence outfit. It suggests that many of the younger northern European recruits have chaotic backgrounds and are attracted to the strict system of rules imposed by fundamentalists. Britain’s government has said it will work with social-media firms to prevent more young people being radicalised.

Bagehot | England's sensible slumber

The English are under-represented in the United Kingdom—but only because they dominate it



SINCE England forged its union with Scotland in 1707, its commentators and politicians have sporadically fretted that it might end up under the yoke of other parts of the United Kingdom. In the 1760s, for example, a London newspaper, the *North Briton*, vilified Scots and decried their influence in Westminster. Its editor, John Wilkes, opined in print that “no Scot ever exerted himself but for a Scot” and that one pro-Scottish MP was “base, selfish, mean, abject, low-lived and dirty”. The MP in question challenged him to a duel in Hyde Park. Wilkes accepted and ended up writhing on the grass, a bullet embedded in his groin.

English commentators are once more aquiver about their northern neighbours. During last September’s referendum campaign on Scottish independence, unionist politicians pledged to devolve further powers to the Scottish Parliament. This transfer—including control of income-tax rates—is currently on its way through the House of Commons. Once passed, it will mean that many big decisions taken in Westminster will no longer directly affect Scottish voters. Yet under Parliament’s rules Scotland’s 59 MPs (56 of whom are from the pro-independence Scottish National Party) will still get to vote on these.

In the coming weeks David Cameron will therefore seek to institute “English votes for English laws” (EVEL). This, he argues, would correct the imbalance: finally giving England a parliamentary identity and preventing MPs representing other parts of the United Kingdom from foisting unwanted policies on the (relatively Conservative-leaning) English. The Scottish nationalists furiously oppose EVEL, insisting that, as Edinburgh’s budget is based on English spending, its MPs should continue to vote on English policies. Labour too is hostile, noting that EVEL would tip the balance in Westminster towards the Tories, in effect increasing Mr Cameron’s seat-share from 51% to 60%.

English votes could take one of several forms, three of which were sketched out by William Hague, a former Conservative leader, in a report in December. The mildest option would be an informal convention by which legislation affecting only England would clear the Commons only if ratified by a majority of English MPs. A stronger version would give them a formal veto. The most drastic of the three would exclude non-English MPs from such votes altogether—a state of affairs only just short of the sep-

arate English Parliament that some Tory MPs favour.

Choosing between these options entails a trade-off between England’s distinctiveness and representation on one hand, and the coherence of the United Kingdom on the other. An informal convention should do little to inflame separatism in Scotland and other parts of the country. But something resembling an English Parliament would soon come to dominate Westminster, sidelining non-English MPs and destabilising the union.

Which approach to take? Some demand radicalism. Conservatives like John Redwood point to polling suggesting that the English are ever more cross at Edinburgh’s generous spending settlement and Scottish MPs’ unfair influence in Westminster. Leftists like Jon Cruddas, a Labour MP, are also keen on devolution to England—and a warmer embrace of English identity by the British establishment. They claim Englishness is on the rise, pointing to the success of the populist UK Independence Party, which promotes an English parliament.

Bagehot advises caution. The really surprising thing is not the uptick in English feeling, but its modesty. Despite almost two decades of devolution to Scotland, Wales and Northern Ireland, the independence referendum, the prospect of English-only votes and the rise of nationalist populism across the wider West, the English remain remarkably relaxed about their nationhood. The latest Future of England survey, published in April 2014, showed that as many respondents described themselves primarily as British as English; little different from previous years. “We do not see a marked decrease in Britishness and matched increase in Englishness,” concluded the researchers.

Britain: made in England

Moreover, Britain’s union is a delicate balancing act. It is the only stable, rich country of its kind: one in which the population of one constituent part is much greater than all the others put together. California is 12% of the United States, Bavaria is 16% of Germany, Ontario is 38% of Canada, but England is 84% of the United Kingdom. The graveyard of nation states—the Soviet Union, Czechoslovakia, Yugoslavia—points to the perils of being a country dominated by one part. The United Kingdom has survived against the odds because the English have subsumed some of their identity and all of their institutions into those of the whole: Britain. They have forgone an independent political system of their own that might destabilise the common, British one.

Their prize has been dominance. If foreigners often use “English” when they mean “British” (in 2013 Scots groaned when the *New York Times* hailed Glasgow-born Andy Murray as an English tennis champion), that is because Britain bears so many English traits. Its institutions, from Parliament to its diplomatic corps and the BBC, remain dominated by Sassenachs. Westminster, the 900-year-old home of English government, houses its legislature. More often than not, it is English politicians who decide when and where Scottish, Welsh and Northern Irish soldiers, sailors and airmen are deployed. When the writer after whom this column is named described the unspoken codes and rules of the British state, he called them “the English constitution”.

This strikes your columnist as a pretty happy state of affairs, one worth trying to preserve—through restraint in the EVEL debate, on the part of Mr Cameron. To be English is to have influence, to dominate a larger political body and yet have a separate cultural identity. If the price of this is constitutional asymmetry, that is a reasonable trade-off. ■

Minorities and sovereignty

Phoenix nations

Some of history's most victimised peoples are obliterated; others eventually achieve statehood. Why?

TWO peoples, both rooted in the tumultuous intersection of modern-day Iran, Iraq, Syria and Turkey. Two peoples whose traumatic histories overlap for generations—and then radically diverge. Both were short-changed by the Ottoman empire's collapse, and suffered in the Arab-dominated countries carved out of it (see map on next page). Yet one of these perennial victims of Middle Eastern upheavals, the Kurds, may be set to achieve its own state. The other, the Assyrians, or Syriacs, Aramaic-speaking Christians whose ancient capital is Nineveh, is politically marginalised, disinherited and now hounded by Islamic State. "We dream of a place on Earth to call our own," says Bassam Ishak of the Syriac National Council of Syria.

History's combustions are unpredictable. A country for the Kurds—which they will eventually get in northern Iraq if, or when, they upgrade their current autonomous status to full sovereignty—seemed unlikely for most of the 20th century. The dream of a Jewish homeland in Palestine once looked at least as fanciful. History intervened. Yet, amid its luck and chaos, there are reasons why the Kurds, like some others, are set to make the leap from tragedy to sovereignty, while many put-upon minorities do not. The pattern offers clues as to which apparently benighted community might triumph next.

The most important factor, says Eugene Rogan, a historian at the University of Oxford, is "critical mass"—whereby, despite being a minority in a larger polity, a group forms a majority in a particular, separable bit of it. That is the case for the Kurds in northern Iraq: it is nowhere true of the Assyrians, whose greatest concentration, in north-east Syria, has been dispersed by the civil war. Nor is it true, for example, of the Crimean Tatars, resident for centuries in the Crimean peninsula until their entire population was banished in one of Stalin's monstrous relocations (see next story).

It is useful if the minority have a long-standing, fairly legitimate claim to the territory they inhabit. Physical geography can play a role: some Iraqi Kurds speculate that their mountainous domain helped them both to resist invaders and to safeguard their culture. How such places were first subsumed by a bigger power matters, too.

"You are likely to be swallowed whole," Jean-Jacques Rousseau warned the Poles before their lands were partitioned by Aus-



tria, Prussia and Russia in 1772; "hence you must take care to ensure that you are not digested." Maintaining a national consciousness is part of that. But administrative and legal details also count. Compare Armenia and Chechnya. Slaughtered by the Ottomans during the first world war and betrayed by the Western powers, as empires imploded around them Armenians nevertheless managed to establish a short-lived state. It was gobbled up by the Bolsheviks; but as Vicken Cheterian, an Armenian commentator, says, because Armenia nationally entered the Soviet Union as a state, it emerged as one in 1991. What had seemed a meaningless internal border became an international one. By contrast the Chechens were violently incorporated into Russia itself—and remain there, despite two bloody separatist conflicts.

Bloodshed and suffering can wreck national aspirations. Consider the Circassians, a stateless nation originating in the north Caucasus. Hundreds of thousands of destitute Circassians died in 1864 as they fled across the Black Sea from the tsar's army, sometimes paying for their passage

Also in this section

59 The Crimean Tatars

► dilov of the Crimean Institute for Strategic Studies, “be spread wide enough in the world so that, when we are hurt today, the pain is felt everywhere”.

And trauma can also bequeath another important asset: diasporas, whose lobbying, broadcasting and fund-raising are ever more important. Students of Zionism note wryly that, if it succeeded in attracting all Jews to Israel, the state’s future would be jeopardised, because the diaspora’s political and financial aid is vital. The benefits are intellectual as well as practical. Barham Salih recalls how nationalist ideas flourished among Kurds who, like him, fled Saddam Hussein’s Iraq. Many—like Mr Salih, a former prime minister of the Kurdish regional government—returned with valuable expertise. (Diasporas can also be obstructively hardline: “In the diaspora you live the dream,” Mr Salih says; “here you have to deal with reality.”)

None of these considerations matters unless, like Iraq—and the Soviet, Austro-Hungarian, British and Ottoman empires before it—the host regime crumbles, or more unusually, consents to a secession. But its vassals must be equipped to exploit the crisis when it comes.

Critical mass; plausible borders; sympathy abroad; a story; a diaspora; fragile overlords: where might these conditions next be met? Russia, itself an internal empire, could yet disintegrate. So, under the strain of democratisation, might China, perhaps opening a path to statehood for Tibet and the Uighurs, persecuted Muslims. Another realignment of the Middle East seems inevitable. If Syria falls apart, speculates Mr Ishak, the Assyrian, some of his scattered brethren might come back. In the very long term, there is always hope. ■



tronised by the Ottoman empire. Despite Mr Putin’s rhetoric, the peninsula became part of the Russian empire only in the late 18th century under Catherine the Great. Many Crimean Tatars moved to modern-day Turkey, but those who stayed were a welcome ornament of her realm.

The Soviet empire under Stalin was less accommodating. In 1944 the entire Crimean Tatar population was accused of collaborating with Hitler and deported to Central Asia. Most were women, children or elderly. The young men, including Mr Dzhemilev’s father, were at the front, unaware that their relatives had been expelled, herded in cattle carriages and moved to Uzbekistan where nearly half perished. He and his family lived in a village, banned from venturing farther than 4km. When Stalin died, they rejoiced. But even as other deported communities, including Chechens, returned, they were not allowed to. Crimea and the Black Sea coast were a zone of state dachas and sanatoria where the Communist nomenclature holidayed. They did not wish to be disturbed by the Crimean Tatars’ territorial claims.

Mr Dzhemilev joined a movement of Crimean Tatars, was kicked out of university, and, in 1966, arrested for refusing to serve in the army. “They deprived me of my home but wanted me to fight for them,” he says. “I told them that I did not have enemies outside the Soviet Union.” Freed a year and a half later, he became part of a broader dissident movement that gave his people fresh prominence.

He protested against the Soviet invasion of Czechoslovakia and signed letters in defence of prisoners of conscience. In total, he spent 15 years behind bars. He gained the support of people such as Andrei Sakharov, a Soviet physicist and dissident who in 1976 tried to attend his trial for anti-Soviet activity in Omsk, Siberia.

He went on a hunger strike for 303 days (he was force-fed). Rumours of his death sparked protests among Crimean Tatars in Turkey and an outcry around the world. Then a note from Sakharov was shown to Mr Dzhemilev by his brother through a visiting-room screen: “Your death will only benefit our enemies. I ask you to stop.”

Nearly 40 years later Mr Dzhemilev repeated those words to Nadezhda Savchenko, a Ukrainian pilot captured last year by Russia, who also went on hunger strike.

The last time he was sent to jail was in 1983 for trying to execute the will of his father and bury his body in Crimea. He was finally released at Sakharov’s demand in 1986. A year later some thousand Crimean Tatars demonstrated on Red Square, demanding to return home. Permission came a few years later in the form of the Soviet Union’s collapse; they began to move back, mostly unaided by the government of newly independent Ukraine. All the same, they were the loudest opponents of last year’s sly Russian invasion.

Four days before the bogus referendum on Crimea’s future, and wishing to avoid bloodshed, Mr Putin enticed Mr Dzhemilev to Moscow; he was put up in the Stalin-era Hotel Ukraine. They did not meet in person but, on the phone, Mr Putin promised to grant Mr Dzhemilev’s wishes if his people backed the Kremlin. This exchange between a former KGB officer and a former dissident did not get very far. Mr Dzhemilev wished only for Russian troops to leave Crimea. Mr Putin could just have read his closing statement at his trial in 1983: “Fourteen years ago I vowed that nobody ever under any circumstances would make me renounce my duty... Today I can repeat these vows and hope that I would have enough spiritual strength not to change this principle to the end of my days.”

As Russia formally annexed Crimea, Mr Dzhemilev, with other leaders of the Crimean *mejlis*, or ruling council, was barred from entering the peninsula. Since then Crimean Tatar activists have been hounded; the community’s only television channel has been closed. And, 70 years after the deportation, Mr Dzhemilev has again been deprived of his homeland. ■

The Crimean Tatars

Back into exile

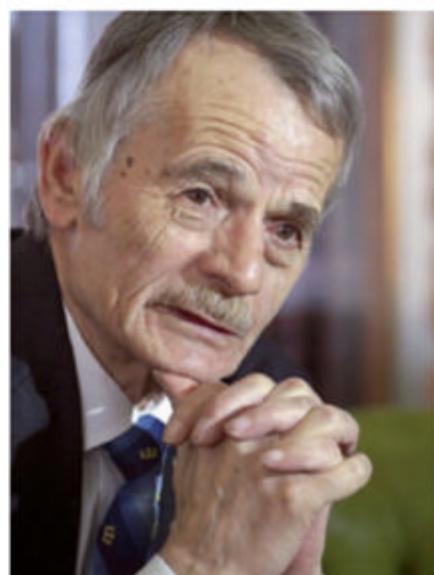
KIEV

The life of Mustafa Dzhemilev is a parable of the Crimean Tatars’ struggles

CRIMEA had not yet been seized by Russia when Mustafa Dzhemilev, leader of the Crimean Tatars, smelled a rat. On February 13th 2014 a Russian representative passed on a message: Vladimir Putin would like to talk to the 70-year-old former Soviet dissident. “What about?” he asked. “The future of Crimea,” said the emissary.

Mr Dzhemilev tensed. Why might Mr Putin want to discuss this part of Ukraine with him? It was a bad omen for his people, a Turkic group that moved to Crimea in the 13th century and see it as their native land.

From the mid-15th century the Crimean Tatars had their own state, a khanate, pa-



Dzhemilev shut out

Legend Holdings

A torch-bearer for Chinese capitalism

SHANGHAI

The conglomerate built by Liu Chuanzhi is closer to its American and European counterparts than to Asian business groups

THREE years ago one of the many companies started by Liu Chuanzhi, the chairman of Legend Holdings, held its annual meeting in a city in the Chinese interior. As is usual, the conglomerate invited various officials to the opening banquet. But when people went to pay their respects to the most important figures in the room, it was Mr Liu, rather than the local Communist Party chief, who had the biggest queue of people wanting to speak to him.

That is because Mr Liu is the leading light of Chinese entrepreneurial capitalism. Legend is best known for spawning Lenovo, now the world's biggest maker of personal computers, in which it still holds a big stake. But Legend has a range of other business interests, from agriculture to car hire to dentistry (see diagram, next page), and fingers in all sorts of other pies through its private-equity arm, Hony Capital.

Lenovo has been listed in Hong Kong since 1994 but now Legend itself is going for an initial public offering there. This week it released its prospectus, and Mr Liu and other executives went on an extensive road show. It expects to raise over \$2 billion in the flotation, with nearly half of that sum already said to have been snatched up by strategic investors, putting a valuation of around \$13 billion on the group.

The emergence of Legend into the global spotlight raises a few questions. First, who is Mr Liu and how did he rise to such prominence inside China? Second, what exactly are investors getting if they decide to buy shares? Most important, does Legend have a coherent strategy?

Mr Liu was born into a wealthy mainland family, but experienced severe deprivation during Chairman Mao's rule. Such memories drove him to be frugal and to persevere—two qualities that are essential for entrepreneurs everywhere but especially in China. His father was an ardent Communist who became one of China's top patent lawyers. He made a deep impression on his son, whose career has been devoted to creating a Chinese equivalent to the West's great corporations, through the embrace of

modern business practices—including respect for intellectual-property rights. That is why Lenovo's smartphones are now sold around the world. Xiaomi, an upstart Chinese rival that is more relaxed about copying, is sure to attract lawsuits if ever it tries to sell its handsets in America.

The legend of Legend began in 1984 when the Chinese Academy of Sciences (CAS) loaned Mr Liu and a few associates \$25,000 to help commercialise government-funded technologies. Frustrated by bureaucracy and eager to capitalise on nascent economic reforms, Mr Liu pushed Legend (and later Lenovo) to be market-oriented. CAS still owns 36% of Legend, but it is far from the typical state-owned enterprise. Liang Neng of the China Europe International Business School (CEIBS) in Shanghai insists, "It really behaves very much like a private firm in the market."

Thus far, Lenovo, of which Legend owns just less than a third, provides two-

Also in this section

- 61 Chinese firms relist back home
- 62 Retailers and supplier rebates
- 62 Disrupting the wireless industry
- 63 Assessing Fitbit's prospects
- 64 The aircraftmakers' boom
- 65 Sanctions-hit firms fight back
- 66 Schumpeter: The Middle East shows globalisation's limits

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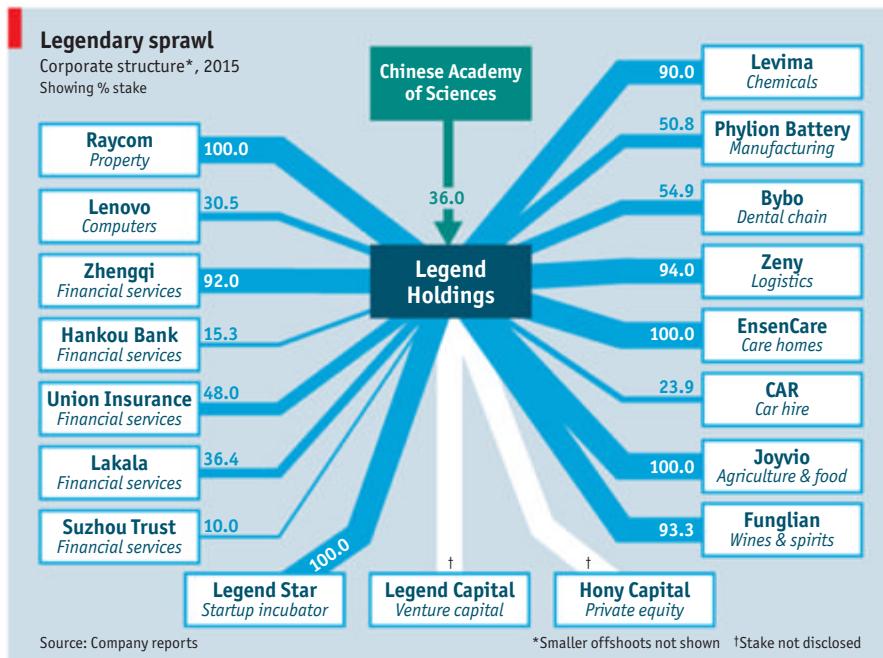
thirds of the group's profits. The computer-maker is doing well. In the year to March Lenovo's revenues rose by 20% to \$46 billion and its gross profits increased by nearly a third, to \$6.7 billion. But some of Legend's other businesses have also turned into profit, and look set to make a growing contribution to the group.

The group's sprawl reflects Mr Liu's bets on China's successive waves of growth and liberalisation. In the mid-1980s he saw opportunities for Chinese firms in the global rise in demand for computer hardware. At the turn of the century his firm bet on urbanisation and the need for non-bank financing. In this decade, it is betting that rapidly rising affluence will spur demand for safer food and for services ranging from health care to personal finance.

Given its many tentacles, it is tempting to see Legend as a Chinese incarnation of a South Korean chaebol or a Japanese keiretsu. Gordon Orr of McKinsey, a consulting firm, says that although there are some passing similarities, Legend does not have the web of cross-shareholdings, and the incestuous supplier relationships among group members, that are seen in the archetypal East Asian conglomerate. He thinks a better comparison would be with European holding companies such as Investor, run by the Wallenberg family of Sweden, which is into everything from domestic appliances to hotels. In both cases, "They have listed and unlisted entities, they have private equity, they do start-ups," notes Mr Orr.

Peter Williamson of Cambridge University's Judge Business School notes that, somewhat like a chaebol, Legend's business model is about allocating capital between businesses in a place where capital markets are ineffi- ►





client. "But unlike the *chaebol*, I think Legend is more about leveraging expertise and international experience than pools of capital."

Given his long-term outlook, and indeed his cultish following, does it make sense to think of Mr Liu as China's Warren Buffett? Again, the shoe does not quite fit. Zhang Tao was Mr Liu's assistant for eight years and recently published a book about his former boss. He thinks Mr Liu is more like General Electric's former boss, Jack Welch. Mr Buffett is as proud of Berkshire Hathaway's sprawl as Mr Liu seems to be of Legend's; but Berkshire is not particularly known for developing managers or nurturing small firms in the way Legend seems to be doing. GE, in contrast, is a world leader in training managers. And as its current boss, Jeff Immelt, likes to say, the American firm is not so good at startups but it is great at scaling up small businesses into billion-dollar enterprises.

Mr Liu himself has said that a two-week visit to GE's management-training centre in America, long ago, inspired him to build a world-class conglomerate in his native land. These are the lessons he took away: "Diversification will work when...every subsidiary is focused on its own field while the holding company serves as an investor and a driving force. To make a well-arranged ownership structure, we need the right leaders."

Mr Liu has been adept at navigating the shoals of China's state-led model of capitalism. He also deserves credit for professionalising management practice in China, says Edward Tse of Gao Feng, another consulting outfit. Mr Liang of CEIBS says Mr Liu's strategy has been widely studied by younger Chinese businesspeople: "Build a strong top team, focus on long-term strat-

egy and nurture a capable and dedicated workforce."

For all his success so far, Mr Liu should look again at his erstwhile mentors at GE. Under pressure from regulators and investors, the American giant is now simplifying its business model, in particular by dismantling its huge financial division. As a private firm, Legend has so far not had to answer hard questions about its strategy. That is about to change: investors in publicly traded firms the world over dislike complex, murky conglomerates. Even one led by a figure as admired as Mr Liu will not have it easy. ■

Chinese companies

A red tide ebbs

SHANGHAI

Chinese firms listed on American stock exchanges are starting to go home

LAST year it seemed that a Chinese invasion of American stockmarkets was under way. More than a dozen firms from the mainland floated shares in New York, raising \$30 billion in total. Alibaba, an e-commerce firm, led the pack with one of America's biggest initial public offerings on record. However, as rapidly as it rose, this red tide is now ebbing.

A growing number of Chinese firms are now seeking to delist from American exchanges, and to relist back home. According to Bloomberg, a data service, investors in a dozen listed firms have received bids this year totalling over \$10 billion to take them private so as to relist them in China.

Among them were Sungy Mobile, a maker of smartphone apps, and Shanda, which designs online games. On June 17th Qihoo 360, a software firm, became the latest to join the wave. Mindray, a medical-devices company, and Wuxi Pharmatech, a medical-research firm, are expected to follow.

One obvious reason for this is China's current stockmarket frenzy—especially for internet shares. A listing in New York once meant higher valuations for Chinese startups than were possible on moribund Chinese exchanges. Western investors, used to Silicon Valley's profitless but promising upstarts, were more understanding. An American listing was also regarded as a stamp of quality.

But Americans have fallen out of love with Chinese stocks. This is partly justified, thanks to a series of scandals such as that of Longtop Financial, a Chinese software firm whose former chief financial officer was found guilty in a New York court of "being reckless in making untrue statements" about its finances. However, even Chinese firms with no taint of scandal have come under attack from American short-sellers.

Higher valuations aside, there is another reason Chinese firms are coming home: the government has put out the welcome mat. In the past, regulations required firms to be profitable for a few years before they could be listed on local exchanges. That made it impossible for internet startups to list at home. The process of preparing an IPO used to involve getting multiple approvals, whereas in other countries it is simply a matter of registering. Changes to Chinese securities laws are under way that will ease these and other burdens.

Another regulatory change that may be pushing firms to come home involves legal wheezes known as "variable interest entities" (VIEs). China forbids foreign shareholders in its internet companies. Yet nearly all of its biggest ones have lots of foreign investors. They have achieved this by inviting foreigners to put money into a VIE, based in places like the Cayman Islands but sometimes listed on an American exchange, to which the Chinese company promises to pay certain fees and royalties. The Chinese government plans to change its foreign-investment laws to shut down this dodge for most firms (though those VIEs tightly controlled by Chinese citizens, such as Alibaba's, should not be affected).

In the long term it may well make sense for Chinese companies whose main business is in their home country to be listed on a domestic exchange, where investors understand its market better than foreigners. Now, with Chinese stockmarkets riding high, would seem a good time to relist on them. But when China's share bubble pops, as it will at some point, the returning firms' shares will suffer, along with those that never left home in the first place. ■

Retailers and supplier rebates

Buying up the shelves

Supplier rebates are at the heart of some supermarket chains' woes

MEETING angry shareholders is an experience few company bosses savour. Yet on June 26th Dave Lewis, the new chief executive of Tesco, Britain's largest supermarket chain, will have to do exactly that. The firm will hold its first annual meeting since revealing that it had inflated its profits by £263m (\$421m) through wrongly booking rebates from suppliers—prompting his predecessor's departure. Since then little has gone right for Tesco: sales have continued to slide, and the falling value of its property has forced it to declare a pre-tax loss of £6.4 billion for the year to February. Worse still, a Serious Fraud Office inquiry has been opened into the accounting scandal, which could cost the firm more than the error itself.

Some have asked whether Tesco's 32-year relationship with its former auditor, PwC, was among the root causes of the crisis. The Financial Reporting Council (FRC) has launched an inquiry into PwC's audits of Tesco, and last month Tesco replaced PwC with another auditing firm. But the large and undisclosed rebates that Tesco, like many other grocery chains, gets from its suppliers represent another close, long-term relationship whose role in the scandal merits examination.

These payments mainly come in two forms. The first type, called slotting fees, are in return for giving the supplier's products a prominent place on the retailer's shelves, or indeed any space at all. The second type, called marketing or distribution fees, are suppliers' reward to retailers when they boost sales of their products by running promotional offers on them.

Such fees have been around since the 1970s. But big grocery chains began to demand much larger rebates in the recession that followed the financial crisis. Analysts reckon that American retailers may now rake in \$18 billion or more in rebates each year, up from \$1 billion in the 1990s. In Britain, by some estimates the big four supermarkets receive more in payments from their suppliers than they make in operating profits. In Australia, growing supplier rebates have boosted food retailers' profit margins by an average of 2.5 percentage points, to 5.7%, over the past five years, according to a report last month by UBS, a bank. So lucrative have slotting fees become that industry insiders joke that supermarket shelves are now the world's most expensive property.

As competition from deep-discount su-

permarkets such as Aldi and Lidl—which mostly sell cheap, own-label products—has put pressure on mainstream grocers like Tesco, they have reacted by squeezing higher fees out of their suppliers. Although the makers of branded food and household supplies may complain about having to pay, the prominent placing they get in return helps them to fend off competition from cheaper rivals. As a recent study from the German Institute for Economic Research has shown, raising slotting fees increases barriers to entry for new and potentially disruptive competitors. Promotional fees also help suppliers of branded goods by discouraging grocers from promoting their own-label products instead. Ultimately, shoppers lose out, since cheaper products are harder to find.

Some countries have tried to protect consumers by making rebates illegal. Poland banned them in 1993 as part of free-market reforms that followed the end of communism. And in 1995 America banned them on alcoholic drinks, though its main worry was that prominent displays of booze promoted irresponsible drinking. However, progress towards eliminating them on all products in America stalled after the Federal Trade Commission (FTC) concluded in 2001 that more research on them was needed before it could take any further action.

The recent big rise in rebates has put them back in regulators' sights, though little action has been taken so far. China's government launched a crackdown in 2011 on retailers demanding excessively large fees from suppliers. But last October, when America's FTC revised its guidelines on rebates, it did little other than require suppliers to offer comparable payments to all retailers. Britain's FRC said last month that it



Every little rebate helps

would take a close look at how retailers were accounting for rebates, though there have been no moves to curb them.

It seems, however, that consumers are taking more vigorous action than regulators. Though they may be unaware of why mainstream supermarkets seem so full of pricey branded products, they are voting with their feet and heading to the deep discounters. This week Grant O'Brien resigned as boss of Woolworths, Australia's largest supermarket chain. The retailer has issued two profit warnings so far this year, as customers switch to Aldi.

Tesco says it will reduce the 24 types of rebates it seeks from suppliers to just three by 2017. But payments for prominent shelf positioning will stay. Some analysts think it should scrap them altogether. It is noticeable that Walmart, which does not use slotting fees (though it does receive other rebates) and has stuck to a low-price model, is suffering much less of a consumer backlash in America than Tesco is in Britain. ■

Mobile telecoms

Change is in the air

"Wi-Fi first" technology will be great for consumers, disruptive for mobile firms

IN TECHNOLOGY the next big thing usually starts small and scrappy. Incumbents ignore it, trapped in their ways of doing things, until it is too late. This is what happened with Skype. Telecoms carriers at first dismissed the internet-telephony service, but it has taken a chunk of their most profitable business: last year users made 248 billion minutes of international calls on Skype, compared with 569 billion minutes on conventional networks, according to TeleGeography, a market-research firm.

A string of wireless startups are hoping to trigger a similar disruption. Their bet is that over the next few years mobile phones will switch to sending most calls, texts and data via Wi-Fi hotspots, relegating the cellular network to being a mere backup. If this eventuality comes to pass, it could change the economics of the industry and cut users' bills drastically.

Going "Wi-Fi first", as the concept is called, was pioneered in 2012 by Free, a French mobile operator, to fill the gaps in its cellular network. The idea has since been refined by three American startups: Republic Wireless, Scratch Wireless and FreedomPop. The latter, which raised \$30m in financing on June 17th, is now moving into Europe: next month it will welcome its first test customers in Britain.

Making calls over Wi-Fi has been possible for more than a decade. But it is only in ►

► recent years that networks, handsets and voice-encoding software have become good enough for the quality of such calls to be widely acceptable. Public Wi-Fi hotspots now abound: in America alone they number about 6m. And the startups have figured out clever ways to hand over calls seamlessly between Wi-Fi and cellular networks. When FreedomPop's technology detects that the signal is getting weak, it establishes a second connection and moves the call over as need be.

What makes such services feasible is the fact that mobile phones are actually not that mobile. They are almost entirely used in homes, workplaces and commercial premises with Wi-Fi—only a few percent of calls are made on the go, out of range of a hotspot (see chart, next page). So, an operator that strings together enough hotspots, and does a deal with a conventional mobile network to make the remaining connections, can provide good coverage at much cheaper rates.

Republic Wireless's subscribers have to buy special handsets that can switch calls smoothly between Wi-Fi and the cellular network (currently two Motorola models are on offer). Monthly contracts, which can be cancelled at any time, currently range from \$5 a month for Wi-Fi calls only to \$40 a month for an unlimited package—not a bad deal in America, where some conventional carriers charge twice that amount.

FreedomPop (which has raised money from Atomico, the venture fund of Niklas Zennstrom, one of Skype's founders) has developed the idea further. Its customers simply install an app on whichever handset they prefer, and it routes their calls through a Wi-Fi connection where available. The basic service—200 voice minutes, 500 texts and 500 megabytes of data—is free and the “unlimited” package costs \$20 a month (though there are restrictions on download speeds after the first gigabyte). The firm hopes to make money from add-ons, such as extra data capacity or a second phone number in another country.

“Wi-Fi first” gained credibility in April, when Google introduced a service like Republic's. It only works with a phone made for Google, the Nexus 6. The basic plan costs \$30 a month including one gigabyte of data. But customers who do not use all their data allotment each month get a credit towards their next bill. This means that Google does not make money on what is known as “breakage”—the unused part of a user's allowance. Republic is planning to follow suit shortly.

Despite the attractive prices, the uptake of these new services has so far been fairly modest. Republic claims 350,000 customers and FreedomPop nearly 1m (of whom nearly half pay for add-ons). In the case of Republic the limiting factor appears to be the requirement to buy its special phones. As for FreedomPop, some users have

Wearable technology

Miss fit

SAN FRANCISCO

Neither profits nor a successful share offering guarantee long-term success

FITBIT makes wearable devices that help people track their daily activities, such as exercise and sleep. Of late, however, Fitbit has been the one submitting itself to close monitoring. Prospective investors have been poring over the company's financial information before the company's launch on the New York Stock Exchange on June 18th. Its expected valuation of more than \$4 billion would make it one of this year's largest initial public offerings.

Fitbit's high valuation reflects the excitement over the potential of wearables (see page 80). With its simple plastic bracelets the eight-year-old firm helped popularise the craze for quantifying exercise and other habits, by making it easy for users to track and upload their information to an online dashboard. In the first quarter of 2015 Fitbit sold around a third of the 11.4m wearable devices shipped worldwide (excluding Apple Watches, for which sales figures are not reported).

Unlike many fast-growing technology firms, Fitbit is profitable. In 2014 it had revenues of around \$745m and net income of \$132m. There has been so much demand from prospective investors that days before the IPO the company raised the selling price of its shares by around a third, to \$20.

But Fitbit has an uphill run ahead. It faces growing competition from a wide array of competitors, including specialised firms like Garmin and Jawbone, and deep-pocketed ones like Apple and Samsung. The latter group have made expensive smart watches that replicate all the functions of Fitbit devices but do much more, such as messaging. Other firms, like Xiaomi of China, are intent on pushing prices lower. Today over 40% of wearable devices cost less than \$100, below the prices of Fitbit's fancier products.

Meanwhile, in the past month Jawbone has filed two lawsuits alleging that Fitbit stole some of its employees and intellectual property; it is asking for an injunction to stop Fitbit sales. Such spats are common among makers of gadgets, but the cases pose a risk to Fitbit that investors should bear in mind.

A bigger danger is that wearables are too new for their mainstream appeal to be assured. Ben Arnold of NPD Group, which studies the industry, says it is not yet clear whether most fitness fans want to wear a monitor on their wrists rather than on their feet or in their clothes—or indeed at all. Nokia was early to the mobile-phone market and enjoyed a period of dominance, before its products were overtaken by multipurpose smartphones made by rivals. Similarly, Fitbit could be remembered as an early pioneer of wearables that lost out to rivals with more versatile gadgets. In today's bubbly market for tech shares, sceptics often ask if firms with no profits and scant revenues can really be worth so much. In Fitbit's case, the vital signs are healthier, but the risks remain.



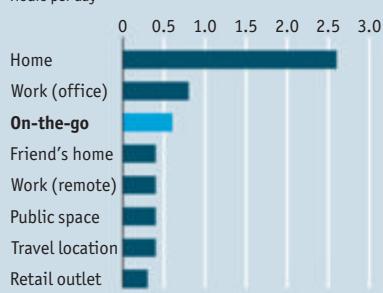
Sprinting to market

grumbled about dropped connections and bad customer service. In both cases subscribers need to keep their handsets' Wi-Fi connections permanently switched on, which is a drain on the devices' batteries.

These drawbacks may make Wi-Fi-first subscriptions a tough sell in countries where rates are already low, such as Britain, which boasts generous monthly packages from around £10 (\$16). Then again, users may stop caring about the downsides,

as they switch from making voice calls and texts to using messaging services and social-networking apps, and as handsets' batteries improve, in which case even a small price cut may prove tempting.

At any rate, over time the technology will improve. A more fundamental problem may be that Wi-Fi-first startups depend on the willingness of conventional carriers to let them use their networks as stopgaps at an acceptable price—a willing- ►

Never far from Wi-FiDaily mobile use by location, United States, 2012
Hours per day

Sources: Cisco; IBSG

ness that is likely to diminish as the start-ups grow. Currently both Republic and FreedomPop use the network of Sprint, America's third-biggest operator. To avoid being dependent on one carrier and to allow customers to use a wider variety of phones, both firms are trying to sign up a second one, probably T-Mobile USA, the country's number four. Google already has agreements with both networks.

The big test for "Wi-Fi first" will come if and when cable operators or other big broadband providers decide to use the technology to offer mobile telephony. Craig Moffett of MoffettNathanson, a research outfit, thinks big American cable operators such as Comcast and Charter Communications could make this move in the next few years. They already control millions of hotspots. And several of America's biggest cable operators have the right to access Verizon's network under the terms of a 2011 deal in which they sold some mobile spectrum to Verizon.

Other analysts—and, perhaps unsurprisingly, conventional carriers—are less optimistic. Dean Bubley, of Disruptive Analysis, a telecoms consulting firm, doubts that Wi-Fi-first services will ever reach mass adoption. But they will, he predicts, enjoy a measure of success among the young and the impecunious—and this will be enough to put downward pressure on cellular pricing plans.

Conventional mobile carriers themselves are also likely to make more use of Wi-Fi. Indeed, this is a driver behind recent telecoms mergers in Europe. For instance, once EE, Britain's largest mobile operator, is subsumed into BT, the biggest broadband provider, it will be easier for EE to offload calls, texts and data to BT's many Wi-Fi hotspots. And devices that run on 5G, the next generation of mobile-telecoms technology, to be rolled out by 2020, are likely to come with the ability to latch on to the nearest base station, whether cellular or Wi-Fi. Perhaps FreedomPop's "freemium" pricing scheme is a sign of things to come: consumers will get a basic service for nothing, and all the profits will have to come from selling them extras. ■

Aircraftmakers**Keep seatbelts fastened**

PARIS

Demand for aircraft is strong, but turbulence cannot be ruled out

FEWER aircraft were on display at the Paris air show, which opened on June 15th, than when it was last staged two years ago. Perhaps 120 planes and other flying machines stood on the French tarmac compared with 150 in 2013 (the show is held in Britain every other year). But this is far from a sign of gloom. Sales of big commercial jets are on a steep climb, and planemakers are busy getting their factories ready for another big increase in output.

Order books are bulging at Airbus and Boeing, the duopoly that dominates the market. The European firm forecasts that about 32,000 aircraft seating over 100 passengers will be delivered in the next 20 years (see right-hand chart). Its current backlog of 6,400 planes will take a decade to deliver. Boeing's 5,800 will occupy it for eight years. And more orders piled up during the show. But the boom brings risks. The aircraft giants have to deliver the planes. And the market must absorb the new capacity.

Increasing production has proved troublesome in the past. Boeing's attempts in 1997 to increase output of the 737, its most popular model, failed dismally. Neither suppliers nor its own assembly lines could cope. Production stopped for a month and the firm took a \$2.6 billion write-down. More recently Boeing has had similar hold-ups with its 787 Dreamliner, and Airbus has struggled to ramp up output of its A380 superjumbo.

Even so, both firms hope they have learned lessons, and can now accelerate their production smoothly. The biggest leap is planned for short-haul jets. Boeing says it will lift production of 737s from 42 a month to 52 by 2018. Airbus's A320 family will go from 42 a month to 50 in 2017 and

perhaps 63 by 2018. In total the firms will have raised plane production by 20% between 2014 and 2018, having increased it, at considerable pain and expense, by 40% between 2010 and 2014, according to Bank of America Merrill Lynch.

The two planemakers insist they can manage. Dennis Muilenburg, chief operating officer at Boeing, says his designers have been brought into closer touch with the firm's production lines, to ensure that new planes are developed with ease of increasing production rates in mind. More automation should help too. Lasers guide together the fuselage sections of the A350. Robots will take over attaching the 60,000 fasteners on Boeing's 777. Equally important is ensuring that the complex supply chain, from engine-makers to firms far down the chain that make small fittings, can keep pace. The planemakers now send inspectors to suppliers' factories or monitor their production over the internet.

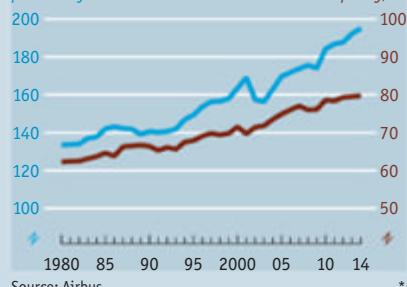
But will there be passengers to fill all these new planes? Airbus forecasts that demand for flights will more than match the increasing supply of seats. If so, the profitable trend for airlines to fly ever fuller planes (see left-hand chart) will continue. But such an outcome would also mean that the once-cyclical aircraft industry is now heading in only one direction. Marwan Lahoud, Airbus's chief strategist, says geographical diversity has changed the calculations. Buoyant demand from Asia and the Middle East leaves planemakers far less exposed than a decade ago when they relied on Europe and America for sales.

That may be wishful thinking. Though Airbus's blue-skies forecasts may prove right in the long term, in the next few years the planemakers' delivery schedule implies that airlines' capacity will grow at an annual rate of 7%, which Bank of America thinks will be somewhat higher than the growth in passenger numbers. The risk is that airlines panic as the proportion of empty seats rises, and cancel orders for planes just as their makers have reached full speed. It would not be the first time hopes that the business cycle has been abolished have proved vain. ■

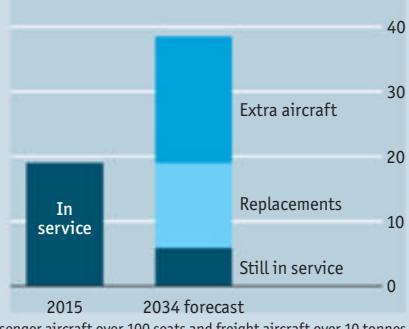
More, bigger, fuller

Commercial aircraft, global

Average seats per aircraft



Global commercial-aircraft fleet*, '000



Challenging sanctions

Who are you calling a rogue?

Companies are fighting inclusion on sanctions lists—and winning, sort of

SAROSH ZAIWALLA occasionally serves as an international arbitrator, judging commercial disputes. But he is better known for standing and fighting than for sitting in judgment: Mr Zaiwalla jabs thorns in the sides of Western governments by challenging their international sanctions in court, on behalf of blacklisted companies, banks and individuals. “Sanctions are better than going to war, but it has to be done legally. You can’t just go after any old third party,” he thunders.

The case with which Mr Zaiwalla’s London-based law practice is currently engaged is that of Bank Mellat, of Iran. It was placed on a sanctions list by Britain in 2009 on account of alleged links to Iran’s nuclear programme. The bank challenged this in British courts, and in 2013 the country’s Supreme Court ruled in Mellat’s favour, saying that singling it out had been “irrational” and “disproportionate”. The bank is now seeking £2.3 billion (\$4 billion) in damages from Britain’s Treasury for loss of business. Its claim will go to trial next year, if mediation produces no settlement.

Bank Mellat is not alone. The past three years have seen a flood of such cases, says Maya Lester, a barrister at Brick Court Chambers in London, as “smart” sanctions—those aimed at specific people, firms or industries—have grown in popularity, complementing time-honoured blanket trade embargoes. Among the claimants are those blacklisted for alleged links to terrorism as well as to nuclear proliferation; and those accused of providing financial support to rogue states, such as Iran, Syria, North Korea and—because of the conflict in Ukraine–Russia. Among the sanctioned Russian entities fighting back are Rosneft, a state-controlled energy giant, and Sberbank, a state-controlled lender.

The sanctions-lawsuit industry is unlikely to go out of business soon. European Union officials decided in principle this week to extend sanctions against Russia. And although Iran and Western powers are trying to reach a deal by June 30th to lift sanctions in return for Iran scaling back its nuclear programme, American officials warned this week that they could “snap back” sanctions if there were any backsliding by the Iranians.

The lawyers are not the only winners. Ms Lester estimates that the challenger has prevailed in at least half of the more than 100 cases since the surge began. It is unclear whether some cases are being direct-



A target for sanctions

ed by the governments which are the ultimate target of the sanctions. Mr Zaiwalla insists he has not had any contact with Iranian officials, but says, “I suppose they would be very pleased with our case.”

The Mellat case is being pursued in London because British sanctions pre-dated wider EU measures against the bank. However, most cases are brought at the EU’s General Court. Bringing cases in America is all but pointless because its sanctions are generally executive orders of the president, issued on national-security grounds, making them harder to overturn in court.

European cases are being brought on various grounds. These range from (in Mellat’s case) violation of the rights to property and to earn a living, as enshrined in Europe’s human-rights convention, to vague or inaccurate reasons for listing, or a lack of due process. Rosneft argues that the sanctions against it are so ambiguous that they violate “the principle of legal certainty”. Last year the General Court annulled the listing of Iran’s national oil-tanker company, NITC, after finding that the EU had presented “not the slightest evidence” to support its allegations.

Many of the challengers’ victories are Pyrrhic, however. After an annulment, the EU will often relist the company within days for different reasons—and the legal circus begins again. This happened in April in

the case of more than 30 companies allegedly affiliated with another Iranian shipping line, IRISL, and with another financial institution, Bank Tejarat. In Tejarat’s case, having first accused it of links to Iran’s nuclear programme, the EU then quickly came up with a new and broader reason for sanctions: that it aids the regime by financing its energy projects. Iran’s central bank was initially listed for “involvement in activities to circumvent sanctions”. When a court pointed out that no particular transaction had been cited as evidence, the EU instead sanctioned the central bank for providing financial support to the regime.

Ms Lester describes the constant relisting as “a game”, but one that “makes life hard for challengers with genuine grievances.” Mr Zaiwalla says it breaks the “cardinal” legal principle that no party should be vexed twice, unless the new reason for applying sanctions did not apply when the organisation was first blacklisted.

Even if a sanctioned firm wins its case, damages awarded by the EU court tend to be small, relating only to loss of reputation, not loss of business. National courts may award larger amounts, but in most cases decisions to impose sanctions are taken at EU level, and thus can only be challenged in the EU court. Even in cases where the potential damages are large, the court may declare it impossible to calculate the portion of the harm suffered within its jurisdiction, if the targeted company is subject to both European and American sanctions.

Another concern is the handling of sensitive evidence. Officials can find themselves in a difficult position if they possess information that cannot be produced in open court, for instance because it is classified. To tackle this problem, Europe is moving towards allowing more evidence to be reviewed in closed court sessions, unseen by the legal challenger—as has long been the practice in America. This may seem reasonable, but it undermines the legal principle that parties are entitled to know the case against them.

The biggest worry among lawyers who fight sanctions is that Western governments react to the court cases by redesigning their sanctions to make them harder to challenge in court—for instance, by moving back towards making them less company- or industry-specific, so that individual entities have less legal standing. The courts in Europe have been doing a “good job” of upholding basic rights and due process, notes another lawyer, “But in the end is it really making much difference?” If the result of all the litigation is more secret hearings, and governments either reapplying sanctions on different grounds or redesigning them to make it harder to challenge them, the answer would seem to be “no”. Bank Mellat’s big claim may, whether or not it gets its money, turn out to be the high point for the sanctions-challengers. ■

Schumpeter | Beware of sandstorms

The Middle East is a reminder to business of globalisation's limits



APOSTLES of globalisation have a habit of disregarding the Middle East. Antoine van Agtmael, the man who coined the term “emerging markets”, barely mentions the Arab countries in his 2007 book, “The Emerging Markets Century”. This is understandable. The region has an extraordinary talent for disappointing. Emerging markets are supposed to produce enough opportunities to justify the headaches. In the Middle East the headaches are often overpowering.

The region certainly has opportunities. Its ample supplies of oil and gas make it highly attractive for basic industries such as petrochemicals and aluminium smelting. Governments, in the Gulf especially, are making efforts to attract foreign firms, as part of a drive to diversify their economies. The Gulf states are striving to improve their positions in the World Bank’s ranking of countries by ease of doing business. This week Saudi Arabia opened its stockmarket to foreign institutional investors. The Middle East’s growing, and often wealthy, population should make it a promising market for consumer businesses.

However, the problems are mind-boggling—and they are not the sort that an MBA course prepares you for. It is one thing to study “political risk”. It is another to see whole countries such as Syria and Iraq crumbling. It is one thing to persuade your employees to uproot their families for a stint abroad. It is another to get them to move to a part of the world they associate with terrorism. As Libya has shown, countries can go from promising investment destination to conflict zone in the blink of an eye.

Middle Eastern countries have all the problems of emerging markets, such as weak institutions and poor infrastructure, and more. Other developing countries compensate for their shortcomings with cheap labour. But incomes in the Gulf, for example, are among the world’s highest, and its countries depend on Asian migrants to do most basic work. Foreign firms often have to employ quotas of expensive locals. They also have to negotiate a minefield of ethnic and religious tensions: a Westerner brought in to turn around a large organisation in Lebanon dismissed an underperforming manager only to be told that, because the sacked man was a Sunni, he now had to find a Shia to sack.

Even the region’s growing population is less of an asset than it seems. The youth bulge is more likely to promote social instabil-

ity than a consumer boom. The biggest country, Egypt, with 85m people, is getting some foreign investment, but it remains one of the region’s poorest. The Middle East is divided into mutually hostile groupings. The Sunni-dominated Gulf states will have nothing to do with Shia-dominated Iran. Israel is more or less isolated. There is no pan-regional trade agreement, making it a more fragmented market than, say, South-East Asia.

Western companies face a growing risk of blowback from their behaviour in the Middle East. Their home governments are cracking down on corruption—for instance, America is imposing more fines under its Foreign Corrupt Practices Act, and Britain has brought in a strengthened Bribery Act. But it can be hard to square the requirements of these laws with Middle Eastern traditions of agreeing on deals informally (asking for them to be put in writing may be taken as an insult), and of paying commissions to middlemen. Hitherto, foreign firms have dealt with all this by doing business through local partners. But Western prosecutors are increasingly holding them responsible for whatever their partners do in their name.

At home, Western firms are also under unprecedented pressure, from politicians, customers and even shareholders, to be good corporate citizens. Many are making efforts to ensure, for example, that women have equal career opportunities to men, and that gay couples get the same benefits and treatments as straight ones. But in much of the Middle East local law and culture treats women as second-class citizens and gay people as criminals.

The “boycott, divestment and sanctions” movement against Israel is forcing companies to choose between offending Israel—the most advanced and Westernised economy in the region—and its Arab neighbours. On June 3rd Stéphane Richard, the boss of Orange, a French telecoms company, delighted an audience in Cairo when he said he wanted to end its relationship with an Israeli firm, Partner Communications, which provides services to Jewish settlers. Mr Richard was then pelted with denunciations, including from Israel’s prime minister, Binyamin Netanyahu. Mr Richard first tried arguing that he was simply making a commercial judgment. Then he apologised, and went to Israel to promise Mr Netanyahu that he was opposed to the boycott.

Still waters run deep

It is tempting for global businesses to ignore the Middle East. But that would be a mistake, not least because the region is a valuable corrective to the Panglossian view of globalisation. Supposedly, globalisation represents the triumph of the logic of Western capitalism over the limitations of geography. But in the Middle East the legacy of history is triumphing over the logic of capitalism. Even as governments try to make it easier to do business in the region, and even as pockets of it, such as Dubai, profit from globalisation, a resurgence of political conflicts and ideological passions is making global firms think twice about investing there.

This is a reminder of the risks lurking in the most placid among the other emerging markets. Thailand was long South-East Asia’s destination of choice for multinationals—but the blockade of its airports in 2008 by militant “yellow shirts”, and their street fights with rival “red shirts”, brought to the surface deep faultlines in Thai society. India, Indonesia, the Philippines and even China have histories of ethnic and religious conflict that could revive some day. Lastly, and worst of all, the Middle East reminds us that globalisation has its dark side. What are Islamic State and al-Qaeda but the multinationals of jihadism? ■



Greece and the euro

Down but not yet out

The costs of Grexit still outweigh the benefits for both Greece and the euro area

SINCE the euro crisis erupted five years ago, the possibility of "Grexit" has been a recurring nightmare. It is looming again, as large as it did in 2012, when Greece was ultimately kept in the fold by a second big bail-out from the IMF and other euro-zone governments. Negotiations over the release of the remaining rescue funds have virtually broken down, as a new Greek government dominated by the radical-left Syriza party continues to balk at the reforms its creditors are demanding. The chances of a deal when euro-zone finance ministers met on June 18th (after *The Economist* had gone to press) looked slim. Yet Grexit looks no better an option now than it did three years ago.

The Greek population overwhelmingly wants to stay in the euro and the government led by Alexis Tsipras says it does too. This is understandable, since leaving the monetary union would be a bloody business rather than a surgical operation—or so the IMF predicted in 2012. The reintroduction of the drachma would entail the forcible conversion of all domestic assets and liabilities to the new currency, which would immediately plunge by 50% against the euro, the IMF estimated, gutting bank deposits and other savings. As the drachma fell, pushing up import prices, inflation would surge to 35%, it reckoned, while the toll on GDP would be a decline of around 8%. Even the smallest of transactions would become difficult, it pointed

out: after the short-lived Czech-Slovak monetary union broke up in 1993 it took six months to introduce new banknotes.

Is the likely outcome still as grim? Unlike the situation in 2012, advocates of Grexit point out, the euro area's economy is growing, which should help it withstand the turmoil Grexit would bring. Before this year's setbacks Greece was running both a

A lonely domino

Ten-year government-bond yields
Spread over German bunds, percentage points



Also in this section

- 68 Buttonwood: Piketty and the rich
- 69 The unflappable Swiss economy
- 69 How to retaliate in trade disputes
- 70 El Niño roils commodity markets
- 70 A hollow vindication for AIG
- 73 A disputed private-equity deal
- 76 Free exchange: When debt relief is warranted

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primary budget surplus (ie, before interest payments) and a current-account surplus, enabling it to cope without new loans. The default on foreign debts that would precipitate Grexit (or would become unavoidable since the burden of the euro-denominated liabilities would soar in devalued drachma terms) could also be seen as an advantage, resolving once and for all the seemingly oppressive burden of public debt, which is now close to 180% of GDP. Once the initial shock had been absorbed, Greece could benefit from the boost to competitiveness devaluation would bring.

This scenario, however, underestimates the damage Grexit would do to the Greek economy. Confidence would be shattered in the long term as well as the short, since Greece would struggle to regain any semblance of trust. There would be endless wrangles with the IMF and other euro-zone governments, which would be nursing big losses on their loans to Greece. That would unsettle private investors, who would also worry that without pressure from official creditors, the Greek government would revert to the bad policies and poor governance that lie at the root of the country's misfortunes.

The relief achieved through defaulting on government debt would be minimal. Even though public debt is high as a share of GDP, the interest that Greece is paying is very low, at 3% of GDP this year, helped by a deferral of payments on most of its loans from the euro zone's rescue fund until 2022. In all its borrowing from European creditors, Greece is already benefiting from debt relief in the form both of maturity extensions (some loans stretch out until the 2050s) and ultra-low interest rates. Indeed if Greece left the euro it could find itself paying more interest on its debt, even though its remaining loans would have become far smaller as a share of GDP.

► A cheaper currency would boost exports and tourism, but the benefits could easily be frittered away in higher inflation, especially as the central bank would be unlikely to enjoy genuine independence. In any case, Greece no longer needs to enhance its competitiveness with a devaluation since it has already achieved an "internal devaluation" through a sharp fall in wages. What is more, because exports make up an unusually small share of the economy, the gain from a devaluation would be limited.

Grexit would still be troubling for the

rest of the euro area too. The direct cost to euro-zone governments of a Greek default would be higher than in 2012, because they have since lent the country more money. Arguably, this would simply be recognising reality and would at least stop them throwing good money after bad. However, they could well find themselves having to provide large amounts of aid to Greece, if Grexit led to a humanitarian disaster.

A particular worry in 2012 was that Grexit would unleash a domino effect whereby panic in the bond markets pushed one country after another into de-

fault. This scenario, which has informed the Greek government's bargaining strategy, is now less convincing. Although the difference in yield between safe German Bunds and the bonds of other vulnerable countries in southern Europe has recently widened slightly, this year's Greek drama has largely been confined to Greece (see chart on previous page). It helps that just days before the Greek election in January, the European Central Bank (ECB) announced a programme of quantitative easing, which involves buying lots of euro-zone government debt. Moreover, the ►

Buttonwood | RG-bargy

Future returns on wealth will be lower than Thomas Piketty thinks

EVER since Thomas Piketty, a French economist, published his monumental best-seller "Capital in the 21st Century" last year, his work has come under attack on theoretical and statistical grounds. The latest assault* comes from an unsurprising source: the libertarian Cato Institute.

The argument centres on Mr Piketty's use of the expression " $r > g$ ", where r is the return on capital and g is the growth rate of the economy. Mr Piketty argues that the growth rate of developed economies has been slowing, but that the return on capital is relatively undiminished. Since capital is concentrated in the hands of the wealthy, a long period in which returns exceed the growth rate will lead to widening inequality. This can be countered only by higher taxes.

The authors, who work for Research Affiliates, a fund-management firm, accept that the growth rate of the developed world has slowed, largely for demographic reasons. Where they differ from Mr Piketty is over the impact on investment returns.

The wealthy have indeed enjoyed very good returns on financial assets over the past 30 years. Bond yields have plunged (and prices risen) from the double-digit yields seen in the early 1980s; equities have followed a more volatile but still profitable path. The annualised real return of a typical portfolio (60% in American equities and 40% in Treasury bonds) between 1982 and 2014 was 10.2%.

But yields in the developed world are now so low that future returns from bonds are likely to be much reduced. Research by the London Business School shows that periods of low interest rates are also associated with lower-than-normal equity returns. So to go back to Mr Piketty's expression, g may have fallen, but so has the future rate of r .

In addition, the authors argue that the



French economist did not allow for factors that reduce the net return to investors: taxes, fund-management charges and lavish lifestyles. They apply a rough-and-ready check by looking at the fortunes of members of the *Forbes* 400, an annual list of the world's wealthiest people, first compiled in 1982. The 69 families (out of 297) that are on both the earliest and latest lists have achieved an annual real return of 8.4%—not bad, but well behind the indices. Once you include dropouts (based on the generous assumptions that their wealth fell to just \$1 below the cut-off point in the year they were relegated and then matched the survivors' subsequent performance), the average return falls to 6.5%. If they continue to underperform to the same extent in a world of lower yields, their real wealth may not grow at all.

Indeed, the authors point out that the rapid turnover of the *Forbes* 400 suggests that inherited wealth is unstable. Three-quarters of the families in the original list no longer appear on it.

Of course, dropping out of the *Forbes* 400 hardly indicates a descent into penury. But family wealth tends to dissipate over time. The Astors, Vanderbilts and Carne-

gies were among the wealthiest families of the late 19th century; not one of their descendants makes it onto the modern list. Indeed a Vanderbilt family reunion held in 1973 failed to find a single millionaire among the 120 present.

Much of that decline may have been because of the high tax rates that applied after the second world war. But even in the modern era of lower taxes on the rich, the erosion has continued: there were 13 Rockefellers and 25 DuPonts on the original *Forbes* list. Only one (David Rockefeller) appeared in 2014. A more comprehensive survey by the authors leads them to conclude, "Descendants halve their inherited wealth—relative to the growth of per capita GDP—every 20 years or less."

None of this negates the idea that inequality has increased overall. But the authors argue that three trends have occurred simultaneously. First, there has been a big gain for the already wealthy from a probably unrepeatable rise in asset values. Second, new wealth has emerged in the form of successful entrepreneurs in the technology industry such as Bill Gates or Steve Jobs—a healthy phenomenon.

Third, there has been a big change in income inequality, driven by the high rewards given to corporate executives who make up three-fifths of the top 0.1% of American earners. As the authors note, there is little correlation between executive compensation and the creation of wealth for shareholders. So they suggest that, instead of higher taxes, a more fruitful way of tackling inequality would be for shareholders to pay more attention to corporate governance.

* "The Rich Get Poorer: The Myth of Dynastic Wealth", by Robert Arnott, William Bernstein and Lillian Wu, to be published in the *Cato Journal*, Volume 35, Number 3.

► European Court of Justice affirmed this week the ECB's (unused) policy of throwing a lifeline to governments under siege in the markets through unlimited purchases of their bonds.

That has prompted some to argue that removing the perpetual troublemaker would make the euro zone stronger. By demonstrating that those who do not abide by the rules can be shown the door, the theory runs, Grexit would spur fiscal prudence and structural reform among the remaining members. In contrast, if Mr Tsipras faced down Greece's creditors, anti-austerity movements such as Podemos in Spain would take heart.

The euro area may therefore seem to have good reason to countenance the upheaval of Grexit, but it would still be a risky move. Crucially, it would debunk the idea that membership of the euro was irrevocable. That would turn the single-currency club into just another fixed-exchange-rate system that might be vulnerable to speculative attack.

On balance, then, the costs of Grexit still outweigh the benefits for the euro area as well as Greece. There are sound economic grounds for both sides to compromise and strike a deal. Whether strident politics in Greece and the creditor countries will allow that to happen remains an open—and pressing—question. ■

The Swiss economy

True to form

GENEVA

Switzerland shrugs off its currency's dramatic appreciation

FOREIGN skiers were bound to suffer. So was the Swiss economy, most assumed, after the Swiss National Bank (SNB) suddenly abandoned the Swiss franc's peg to the euro in January. The franc rose by 30% against the euro in a matter of minutes, and remains about 15% higher than it was. This made Swiss exports more expensive for foreigners, and foreign goods cheaper for the Swiss. That would dent exports and deter tourists, the assumption ran—a particular worry in a country where net exports (ie, exports less imports) make up 12% of GDP. In addition, shopkeepers seemed likely to suffer for another reason, as more Swiss headed across the border into the euro zone to load up on cheap goods.

At a vinothèque in Ferney-Voltaire, a French town a short walk from the border, the manager says that the franc's appreciation has been good for business. Swiss families flocked to Ferney-Voltaire in January to exchange their francs for euros and go on a shopping spree. "Cars were queu-

ing down the road," he says.

Yet the loss of business to the euro zone cannot be all that bad, since consumer spending within Switzerland has continued to grow. And the impact on the country's trade balance has not been as great as feared: although the Swiss bought more things from abroad, cheaper prices meant overall spending on imports stayed flat.

Meanwhile, exports to the euro zone, Switzerland's biggest trade partner, have not fallen as much as one might expect given the franc's rise. That is because Switzerland has considerable "pricing power" in much of what it exports, including fancy watches, banking and pharmaceuticals. (There aren't that many good substitutes for its powdery pistes either.)

In any case the euro zone matters less than it once did. In 2005 it took 55% of Switzerland's exports of goods; these days it takes 44%. And outside the euro zone things are looking better. Exports to Britain and America, against whose currencies the franc has appreciated much less, rose in the first quarter of this year compared with the same period last year. Sales to other markets, including the Middle East, India and South Korea, have also grown. A few industries, such as hotels, are suffering, but overall Swiss exports will increase by 1.5% this year, estimates the KOF Swiss Economic Institute. All this means that in the first quarter of the year net exports fell by just 4% in real terms, year on year. The trade surplus remains near record levels.

Not all is well: the Swiss economy still needs negative interest rates to prevent a further appreciation of the franc. At its last monetary-policy meeting on June 18th the SNB kept them at -0.75%. Yet even though firms can now borrow money without charge, investment remains subdued. The failure to build new factories and hotels must eventually take a toll on exports.

In Switzerland, however, eventually can be a long time coming. Over the past 30 years the franc's trade-weighted exchange rate has risen by 130%, but exports have grown by 200% in inflation-adjusted terms (see chart). "The Swiss just learn to get better," as an expat in Geneva puts it. ■

Irrepressible

Swiss franc
trade-weighted index
1980=100

Quarterly exports
Sfr bn, constant prices



Sources: Bloomberg; Morgan Stanley;
State Secretariat for Economic Affairs

Trade disputes

Torture by tariff

OTTAWA

Retaliating against unfair trade practices is a calculation in cruelty

EVEN long years ago Congress passed a law requiring beef and pork sold in America to be labelled with its country of origin. Canada and Mexico, which export lots of meat to America, denounced the measure as protectionism and complained to the World Trade Organisation (WTO). Last month it ruled in their favour, prompting Canada to ask the WTO's permission this week to impose retaliatory tariffs of \$2.5 billion on American exports. Mexico plans to submit a similar request soon.

The list of imports Canada intends to hit with a tariff of 100% of their value includes live cows and pigs, as well as fresh and frozen beef and pork. But it is not pure tit-for-tat: cherries, mattresses, wooden office furniture, wine and just about anything containing chocolate also face punitive levies. As one unhappy representative of America's wine industry told a congressional committee, the list was designed to "affect every state in the country, potentially delivering a paralysing blow to US winemakers, other farm and food economies and rural households".

That is the point. Countries in the situation of Canada and Mexico deliberately select a wide range of targets from a variety of states. That, they believe, will maximise the number of congressmen being importuned by victims to repeal the offending law, says John Weekes, a former Canadian ambassador to the WTO who now practises trade law. Canada is America's biggest trade partner in general and the main foreign market for its wine.

Bad memories still linger among America's vintners and pig farmers of the devastation caused when Mexico, in retaliation for American rules that discriminated against Mexican trucking firms, imposed \$2.4 billion-worth of tariffs on 89 products from 40 states in 2009. They and other exporters fret that importers in Canada and Mexico are already looking for alternative suppliers. Mexico and Canada are the second- and third-biggest export markets for American pork. The industry cannot afford to have those sales disrupted, says John Weber of the National Pork Producers Council, an industry group. It took seven years for American wine exports to Mexico to return to the level of 2007 (\$24m) after they were hobbled in the trucking row and another dispute.

The level of the tariff is another important consideration. Trade officials are trying to create "screaming hostages", who ►

► are injured enough to complain vociferously to politicians, but not so badly that they go out of business. "Dead hostages", after all, do not jump up and down. Mr Weekes assumes that the 100% tariff will wipe out America's pork exports to Canada, but that farmers will survive thanks to sales to other countries. Another trick, invented by America but used by Mexico in the trucking dispute, is to change the products subject to retaliatory tariffs from time to time. This "carousel" creates far more screaming hostages.

Sometimes, the threat of retaliation is enough to resolve a dispute. That may yet happen this time: there is a bill before Congress to rescind the labelling rules. Canada also has an incentive to compromise, even though Gerry Ritz, its agriculture minister, insists it "will never be the first to blink." Both he and his American counterpart know that some of the loudest screams will soon be coming from Canadian consumers forced to pay higher prices for American goods. ■

Commodities and El Niño

The mocha hedge

SINGAPORE

Cheap coffee, dear chocolate, warm seas and a stormy crop market

FOR three months last year the price of Arabica coffee behaved like a toddler who has drunk a few espressos, jumping wildly to a price of \$2.27 a pound (\$5 a kilo) in October—the highest level since 2011. A comedown was inevitable; the price of coffee has since plummeted, falling below \$1.28 for three days last month. It has recovered, slightly but steadily—but the calm is likely to be short-lived.

The reasons behind the fluctuations are fairly simple. Last year a drought hit Brazil, the world's biggest coffee producer. But since then Brazil's currency has weakened, which has prompted growers there to sell off their inventory because dollar-denominated sales now bring in more reais. In late 2014 Brazilian exports began to rise markedly, which has kept global prices low despite decreased exports from the world's second- and fourth-biggest producers (Vietnam and Indonesia).

Cocoa prices, meanwhile, have been rising. Futures are now at a nine-month high of more than \$3,250 a tonne (see chart). According to Mark Keenan of Société Générale, a French bank, cocoa was the world's second-best-performing agricultural commodity in May, due largely to a downward revision of this season's harvest from the International Cocoa Organisation (icco). Cocoa prices have been ris-

ing on-and-off for nearly a decade, driven by emerging-market demand. As Laurent Pipitone, who heads the icco's economics and statistics division, points out, cocoa consumption is strongly correlated with wealth: as people get richer, they tend to eat more chocolate.

This swirling picture for coffee, cocoa and other agricultural commodities may soon get muddier. In May the National Oceanic and Atmospheric Administration (NOAA), a branch of the American government, declared that it had begun to observe "weak and moderate El Niño conditions"—fluctuations in water temperatures in the Pacific that herald a period of unseasonable weather.

El Niño generally produces more intense cyclones, heavier rains and warmer weather in much of South America and east Africa, and drier-than-average weather—sometimes droughts—in South-East Asia and parts of Australia. NOAA sees a 90% chance that El Niño conditions will last all summer, and an 85% chance that they will last into 2016.

A study from icco found that El Niño tends to reduce global cocoa production by roughly 2.4%, thanks partly to a steep fall in Côte d'Ivoire, the biggest producer. This decline tends to drive up prices, by an average of 1.7% each El Niño year. For coffee the results are less clear. Heavy rains this year could boost South American harvests, which could help keep prices down. But droughts in South-East Asia would harm the crop there, and if El Niño causes the rainy season to last too long in South America, next year's harvest could suffer.

Other crops at risk include palm oil, most of which is produced in Indonesia and Malaysia; rice, which is widely grown in South-East Asia; and Australia's wheat



Keep it away from toddlers

Hot chocolate, cold coffee

ICE futures



Source: Thomson Reuters

and beef industries. There are even fears El Niño-induced hurricanes and typhoons may disrupt trans-Pacific shipments of other commodities. Yet investors will remember that warnings last year of an incipient El Niño proved unfounded. Over the next few months, in short, water temperatures in the Pacific will be keeping them as jumpy as espresso-drinking toddlers. ■

AIG

Pyrrhus would be proud

NEW YORK

A judge rules a government takeover was illicit but caused no harm

THE endless and costly litigation regarding the nationalisation at the height of the financial crisis of AIG, the world's biggest insurer at the time, has always had a Dickensian air. The case, which was initiated in 2011 by Hank Greenberg, AIG's disgruntled former boss, involves more than 1,600 exhibits, a transcript of 8,812 pages and 442 docket entries. On June 15th the element of farce was heightened when a court ruled in Mr Greenberg's favour in every respect except the one that matters.

The punitive terms of AIG's bail-out involved "plain violations of the Federal Reserve Act", Judge Thomas Wheeler of the Court of Federal Claims decided. Yet, "If the government had done nothing, the shareholders would have been left with 100 per cent of nothing." In other words, Mr Greenberg is right to question the legality of the government's actions, but wrong to expect compensation.

Mr Greenberg had sought damages in "excess of \$40 billion" on behalf of Starr International, AIG's largest shareholder, which he controls. He has already said he will appeal. The government, too, may want to appeal to clarify its authority to rescue struggling financial firms and to ward off more lawsuits challenging its conduct during the crisis—especially from the ►

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► shareholders of Fannie Mae and Freddie Mac, two government-backed mortgage giants it also took over.

Soon after Lehman Brothers collapsed in 2008, AIG found itself in trouble due to insurance it had written against defaults on mortgage-backed securities. The government decided it could not let AIG collapse, since it was likely to bring other big financial institutions down with it. But Uncle Sam obliged the insurer to pay a daunting price for the \$85 billion loan that saved it, including 79.9% of its equity and yearly interest of 12%. AIG's CEO at the time, Robert Willumstad, was also forced to resign. Taxpayers ultimately made a profit of \$22.7 billion on the loan.

Mr Greenberg maintains that AIG was treated unfairly. The interest rate it was required to pay, after all, was vastly more than the 3.5% or less imposed on other desperate institutions, including Citibank. Mr Wheeler agreed: "The government did not demand shareholder equity, high interest rates or voting control of any entity except AIG. Indeed, with the exception of AIG the government has never demanded equity ownership from a borrower in the 75-year history of...the Federal Reserve Act," he wrote. In short, "the Government treated AIG much more harshly than other institutions in need of financial assistance".

The ruling dismisses the idea that AIG's board accepted the terms of the bail-out voluntarily, since "a complete mismatch of negotiating leverage" had left AIG "at the government's mercy". It also laments the fact that the deal was specially structured to avoid a shareholder vote.

Mr Wheeler attributes the severity of the bail-out to an exaggeration of AIG's role in the crisis. "While the government publicly singled out AIG as the poster child for causing the September crisis...the evidence supports a conclusion that AIG actually was less responsible for the crisis than other major institutions." So the "unduly harsh treatment of AIG in comparison to other institutions...had no legitimate purpose," the judge harrumphs.

The government's actions were not just unfair, Mr Wheeler says, but also illegal. It had no right to demand a controlling stake in the firm: "There is nothing in the Federal Reserve Act or any other federal statute that would permit a Federal Reserve Bank to take over a private corporation and run its business as if the government were the owner. Yet that is precisely what the [Federal Reserve Bank of New York] did."

No wonder, then, that Mr Wheeler finds it "troubling" that the government gets off scot-free. Indeed, he suggests it can continue to break the law when offering bail-outs, since firms that would otherwise go bankrupt can never show they have been harmed. The authorities, meanwhile, are presumably thrilled to be denounced for treating Wall Street too harshly. ■

Private equity

Another Greek tragedy

Pressure mounts on two private-equity giants that did very well out of a disastrous takeover

IN THE run-up to the financial crisis, private-equity funds seemed to be trying to outdo each other in overpaying for assets. Yet many avoided the bulk of the losses when disaster struck. Often the industry would contribute only a sliver of equity, then quickly extract an equivalent amount or more through heroic feats of financial engineering—thus ensuring a quick profit, and leaving others to bear the pain if the acquired firm tottered under its new mountain of debt. Wily tax structures could help boost returns further.

Now the chickens appear to be coming home to roost for the architects of one particularly egregious-looking deal: the takeover in 2005 of a Greek telecoms group, TIM Hellas, by funds set up by TPG and Apax Partners, two private-equity giants. One question is whether TPG and Apax put their own payouts from Hellas ahead of the financial health of the company. But aggrieved creditors go further. They allege that the transactions involved were not just imprudent, but fraudulent.

Hellas wobbled—and eventually toppled—after the private-equity sponsors increased its debt many times over in short order, while simultaneously extracting several times more money than they had

put in. This prompted a legal battle with bondholders and the liquidators, which is still going on. The liquidators have accused the former owners of "duplicitous and catastrophic plunder" that amounted to "one of the very worst abuses of the private-equity industry". Apax denies wrongdoing. TPG declined to comment.

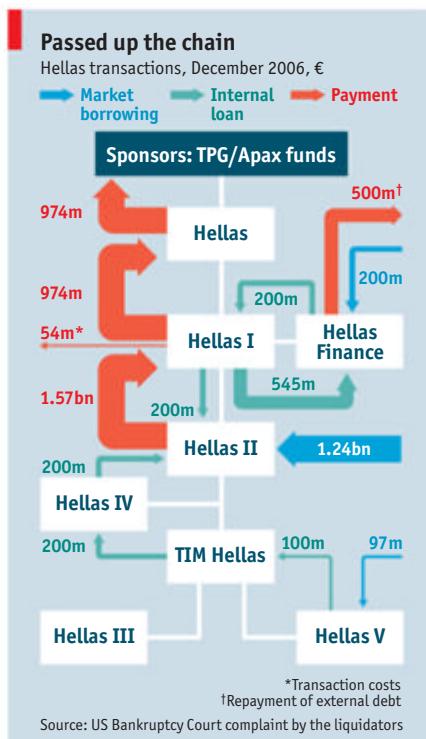
The Economist understands that the two firms are also indirectly under assault from Luxembourg's taxman, who has demanded a hefty payment from a Hellas vehicle after it allegedly mischaracterised distributions to its private-equity owners. On top of this, on June 8th Britain's accounting regulator ordered that Ernst & Young (now EY), which had audited Hellas's books, be "severely reprimanded" and fined for ethical breaches related to its work for Hellas.

The €1.6 billion (\$2.1 billion) acquisition of Hellas, then Greece's third-biggest mobile operator, was at the time the country's largest leveraged buy-out. The fourth-biggest mobile operator, Q-Telecom, was subsequently rolled into it. The group was later renamed WIND Hellas.

At the time, Hellas looked to be in reasonable, if not stellar, shape: serving 20% of the Greek mobile market, it was making more than €110m in annual profit and its debt was a modest €187m. Within little more than a year of the deal, however, the group's debt had been jacked up 15-fold. Much of this increase was the result of heavy borrowing to pay cash to redeem "convertible preferred-equity certificates" (CPECs), a bond-like instrument that can be converted to shares. The deal's sponsors—vehicles set up by the private-equity firms to carry it out—had arranged for group companies to issue these notes to them in exchange for their equity contribution of €77m (the sponsors also lent the group more than €300m, which they later repaid themselves).

After siphoning out most of their investment through the CPECs, the owners sought to flip Hellas. When that failed, they quickly ramped up their withdrawals. This was done by arranging the redemption of most of the remaining CPECs at a controversial price.

Having allegedly taken out almost five times their total contribution (and almost 20 times their equity portion) in 18 months, the sponsors sold Hellas to an Egyptian investor in 2007. With insufficient income to service its debts, Hellas went into administration in 2009. The crux of the claims by



► creditors is that the money they lent was misappropriated. They thought they were financing Hellas's operations, whereas in practice, they argue, the firm was "systematically pillage[d]" by the sponsors, rendering its debts unsustainable.

The story behind the bill of more than €200m that Luxembourg's tax authority has presented to a Hellas vehicle gives a sense of the financial engineering involved. If the vehicle cannot pay, the private-equity firms themselves could eventually be on the hook. The ruling that led to the bill has not been made public; neither the tax agency nor the private-equity firms will comment. But it has been confirmed by well-placed sources.

The tax demand relates to the redemption of the CPECS, which are a uniquely Luxembourgish instrument. Holders receive regular payments, tied to the issuer's profits. At maturity, typically a matter of decades, the note can be redeemed for cash at face value or converted into shares. CPECS can be accounted for as either debt or equity, depending on how they are used. This "hybrid" status opens up intriguing tax-minimisation opportunities.

The tax spat hinges on whether the company should have classified redemption payments made in 2006 as a dividend distribution (equity) or a loan repayment (debt). The private-equity partners who benefited from them said they were loan repayments that would deleverage Hellas. That led to favourable tax treatment, as Luxembourg levies a withholding tax on equity, but not on debt.

The tax authority argues that the distribution could be treated as debt only if it was used to reduce Hellas's borrowings. It wasn't, it believes, but was instead an improper dividend. Company filings suggest the owners were aware that such CPEC redemptions should be treated as equity; a financial statement for Hellas in 2006 said the firm "has concluded that [the CPECS] should be classified as equity".

Hellas's liquidators and debt-holders believe the Luxembourg ruling, if it stands, will bolster cases that are pending in American bankruptcy and state courts. "It validates our litigation, which turns on similar issues, such as the nature and purpose of redemptions, and the argument that withdrawals were taken from borrowed funds, not reserves," says a creditor.

The liquidators' complaint is a colourful read that compares the private-equity firms' windfall to the sack of Troy. It has several angles of attack. The first is the contention that the speed of the owners' withdrawals was reckless. By autumn 2006, a year after they first bought in, they had already recouped 90% of their total €390m contribution, mostly by getting Hellas companies to borrow heavily and pay them back with the proceeds.

That leads to the second line of attack:

the questionable valuation of the CPECS as withdrawals accelerated. In December 2006, €973m was passed along to the owners, via a chain of Hellas vehicles, as the bulk of remaining CPECS were redeemed (see chart on previous page). This redemption was unlike earlier ones, which were done at par value (the amount the holders originally paid for them). It was priced at a whopping 35 times par. The company tried to justify this on the ground that this was the security's current "market" value. This allowed the owners to extract a lot more



Bray as you go

for each CPEC they held. Strikingly, weeks later those CPECS that were still to be redeemed were once again valued at par.

The liquidators argue that the spike in the valuation was arbitrary and unfair, and that there is no evidence an independent valuation was sought, as required. Approval for the revaluations came from a board largely affiliated with TPG and Apax. (Nikesh Arora, heir-apparent at Japan's SoftBank, was on the board of the main operating company at the time. Named by the liquidators as a defendant, he is understood to have settled their claims. Mr Arora declined to comment.) The handling of the CPECS showed "utter disregard" for fiduciary obligations to Hellas and its creditors, says a legal complaint. It also argues that the payments violated the terms of the CPECS because they lay outside the circumstances in which early redemption is allowed. "None of the preconditions for a CPEC redemption had been satisfied, let alone carried out at a preposterous multiple of 35 times par," it states.

An Apax spokesman says, "Apax and

TPG funds sold Hellas to a third party in a 2007 transaction that valued it at €3.4 billion, and it was not until three years later, on the heels of the global financial crisis, that the Hellas notes went into default. For these reasons and others we are confident that the plaintiffs' claims will not succeed."

The buyer in 2007 was Weather Investments, controlled by Naguib Sawiris, an Egyptian. It wrote a cheque for €500m and took on Hellas's €2.9 billion of debt. A year or so later, Apax paid the same amount, €500m, for a 5% stake in Weather.

The new owner moved Hellas's domicile from Luxembourg to Britain, which offers a speedy form of bankruptcy known as a pre-packaged administration. It entered such a process in 2009, causing much of Hellas's debt to be wiped out. Weather then bought the company back for €50m in cash and certain debt guarantees.

Meet the agitators

The legal and tax battles over Hellas look set to continue for some time. Luxembourg's move on the tax front is part of a wider trend. The Grand Duchy has been under pressure to crack down on its cushy tax arrangements with multinationals. The tax demand is "a positive sign that Luxembourg is finally showing it can be tough," says Laurence Sudwarts, a bondholders' representative. The OECD is leading the global charge to close loopholes like those created by CPECS. Hybrids are high up its agenda and are "on their way to being dismantled" in tax havens, says Pascal Saint-Amans, the OECD's tax chief.

More drama is guaranteed in the courtroom, too. A group of out-of-pocket investors won a \$565m judgment on one of their claims last year, but collecting will be a challenge since the ruling is against a Hellas vehicle, not the private-equity funds.

In March an American court denied a motion by TPG and Apax to dismiss an unjust-enrichment claim, saying the complaint "sufficiently alleges that the transfers...were made with actual fraudulent intent". TPG and Apax are also trying to have legal standing in America denied to the liquidators, even though a third of the aggrieved debt-holders are in New York.

Some of the creditors are distressed-debt outfits that bought after Hellas hit trouble. They are a determined bunch. One, who bought in "purely to agitate", says he "will never give up". Overall, creditors are €1.4 billion out of pocket.

All of the claims that TPG, Apax and their funds and vehicles could ultimately be on the hook for add up to somewhere between €2 billion and €2.5 billion, including interest. In the worst-case scenario, a money-spinner could become a loss-maker. Small wonder they are fighting hard to persuade the courts that Hellas was a good deal done at an inopportune time, not a brazen piece of asset-stripping. ■



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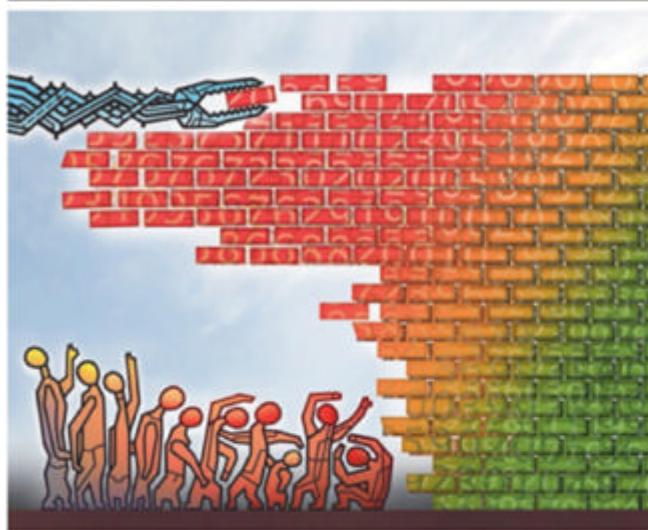
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Debt relief boosts growth, but only when it comes with conditions



SINCE the financial crisis all manner of sovereign debtors have sought relief. Ukraine wants concessions from bondholders; Greece, which has already obtained that, wants forgiveness from other governments too. They are appealing not just to creditors' compassion, but to economic efficiency: diminishing their burden will be for the greater good, they suggest, in that it will provide a boost to growth. That was also one of the arguments made by advocates for the world's 39 "heavily indebted poor countries" (HIPCs), which secured a promise of substantial debt relief a decade ago, at a summit of rich countries in Gleneagles, a Scottish resort. HIPCs' external public debt duly fell from about 100% of GDP in 2005 to 40% by 2012, thanks to big write-offs. But new research suggests the relationship between debt relief and economic growth is not as straightforward as campaigners claimed.

Egged on by a coterie of pop stars, multilateral bodies like the International Monetary Fund and the World Bank agreed at Gleneagles to the multilateral-debt-relief initiative (MDRI). It built on a prior round of debt relief agreed upon in 1996, the HIPC initiative, which had aimed to reduce the HIPCs' debt to "sustainable" levels. The HIPC initiative involved forgiving debts of around \$75 billion; the MDRI about \$40 billion.

Economic theory suggests debt relief can be good or bad for growth, depending on the circumstances. Optimists argue that a smaller burden frees resources to be used for productive investment. In 2005 the Democratic Republic of Congo, by some measures the world's poorest country, devoted 25% of government revenue to servicing debt. Today it is more like 7%, so there should be a lot more money floating around to spend on roads and schools. A country with low debt should be able to borrow more cheaply, since creditors will be less worried about default. It should also be more alluring to investors in private projects, since there is less need for the government to impose high taxes.

Yet pessimists believe that debt relief does nothing for investment or growth. They believe the benefits in terms of short-term cash-flow are more than offset by the damage to the country's reputation. Creditors and companies alike will view it as a banana republic, and steer clear.

The evidence is mixed. One paper from 2005 by Nicolas Depetris-Chauvin, then of Princeton University, and Aart Kraay of the

World Bank found "no discernible effect of debt relief on growth".* More optimistic studies, such as one from the World Bank in 2009, find that a decline in debt is associated with higher growth, but only in HIPCs that are politically stable.

A new paper from two economists at the IMF looks at 35 low-income countries that benefited from both the HIPC initiative and the MDRI.* Although it does not cover the pre-debt-relief period, the results seem encouraging at first glance. Annual real growth in GDP per person increased from an average of 1.9% in 1996-2005 to 2.6% in 2006-11. After controlling for other factors such as political stability and the amount of aid money each country received, the economists still find that debt relief had a significant, positive effect on growth.

There is a puzzle, however. The authors show that in poor countries a positive relationship exists between investment and growth, as you might expect. But they find little evidence to show that debt relief has an impact on investment, as the optimists had predicted. This may be for the reason the pessimists posited, or simply because, as welcome as a reduction in debt may be, it is not enough to induce foreigners to put their money in. Either way, the study does not explain how debt relief boosts growth.

The answer may be a concept despised by all governments in need of a bail-out: conditionality. To qualify for debt relief, the IMF usually requires that countries meet certain conditions. These include keeping up on their remaining debts to the IMF, hitting certain macroeconomic targets and implementing a "poverty-reduction strategy". The drive to meet those goals, the theory runs, may have resulted in faster growth in the post-debt-relief countries. Higher social spending, for instance, should make a country's workforce healthier and more productive.

Relieving debt, not pressure

Another new paper, from Danny Cassimon of the University of Antwerp and colleagues, provides evidence for this theory. It looks at 24 African HIPCs from 1986 to 2012. Unlike the IMF economists, it distinguishes between the HIPC initiative and the MDRI. Under the HIPC, Mr Cassimon and his co-authors argue, the IMF tried to ensure that the savings from debt relief were spent usefully. In Cameroon, for instance, the IMF stipulated that debt-service savings should be put towards school construction and investment in rural roads. In contrast, they say, the conditions attached to the MDRI were much weaker—many recipients did not have to change any policies or spending plans to qualify.

The paper looks mainly at the impact of debt relief on government investment, not overall growth. At first, the results seem similar to those of the IMF paper: debt relief has no clear benefit across the whole period in question. But separate examinations of the HIPC initiative and the MDRI yield quite different results. The MDRI has no impact on government investment, but under the HIPC initiative a decrease in debt-service costs of 10% was associated with an increase of 3.5% in government investment as a share of GDP the following year. Tax collection also improved.

Greece is much richer than the HIPCs, and more indebted (177% of GDP and counting). But there is no reason why the same moral should not apply. Debt relief is a great idea—as long as it comes with strings attached. ■

* Studies cited in this article can be found at www.economist.com/debtrelief15



Also in this section

- 79 Displaying Braille electronically
- 79 The global burden of disability
- 80 Logging on in a heartbeat
- 80 How friends become lovers

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Quantum computers

A little bit, better

After decades languishing in the laboratory, quantum computers are attracting commercial interest

A COMPUTER proceeds one step at a time. At any particular moment, each of its bits—the binary digits it adds and subtracts to arrive at its conclusions—has a single, definite value: zero or one. At that moment the machine is in just one state, a particular mixture of zeros and ones. It can therefore perform only one calculation next. This puts a limit on its power. To increase that power, you have to make it work faster.

But bits do not exist in the abstract. Each depends for its reality on the physical state of part of the computer's processor or memory. And physical states, at the quantum level, are not as clear-cut as classical physics pretends. That leaves engineers a bit of wriggle room. By exploiting certain quantum effects they can create bits, known as qubits, that do not have a definite value, thus overcoming classical computing's limits.

Around the world, small bands of such engineers have been working on this approach for decades. Using two particular quantum phenomena, called superposition and entanglement, they have created qubits and linked them together to make prototype machines that exist in many states simultaneously. Such quantum computers do not require an increase in speed for their power to increase. In principle, this could allow them to become far more powerful than any classical machine—and

it now looks as if principle will soon be turned into practice. Big firms, such as Google, Hewlett-Packard, IBM and Microsoft, are looking at how quantum computers might be commercialised. The world of quantum computation is almost here.

A Shor thing

As with a classical bit, the term qubit is used, slightly confusingly, to refer both to the mathematical value recorded and the element of the computer doing the recording. Quantum uncertainty means that, until it is examined, the value of a qubit can be described only in terms of probability. Its possible states, zero and one, are, in the jargon, superposed—meaning that to some degree the qubit is in one of these states, and to some degree it is in the other. Those superposed probabilities can, moreover, rise and fall with time.

The other pertinent phenomenon, entanglement, is caused because qubits can, if set up carefully so that energy flows between them unimpeded, mix their probabilities with one another. Achieving this is tricky. The process of entanglement is easily disrupted by such things as heat-induced vibration. As a result, some quantum computers have to work at temperatures close to absolute zero. If entanglement can be achieved, though, the result is a device that, at a given instant, is in all of the possible states permitted by its qubits' probability mixtures. Entanglement also means that to operate on any one of the en-

tangled qubits is to operate on all of them. It is these two things which give quantum computers their power.

Harnessing that power is, nevertheless, hard. Quantum computers require special algorithms to exploit their special characteristics. Such algorithms break problems into parts that, as they are run through the ensemble of qubits, sum up the various probabilities of each qubit's value to arrive at the most likely answer.

One example—Shor's algorithm, invented by Peter Shor of the Massachusetts Institute of Technology—can factorise any non-prime number. Factorising large numbers stumps classical computers and, since most modern cryptography relies on such factorisations being difficult, there are a lot of worried security experts out there. Cryptography, however, is only the beginning. Each of the firms looking at quantum computers has teams of mathematicians searching for other things that lend themselves to quantum analysis, and crafting algorithms to carry them out.

Top of the list is simulating physics accurately at the atomic level. Such simulation could speed up the development of drugs, and also improve important bits of industrial chemistry, such as the energy-greedy Haber process by which ammonia is synthesised for use in much of the world's fertiliser. Better understanding of atoms might lead, too, to better ways of desalinating seawater or sucking carbon dioxide from the atmosphere in order to curb climate change. It may even result in a better understanding of superconductivity, permitting the invention of a superconductor that works at room temperature. That would allow electricity to be transported without losses.

Quantum computers are not better than classical ones at everything. They will ➤

► not, for example, download web pages any faster or improve the graphics of computer games. But they would be able to handle problems of image and speech recognition, and real-time language translation. They should also be well suited to the challenges of the big-data era, neatly extracting wisdom from the screeds of messy information generated by sensors, medical records and stockmarkets. For the firm that makes one, riches await.

Cue bits

How best to do so is a matter of intense debate. The biggest question is what the qubits themselves should be made from.

A qubit needs a physical system with two opposite quantum states, such as the direction of spin of an electron orbiting an atomic nucleus. Several things which can do the job exist, and each has its fans. Some suggest nitrogen atoms trapped in the crystal lattices of diamonds. Calcium ions held in the grip of magnetic fields are another favourite. So are the photons of which light is composed (in this case the qubit would be stored in the plane of polarisation). And quasiparticles, which are vibrations in matter that behave like real subatomic particles, also have a following.

The leading candidate at the moment, though, is to use a superconductor in which the qubit is either the direction of a circulating current, or the presence or absence of an electric charge. Both Google and IBM are banking on this approach. It has the advantage that superconducting qubits can be arranged on semiconductor chips of the sort used in existing computers. That, the two firms think, should make them easier to commercialise.

Those who back photon qubits argue that their runner will be easy to commercialise, too. As one of their number, Jeremy O'Brien of Bristol University, in England, observes, the computer industry is making more and more use of photons rather than electrons in its conventional products. Quantum computing can take advantage of that—a fact that has not escaped Hewlett-Packard, which is already expert in shuttling data encoded in light between data centres. The firm once had a research programme looking into qubits of the nitrogen-in-diamond variety, but its researchers found bringing the technology to commercial scale tricky. Now Ray Beausoleil, one of HP's fellows, is working closely with Dr O'Brien and others to see if photonics is the way forward.

For its part, Microsoft is backing a more speculative approach. This is spearheaded by Michael Freedman, a famed mathematician (he is a recipient of the Fields medal, which is regarded by mathematicians with the same awe that a Nobel prize evokes among scientists). Dr Freedman aims to use ideas from topology—a description of how the world is folded up in space and



time—to crack the problem. Quasiparticles called anyons, which move in only two dimensions, would act as his qubits. His difficulty is that no usable anyon has yet been confirmed to exist. But laboratory results suggesting one has been spotted have given him hope. And Dr Freedman believes the superconducting approach may be hamstrung by the need to correct errors—errors a topological quantum computer would be inherently immune to, because its qubits are shielded from jostling by the way space is folded up around them.

For non-anyonic approaches, correcting errors is indeed a serious problem. Tapping into a qubit prematurely, to check that all is in order, will destroy the superposition on which the whole system relies. There are, however, ways around this.

In March John Martinis, a renowned quantum physicist whom Google head-hunted last year, reported a device of nine qubits that contained four which can be interrogated without disrupting the other five. That is enough to reveal what is going on. The prototype successfully detected bit-flip errors, one of the two kinds of snafu that can scupper a calculation. And in April, a team at IBM reported an eight-qubit version that can catch both those and the other sort, phase-flip errors.

Google is also collaborating with D-Wave of Vancouver, Canada, which sells what it calls quantum annealers. The field's practitioners took much convincing that these devices really do exploit the quantum advantage, and in any case they are limited to a narrower set of problems—such as searching for images similar to a reference image. But such searches are just the type of application of interest to Google. In 2013, in collaboration with NASA and USRA, a research consortium, the firm bought a D-Wave machine in order to put it through its paces. Hartmut Neven, director of engineering at Google Research, is guarded about what his team has found, but he believes D-Wave's approach is best

suiting to calculations involving fewer qubits, while Dr Martinis and his colleagues build devices with more.

Which technology will win the race is anybody's guess. But preparations are already being made for its arrival—particularly in the light of Shor's algorithm.

Spooky action

Documents released by Edward Snowden, a whistleblower, revealed that the Penetrating Hard Targets programme of America's National Security Agency was actively researching "if, and how, a cryptologically useful quantum computer can be built". In May IARPA, the American government's intelligence-research arm, issued a call for partners in its Logical Qubits programme, to make robust, error-free qubits. In April, meanwhile, Tanja Lange and Daniel Bernstein of Eindhoven University of Technology, in the Netherlands, announced PQCRYPTO, a programme to advance and standardise "post-quantum cryptography". They are concerned that encrypted communications captured now could be subjected to quantum cracking in the future. That means strong pre-emptive encryption is needed immediately.

Quantum-proof cryptomaths does already exist. But it is clunky and so eats up computing power. PQCRYPTO's objective is to invent forms of encryption that sidestep the maths at which quantum computers excel while retaining that mathematics' slimmed-down computational elegance.

Ready or not, then, quantum computing is coming. It will start, as classical computing did, with clunky machines run in specialist facilities by teams of trained technicians. Ingenuity being what it is, though, it will surely spread beyond such experts' grip. Quantum desktops, let alone tablets, are, no doubt, a long way away. But, in a neat circle of cause and effect, if quantum computing really can help create a room-temperature superconductor, such machines may yet come into existence. ■

Displaying Braille

Reading lessons

Tablet computers for blind people are in development

IN 1970 more than half of blind American schoolchildren could read Braille. Now, only about 10% can. That decline is mostly a consequence of a change of policy, otherwise welcome, which means that the blind are taught, as far as possible, alongside their sighted peers. Since most people in a class of both the sighted and the blind will have no use for Braille, and most teachers no knowledge of it, its neglect is hard to avoid. Moreover, as the number of those who can read Braille declines, so does demand for books written in it. That, in turn, means fewer such books are being embossed—reducing yet further any incentive to learn the system in the first place. Louis Braille's patterns of raised dots, detectable by the fingertips and used to signify letters, numerals, punctuation marks, musical notation and mathematical symbols, which he invented in 1821, may be on the way out.

In a world of recorded sound, text-to-voice translators and voice-activated soft-

ware, the withering of Braille might not be thought to matter much. But it does. Only a quarter of blind Americans of working age actually have jobs, and it is surely no coincidence that almost all of them can read Braille. As Brian MacDonald, president of the National Braille Press, in Boston, puts it, "It is one thing to listen to a newspaper article being read aloud, but there's no way you can understand a complex calculus or chemistry equation just by listening."

Braille may, however, be about to enjoy a comeback. Until now technology has been its enemy. But it could become its friend as a new generation of tablet computers with specially designed Braille displays is developed. One route, being explored by the Braille Press itself, in conjunction with the Massachusetts Institute of Technology, is to make screens out of a ceramic that changes shape when exposed to electric currents. A second, developed by Disney as part of a wider project



Louis Braille, digital master

and known as electrostatic haptics, is to generate vibrations in parts of the screen. These trick the fingers into perceiving those areas to be raised or textured, when they are not.

The most developed approach, though—a prototype of which will go on show on June 23rd at the World Haptics Conference in Chicago—is the brainchild of Sile O'Modhrain and Brent Gillespie at the University of Michigan, Ann Arbor. It uses a pleasingly 19th-century technology, pneumatics, to generate Braille symbols.

The screen of the device includes a grid of pins the diameter of Braille dots. Normally, the tops of these pins are flush with the screen's surface. When needed, though, they can be pushed upwards to create patterns representing Braille symbols. This is possible because each pin rests on a silicone-rubber membrane that sits above a small cavity. The cavity is, in turn, connected to a tiny pneumatic line and valve. When air is blown through the valve into the cavity, the membrane balloons up, pushing the pin above the screen's surface. When the valve is opened and the air released, the pin returns to its hole.

The prototype on show in Chicago has a grid of 56 pins (eight across and seven down), which lets it display two rows of characters, with spaces between them. But Dr O'Modhrain reckons it should be possible to scale it up to the size of a normal tablet, which would mean it could have 12,500 pins and thus display 26 lines, each 40 characters long. A device this size would weigh about twice as much as a conventional tablet and might cost, Dr O'Modhrain reckons, \$1,000.

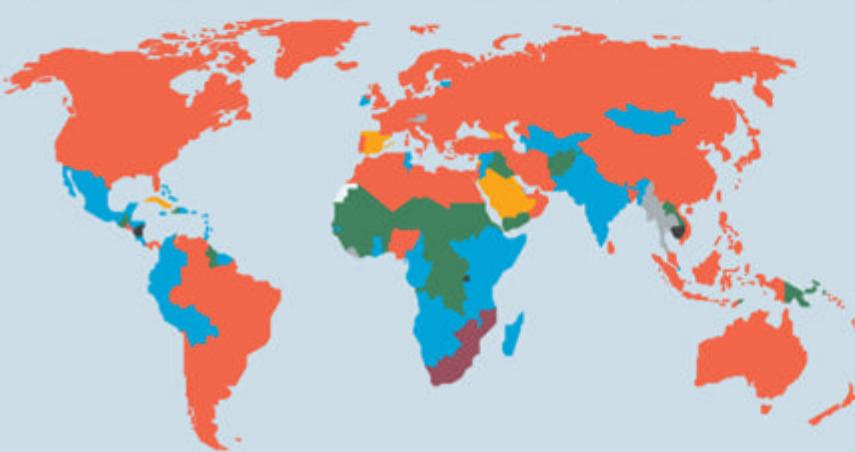
Bringing Braille into the information-technology era in this way could give it a new lease of life. And that is only right, for it was, in effect, the first method of digital communication. ■

Burdensome

IN 2013 the Institute for Health Metrics and Evaluation, in Seattle, carried out a survey of the world's disease burden. The latest results of this study, focusing on disability, have just been published in the *Lancet*. The burden of disability imposed each year by a particular condition on a country is measured by counting the number of its inhabitants who suffer from that condition, and multiplying the total by the condition's severity, assessed on a scale running from zero (meaning no effect) to one (meaning lethal). As the map shows, back pain causes the greatest burden in rich countries with ageing populations. Depression often tops the list in poorer, younger ones. Anaemia heads it in some destitute or war-torn states, where food shortages are common. Conversely, in some sedentary and prosperous parts of the Middle East diabetes is of most concern.

Most common causes of disability, 2013*

■ Lower back pain ■ Major depression ■ Iron deficiency ■ HIV ■ Diabetes ■ War ■ Other ■ No data



Source: The Lancet

Biometrics

Shifting identity

The fashion for wearable technology may get rid of the need for passwords

WATCHES and spectacles were “wearable technology” long before the marketing maven who dreamed the term up was born. But now that some of these devices are fitted with gizmos which let their wearers monitor and record their lives down to the millisecond, many technologists are asking what else the data thus generated might be used for. One such is Javier Hernandez of the Massachusetts Institute of Technology (MIT). He thinks Apple Watches, Google Glasses and their kin might provide a solution to the problem of password inflation.

Ever longer, ever more numerous, ever more complicated passwords are a curse of modern life. Unless such passwords are used frequently, remembering them is close to impossible. So they get written down, obviating the point of their complexity. One way around this is to use unique bodily characteristics, known as biometrics, to identify people. Fingerprints and iris scans, in particular, have been tried, but both require special equipment. Mr Hernandez’s work offers an alternative that does not: ballistocardiography.

Ballistocardiography is the study of the body’s movement in response to the activity of the heart. Every time someone’s heart beats, his body shifts slightly. The details of these shifts seem unique to individuals. Mr Hernandez wondered whether the accelerometers fitted to things like smart watches might be able to detect ballistocardiographic shifts, and thus generate a new type of biometric. As he has just reported to a conference held near MIT, it seems they can.

He and his colleagues worked with a group of graduate students. They asked each volunteer to stand, sit and lie down while wearing either a head-mounted or a wrist-mounted device that could collect the relevant data. They then ran these data (or, rather, 80% of them) through a piece of software written for the purpose, to seek individual telltales. Once the software had chewed on the data and drawn its conclusions, they then fed it the other 20%, to see if it could spot those telltales afresh, and identify individual participants correctly.

It could. When participants were lying down, the software was able to recognise them 94% of the time. When they were sitting or standing it was less reliable, getting their identities right 86% and 72% of the time, respectively. Not perfect then, but a plausible point of departure for refine-

ment. And if it could be refined, it would certainly be practical.

Most wearable technology (in the modern sense) is able to broadcast its results to the outside world wirelessly. And it would be a simple matter to keep encrypted version of the telltales in files akin to those used to register passwords. In order to log on, someone wearing an appropriate device might have to do little more than remain still in the presence of a computer he required access to. So if, in the not-too-distant future, you see one of your office mates lying down in front his laptop, it will not necessarily mean that he is sleeping on the job. ■

Psychology

Friends, then benefits

Why friendship can help you play out of your romantic league

BEAUTY opens many doors. Study after study has concluded that the comely earn more, are better liked, are treated more indulgently and are even given more lenient sentences in court than their plainer counterparts. The door it opens widest, though, is the romantic one. As both common sense and evolutionary theory suggest should happen, beautiful people attract beautiful partners. But not always. Occasionally, handsome men choose plain women, and vice versa.

Why this should be vexes psychologists and biologists alike. A study by Lucy Hunt of the University of Texas at Austin, and her colleagues, soon to be published in *Psychological Science*, suggests an answer. It depends on whether the couples in question were friends before they were lovers.

Ms Hunt asked 167 couples how they had come to know one another. Individuals were questioned alone, and their responses compared with those of their oth-

er halves. Those responses were mixed: 40% of couples said they were friends before they were lovers, while 41% said they were not. (The remaining 19% could not agree, with one member of the couple saying they had been friends beforehand and the other denying it.)

To measure participants’ attractiveness, Ms Hunt showed videos of them to a group of undergraduates who had not been told the experiment’s goal. The students were asked to rate the attractiveness of the people in the videos on a seven-point scale. Generally, the scores assigned to a participant by different students agreed with one another, which allowed Ms Hunt to calculate, with a fair degree of confidence, just how well-correlated in the beauty stakes a pair of lovers were.

She and her colleagues found that the attractiveness of couples who became romantic partners soon after their first meeting had an average correlation of 0.46 (out of a maximum possible of 1.0). In other words, if a man in such a couple was rated as “very attractive”, there was a fair chance that his female counterpart would be rated as “very attractive” too. In contrast, those who were friends first had an average correlation of just 0.18. Tellingly, the researchers found that the longer the members of a couple had known each other before becoming lovers, the lower was the strength of the correlation.

So a period of pre-romantic friendship can indeed erode beauty’s pulling power. But why? One explanation Ms Hunt proposes is that friendship gives potential mates time to assess subtler attributes, such as intelligence and dependability, as well as the more obvious signal of outward beauty. Given the huge commitment, by both sexes, involved in raising children, such a strategy of long-term assessment is likely to have evolution on its side.

That does, though, raise questions. One is, why does love at first sight persist? Another is, if beauty is, in an evolutionary sense, tradable for good parenting skills, what does that have to say about the parenting skills of beautiful couples? ■



Just good friends



America's abortion debate

Multiple choice

How a private matter between a woman and her doctor became the pre-eminent symbol of American political allegiance

WHEN America comes to pick its next president one thing is sure: the two candidates will take opposing views of a 40-year-old lawsuit. As the country has become more tolerant of homosexuality, abortion has been left standing as the prime insignia of affiliation in the culture wars that have raged for decades. One Republican contender, Scott Walker, intends to sign a bill in Wisconsin banning abortion after 20 weeks, with no exceptions made even in cases of rape or incest. Another, Rick Perry, has presided over the closing of most of the abortion clinics in Texas. The arguments on both sides have become wearily familiar. Mary Ziegler's book on *Roe v Wade*, the 1973 case in which the Supreme Court struck down state bans on abortion, resurrects the strange ancestry of the pro-life and pro-choice camps, which, in reality, are anything but.

Arguments over whether a mother should have the right to terminate the fetus she is carrying and, if so, at what stage in the pregnancy, are claimed by ethics and religion, but they have been driven by technology. The current aim of the anti-abortion movement is to put in place a ban on the procedure after 20 weeks and, in so doing, to make abortion advocates look unreasonable. Billboards around the country make good use of the latest in medical imaging to make this case, showing how much like a baby a fetus looks at this stage,

After Roe: The Lost History of the Abortion Debate. By Mary Ziegler.
Harvard University Press; 367 pages;
\$39.95 and £29.95

thereby casting anyone who takes the opposing view as a baby killer.

The modern abortion debate can also be traced to a change in technology. Before about 1940, childbirth was unsafe enough that doctors could usually justify abortion as being necessary to preserve the health of the mother. Improvements in obstetrics and gynaecology changed that, creating a vacuum on one side of the argument. Into it stepped what became the pro-choice movement, though that is a recent formulation of an older argument.

Those who favoured abortion before Roe tended to do so on grounds that many people might consider conservative today. Fewer unwanted babies, it was believed, would be good for bringing down the rate of illegitimacy and would shrink the numbers dependent on charity for subsistence. In the case of organisations such as the Population Council and the Association for Voluntary Sterilisation the debate was tinged with arguments borrowed from eugenics: if the poor bred less the nation would be rid of all their hereditary deficiencies. That Nazi Germany took a similar approach to changing the gene

Also in this section

- 82 A field guide to Park Avenue
- 82 Believe in black holes
- 83 Dada and the world it created
- 84 Selling art in Silicon Valley

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pool gave such arguments a hint of the goose-step. In the decades that followed they were replaced with arguments that began with the individual rather than society as a whole.

If this history makes pro-choice advocates blush, the genealogy of the pro-life movement is also troubled. The bans that the Supreme Court considered in Roe were mostly put in place in the 19th century, at a moment of moral panic about vice. Legal abortion, in this telling, encouraged people to have sex and so ought to be frowned upon. There are those in the pro-life movement who lament the demise of 1950s morals, but it is hard to find anyone in favour of other laws that resulted from the same impulse.

In 1965, in what is sometimes seen as a forebear of Roe, the Supreme Court struck down Connecticut's ban on the use of birth control by married couples. In 1972 the court found that the restrictions in place in Massachusetts on providing birth control to the unmarried was also an unwarranted instance of government in the bedroom. When Roe came before the court it was in this context. The majority opinion, written by Justice Harry Blackmun, considered the practice of abortion in the Persian empire, Pythagorean notions of personhood and British common law, before settling on the idea that the question before the court was really one of privacy, between a woman and her doctor.

Given that there is no definitive way to pinpoint when life begins, the decision of America's politicians to leave abortion to the court guaranteed that it would remain unresolved. But that was not obvious at the time. Though Roe is now the prime example cited by those who object to the practice of finding lots of concealed rights embedded in the constitution, that was not ➤

► a criticism that was often made in 1973.

It was the timing of the case as much as the contents of the opinion that explains the significance it has since acquired. Roe coincided with, and then supercharged, the rise of values voting. Nixon's 1972 campaign thought hard about how to exploit disgust at the court's decision. But it was not until the 1980s, years after Roe, that abortion became the bumper-sticker argument it is now: pro-choice v pro-life, with no room for anything in between, where to compromise is to be disqualified from representing one of the country's two political tribes. This arrangement may suit professional Democrats and Republicans well, but for most other Americans it has become a lesson in how political argument can sometimes disfigure the most intimate subjects. ■

A field guide to Park Avenue

Unnatural selection

Primates of Park Avenue: A Memoir. By Wednesday Martin. Simon & Schuster; 246 pages; \$26 and £16.99

NORTH of New York's 59th Street and just east of Central Park is the natural habitat of a peculiar breed of higher-order primates. Among the females, a fiercely competitive tribal culture and a dramatic imbalance in sex ratios (reproductive females outnumber males by a factor of two to one) have yielded some evolutionarily extravagant adaptations. Food is plentiful, but calories are severely restricted and often consumed as fluids. To reinforce status and strengthen monogamous pair-bonds, females engage in extremes of ornamentation and elaborate "beautification practices", which include physical mutilation and gruelling endurance rites. Although they appear powerful, these females occupy a socially precarious position: they rely on males for access to scarce resources and their lives are almost wholly consumed by descendant worship. Because children are such costly status objects, large numbers are a conspicuous sign of wealth.

Such are the customs and rituals of motherhood on Manhattan's Upper East Side, which Wednesday Martin, a social researcher, chronicles in "Primates of Park Avenue", an amusing and occasionally incisive new memoir. Born in the Midwest, Mrs Martin moved to New York while in her 20s and ended up marrying a native. When they began having children, they decided to trade their downtown house for a place uptown near the park. But a seemingly simple switch of zip codes was marked by some cruel rites of passage.

Gaining access to a flat in a coveted building involves an invasive interview by potential neighbours. Placing her son in pre-school requires a rigmarole of pleading phone calls and sadistic "auditions" (for both mother and child), with the understanding that for a mere \$35,000 a year, the right place can set a child on the path to the Ivy League. All the while Mrs Martin must navigate the aggressive inhospitality of fellow stay-at-home mothers. As with so many non-human primates, her transfer into a new troop meant she was "stuck at the bottom of the dominance hierarchy, regarded with suspicion, alternately ignored and harassed."

Eventually Mrs Martin goes native. The sight of so many women toting around Hermès Birkin bags drives her to want one of her own, despite the five-figure pricetag and absurdly long waiting list. On her way to the hospital to deliver her second son, she makes a pit-stop to get her hair and nails done in order to look more polished in photos—only to lament that she couldn't get a full-leg and bikini wax, too.

As both spectator and increasingly keen participant, Mrs Martin makes for a wryly entertaining guide to this rarefied subculture. Alas, this "stranger-than-fiction story" also traffics in make-believe. Reporters have found evidence of exaggeration and inconsistencies in the chronology of her account. Mrs Martin excited imaginations with her exposé of so-called "wife bonuses", or annual, merit-based financial transactions between husband and wife, but has since admitted: "I don't necessarily think it's a trend or widespread."

Still, it would be a shame to throw out the pedigree baby along with the lavender-scented bathwater. "Primates" may not be a work of serious scholarship, but Mrs Martin has created a portrait of extreme wealth that makes the whole condition seem stressful and unfortunate. At a time when such riches stretch ever more out of reach of the average person, readers with more banal woes may enjoy the chance to feel spared. ■



Cosmology

Black and light

Black Hole: How an Idea Abandoned by Newtonians, Hated by Einstein and Gambled on by Hawking Became Loved. By Marcia Bartusiak. Yale University Press; 256 pages; \$27.50 and £14.99

ANY truth, it is said, passes through three stages: first it is ridiculed, then violently opposed and finally it is taken as self-evident. Marcia Bartusiak, a professor of science-writing at the Massachusetts Institute of Technology, points out that black holes have experienced each stage to the fullest. When Isaac Newton's ideas about gravity were first taken to their natural conclusion, it appeared that a body of sufficient mass could draw in light just as it did matter. That would make it invisible. Cue public ridicule.

Ms Bartusiak's story seems less about the toilings of scientists than about a phenomenon repeatedly fighting to reveal itself, but being beset at every step. Scepticism played a strong part. The author shows how variants of the mass-from-which-light-cannot-escape meme kept arising, with each being rejected outright. Even Albert Einstein—who came up with general relativity, the equations needed to describe a massive, spinning star—did not think much of the solutions that pointed towards black holes.

The cult of personality had a role, too. Subrahmanyan Chandrasekhar first suggested that stars above a certain mass would, in death, shrink relentlessly to a point. Arthur Eddington, the pre-eminent astrophysicist of his day, ridiculed the result. Privately, many agreed with Chandrasekhar; publicly, they dared not.

Politics also played a part. Lev Landau, a Soviet scientist looking into the physics of stars' cores, was arrested during Stalin's great purge in part because of his closeness to many Western astrophysicists. Robert Oppenheimer, a physicist who would go on to lead America's atomic-bomb project, only dabbled in the topic, but a paper he wrote in 1939 described mathematically the collapse of a dying star and the resulting black hole with startling prescience. However, his paper was published the same day that Hitler ordered troops into Poland. It received little attention and quickly fell into obscurity in the West.

Perhaps the idea's most persistent foe was physicists' intuition. Black holes just kept showing up in the equations as "singularities": shrunken down to a point of no extent, to "mass without matter". In mathematics, that is usually a sign of a flawed underlying theory. Many took an ►

► interest in black holes not to prove their existence, but to make them go away in order that some perceived mathematical elegance might be recovered.

But black holes fought on, and brought in all kinds of spectators. For centuries astronomy had been only about stars' movements, but particle physicists looked into what made them tick, discovering how atoms' electrons and protons could squash together into stars made just of densely packed neutrons—a waypoint on the black-hole path. With knowledge gained from the wartime development of radar, astronomers in the 1940s moved for the first time to view the cosmos outside the realm of visible light. They found a universe alive with the hum of inchoate radio waves and, later, the flares of intense x-rays. Quasars, pulsars, stars racing away from one another: what they saw was all new, and much of it fitted with what had already been guessed about black holes.

Ms Bartusiak weaves scientific concepts to create a portrait of the scientific institution itself, showing how its norms and personalities served to shape the path taken by the idea. That continues today. Black holes are now known to lie at the centre of most galaxies and profoundly influence their growth. There are still ideas to test, from Einstein's gravity waves—travelling ripples that stretch and squash space itself—to the radiation that Stephen Hawking predicted when he suggested "black holes ain't so black". Within them may be the longest-sought link in physics, that between gravity and quantum mechanics. Ms Bartusiak's is not a complete black-hole history, but rather a considered background to a still-unfolding idea. ■

20th-century art history

Breaking out

Destruction Was My Beatrice: Dada and the Unmaking of the Twentieth Century. By Jed Rasula. Basic Books; 365 pages; \$29.99

DADA was arguably the most revolutionary artistic movement of the 20th century. From its birth in the grim wartime winter of 1916, over the course of a few raucous performances at the Cabaret Voltaire in Zurich, it stretched the boundaries of aesthetic possibility to breaking-point, elevating randomness, cacophony, insult and plain silliness into legitimate forms of artistic expression. The experimental nightclub created by Hugo Ball and his mistress Emmy Hennings introduced many of the techniques that would be deployed by later innovators, from pop appropriation to hip-hop-style sampling, from photo-



Strutting its stuff

montage, installation, assemblage and other non-traditional mixed-media mash-ups, to performance art and art that consisted of nothing but pure idea.

As Jed Rasula, of the University of Georgia, reveals in an eloquent new history, Dada's legacy was as much a chronicle of failure as triumph. For those who congregated at the Cabaret Voltaire and then went on to spread the "virgin microbe" across the globe, the goal was not to rejuvenate art—which most rejected as the product of a bourgeois culture they despised—but to remake the world. "The shooting goes on, profiteering goes on, hunger goes on; why all that art?" asked George Grosz, an artist at the centre of the Berlin Dada group. Why indeed. While Lenin and Hitler were plotting to exterminate their enemies, their neighbours were putting on vaudeville acts that hurt only people's sense of decency. Both dictators passed a formative period near the epicentres of the avant-garde: Lenin in Zurich, ground zero for Dada, and Hitler in Munich, seat of the pre-Dada experiments of the Blue Rider group. Yet Dada's transgressions always paled next to the bone-cracking zeal of Bolsheviks and Brownshirts.

Dada was ubiquitous and ephemeral. Some of its antics were puerile, like Arthur Cravan's drunken striptease in front of the Society of Independent Artists in New York. But it also made subtle interventions that tested the limits of perception. Take, for instance, Marcel Duchamp's "ready-mades", banal mass-produced products that became art simply by being put on display and, as the artist said, "creat[ing] a new thought for that object." Dada quickly spread as a wave of disgust "against everything and everyone", but it just as quickly disintegrated since there was nothing a Dadaist hated more than discipline. Typical

was the declaration by Tristan Tzara, Ball's collaborator at the Cabaret Voltaire, that "The real dadas are against Dada."

Dada was also sabotaged by the "bourgeois" limitations of its belligerently anti-bourgeois founders, undermined by ambition, turf wars and sexual jealousy—most famously in the explosive love triangle involving the poet Paul Eluard, his wife Gala, and Max Ernst, the painter. Like many dedicated to eliminating staid conventions, Dadaists could not overcome their own.

In the midst of what seemed a pointless world war, Dada used nonsense to fight back against the rationality that had led to catastrophe. But it begged the question: what next? Artists who deployed Dada's sharp blade to clear away dead brush went on to discover answers in everything from the workers' paradise of the Soviet Union to the techno-utopias proposed by de Stijl, a Dutch movement, the Bauhaus school in Germany and Constructivism. André Breton and his Surrealist disciples, meanwhile, turned inward to the unexplored terrain of the subconscious. In each case, these former adherents tended to regard Dada as a necessary first step rather than an end in itself.

Mr Rasula's book sometimes feels a bit unfocused, but a more linear narrative would have violated the spirit of a cultural phenomenon that was less a defined movement than an expression of the zeitgeist. Even a nuanced history like this one runs against the grain of Dada's essentially anarchic impulse. The author makes it clear that Dada will always be with us. If it sometimes goes into remission, it has also seeped into the bloodstream. Every now and again the Dada strain re-emerges like a mutated variant of the flu, convulsing the world when it becomes too smug and certain of its own righteousness. ■

Contemporary art

Artiquette

SAN FRANCISCO

Mavens and manners for the art collectors of Silicon Valley

WHEN it comes to the rich young tech entrepreneurs of Silicon Valley, art dealers around the world are clamouring to know: are they buying? The answer is yes, discreetly, and often with the help of a firm called Zlot Buell.

The San Francisco-based art consultancy does not have a website, preferring word-of-mouth recommendations to self-promotion. The firm vets its clients, probing them about their reasons for buying and their willingness to observe a certain art-world etiquette that some may find old-fashioned. If prospective collectors are interested in art only for interior decoration or speculative investment, Zlot Buell would prefer not to work with them, regardless of budget.

Mary Zlot (pictured right, seated) began recommending art in the 1970s while working at an architectural-design firm specialising in corporate interiors. When she broke free to set up her first art consultancy in 1983, she took one important client with her, KKR, an investment firm. From the outset, Ms Zlot steered clear of conflicts of interest. She does not buy and sell art and is paid only by her collectors. Although the Association of Professional Art Advisers suggests this is a sensible way to do business, many trade in art and some take payments from dealers behind their clients' backs.

Ms Zlot gave Sabrina Buell (pictured left) her first job after she graduated in art history and economics at Stanford University. Ms Buell comes from a prominent San Francisco family; many who knew her had made calls on her behalf. Shortly after, she went to New York to broaden her horizons, taking a masters in arts administration and then working for Matthew Marks, a respected dealer. A decade later, Ms Buell returned to San Francisco, becoming a partner in Ms Zlot's consultancy in 2012.

Like a law firm, Zlot Buell works with some clients on retainer and others on a combination of commission and hourly billings. The pair counsels old and new money in the Bay area. Ms Zlot looks after the private and corporate collections of Charles Schwab, founder of the investment firm and chairman of the San Francisco Museum of Modern Art's (SF MOMA) board of trustees. Another client is George Roberts, the r in KKR, whose personal collection focuses on Pablo Picasso, Alberto Giacometti, Willem de Kooning, Cy Twombly and Jasper Johns. Ms Buell

works with younger clients, such as Lucy and Larry Page (CEO of Google), Kaitlyn Trigger and Mike Krieger (co-founder of Instagram) and Alison and Mark Pincus (she is co-founder of One Kings Lane, an online marketplace; he is the co-founder of Zynga, a social-gaming company).

The advisers specialise in positioning their clients to get the highest-quality works at a discount, typically between 10% and 20%. Quality is vital. When an artist sells works for the first time, all the paintings in a particular size tend to be priced the same. But when these works are resold at auction, the strongest painting could fetch three times as much as the weakest. Good manners are also important. In order to be first in line for an offering of new art works, Zlot Buell coaches its clients in art-world behaviour. For example, if collectors decide to sell a work of art, they need to give first right of refusal to the dealer who sold it to them.

Zlot Buell's methods contrast drastically with those of Stefan Simchowitz, an art consultant who is based in Los Angeles and who describes himself as the "poster child of evil speculation." Mr Simchowitz advises Sean Parker, co-founder of Napster and the first president of Facebook. Mr Parker recently bought Ai Weiwei's "Circle of Animals/Zodiac Heads" (2010) for \$4.4m at Phillips, an auction house. Collectors affiliated with Mr Simchowitz may, on

occasion, find themselves forced to buy at auction because their adviser has been blacklisted by some galleries who do not like his penchant for taking controlling short-term positions in an artist's oeuvre and reselling art works as quickly as he can buy them.

Whereas Mr Simchowitz uses hype to engineer speculative bubbles, Zlot Buell tries to protect its clients from them. It generally advises collectors to buy on the primary market (first-time sale) rather than secondary one (resale); the selection is broader and prices tend to be lower. When a client is keen on an artist whose work they consider overpriced, Ms Zlot and Ms Buell try to divert them towards a similar artist whose work they see as undervalued. For a client who wants to acquire a Jeff Koons (record price \$58.4m), for example, they might recommend a work by Robert Gober, an important American figurative sculptor of the same generation. Mr Gober's record price is \$4.2m.

Eye mileage

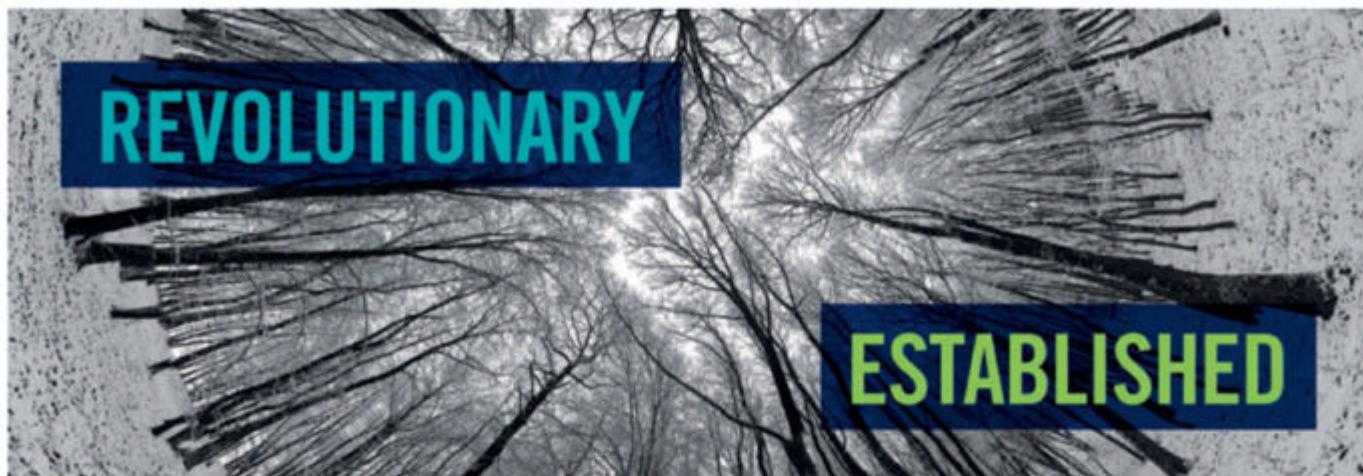
Knowing your art history is as important as understanding the art market, and neither is much use without a lot of what Ms Zlot calls "eye mileage". The firm advises its clients to think twice before buying anything in their first year of looking. For many collectors, art fairs such as Art Basel, which started on June 18th, are an efficient means of clocking up eye mileage. "Art acquisitions are the end of the journey in which your adviser is like a safari guide," says Mr Krieger, who is amassing a collection of photography and sculpture with Ms Buell's help. "Training your eye is the key to discerning the good from the great."

Good advice is not just about expertise, but connections too. Advisers who get the first call from the best galleries are supportive of artists' careers and help them gain a following among museums. Zlot Buell encourages collectors to donate works to museums and to sit on their acquisitions committees and boards of trustees. After a \$300m remodelling, SF MOMA will reopen next spring with a range of new exhibitions, including one of recent gifts; 20 of them will have been acquired with Zlot Buell's assistance, including works by Jackson Pollock, Louise Bourgeois, Sigmar Polke, Ellsworth Kelly, George Condo, Peter Doig and Mark Bradford.

A good art collection is a highly personal one, so a skilled adviser should help a collector steer clear of fads and avoid the common trap of buying the same artists as their friends. Many people assume that tech people want to collect digital art, but generally they are unimpressed by it. "They look at a screen all day long; they don't need to look at another," Ms Zlot says. Indeed, for many in Silicon Valley art offers reassuringly physical objects in a world that is ever more digitised. ■



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% change on year ago

	Gross domestic product	Industrial production	Consumer prices	Unemployment rate, %	Current-account balance	Budget balance	Interest rates, %	Currency units, per \$		
	latest	qtr*	2015†	latest	latest	2015‡	% of GDP 2015†	10-year gov't bonds, latest	Jun 17th	year ago
United States	+2.7 Q1	-0.8	+2.3	+1.4 May	-0.2 Apr	+0.4	5.5 May	-410.6 Q4	-2.4	-2.5
China	+7.0 Q1	+5.3	+6.9	+6.1 May	+1.2 May	+1.4	4.1 Q1§	+291.5 Q1	+2.8	-2.7
Japan	-0.9 Q1	+3.9	+0.8	+0.1 Apr	+0.6 Apr	+0.6	3.3 Apr	+77.4 Apr	+1.9	-6.9
Britain	+2.4 Q1	+1.2	+2.4	+1.2 Apr	+0.1 May	+0.3	5.5 Mar††	-161.3 Q4	-4.7	-4.4
Canada	+2.1 Q1	-0.6	+1.8	-0.6 Mar	+0.8 Apr	+1.1	6.8 May	-42.2 Q1	-2.8	-1.8
Euro area	+1.0 Q1	+1.5	+1.5	+0.8 Apr	+0.3 May	+0.2	11.1 Apr	+314.0 Mar	+2.3	-2.2
Austria	+0.3 Q1	+0.7	+0.9	+0.8 Mar	+1.0 May	+1.1	5.7 Apr	+3.2 Q4	+1.6	-2.1
Belgium	+0.9 Q1	+1.3	+1.2	+1.8 Mar	+0.6 May	+0.3	8.5 Apr	+7.4 Dec	+0.6	-2.6
France	+0.7 Q1	+2.2	+1.2	-0.1 Apr	+0.3 May	+0.2	10.5 Apr	-20.6 Apr‡	-1.0	-4.1
Germany	+1.0 Q1	+1.1	+1.8	+1.4 Apr	+0.7 May	+0.5	6.4 May	+287.0 Apr	+6.7	+0.7
Greece	+0.2 Q1	-0.7	+1.4	+0.3 Apr	-2.1 May	-0.9	25.6 Mar	+1.3 Mar	+2.7	-3.7
Italy	+0.1 Q1	+1.2	+0.6	+0.1 Apr	+0.1 May	+0.2	12.4 Apr	+46.9 Mar	+1.9	-2.9
Netherlands	+2.4 Q1	+1.6	+1.8	+0.8 Apr	+1.1 May	+0.3	9.0 Apr	+90.2 Q4	+9.0	-1.9
Spain	+2.6 Q1	+3.8	+2.7	+2.7 Apr	-0.2 May	-0.4	22.7 Apr	+13.7 Mar	+0.5	-4.4
Czech Republic	+4.2 Q1	+13.0	+3.1	+4.3 Apr	+0.7 May	+0.3	6.4 May§	+0.8 Q1	-0.4	-1.8
Denmark	+1.5 Q1	+1.6	+1.6	+4.4 Apr	+0.6 May	+0.6	4.8 Apr	+21.6 Apr	+5.9	-2.9
Norway	+1.5 Q1	+1.0	+0.8	-3.1 Apr	+2.1 May	+1.5	4.1 Mar††	+39.3 Q1	+10.4	+6.5
Poland	+3.7 Q1	+4.1	+3.4	+2.3 Apr	-0.9 May	+0.2	10.8 May§	-2.7 Apr	-1.6	-1.5
Russia	-2.2 Q1	na	-3.6	-5.4 May	+15.8 May	+15.3	5.8 Apr§	+57.1 Q1	+4.3	-2.6
Sweden	+2.6 Q1	+1.5	+2.7	+1.5 Apr	+0.1 May	+0.2	8.0 May§	+38.1 Q1	+5.8	-1.3
Switzerland	+1.1 Q1	-0.8	+1.0	-0.5 Q1	-1.2 May	-0.9	3.3 May	+49.1 Q4	+8.0	+0.2
Turkey	+2.3 Q1	na	+3.0	+3.7 Apr	+8.1 May	+7.0	10.6 Mar§	-44.3 Apr	-4.6	-1.7
Australia	+2.3 Q1	+3.8	+2.5	+2.8 Q1	+1.3 Q1	+1.7	6.0 May	-41.9 Q1	-3.1	-2.3
Hong Kong	+2.1 Q1	+1.5	+2.4	-1.6 Q1	+2.9 Apr	+3.2	3.2 Apr‡‡	+5.4 Q4	+2.7	-0.1
India	+7.5 Q1	+11.0	+7.6	+4.1 Apr	+5.0 May	+5.4	8.6 2014	-27.5 Q1	-0.9	-4.1
Indonesia	+4.7 Q1	na	+5.0	+5.8 Apr	+7.1 May	+6.0	5.8 Q1§	-25.2 Q1	-3.0	-1.9
Malaysia	+5.6 Q1	na	+5.5	+4.1 Apr	+1.8 Apr	+2.6	3.0 Mar§	+11.3 Q1	+3.4	-4.4
Pakistan	+5.5 2015**	na	+5.7	+4.6 Mar	+3.2 May	+4.2	6.0 2014	-2.0 Q1	-0.6	-5.1
Philippines	+5.2 Q1	+1.2	+6.6	+1.4 Apr	+1.6 May	+2.6	6.4 Q2§	+12.7 Dec	+3.9	-1.9
Singapore	+2.6 Q1	+3.2	+3.1	-8.7 Apr	-0.5 Apr	+0.4	1.8 Q1	+66.3 Q1	+21.8	-0.7
South Korea	+2.4 Q1	+3.3	+3.1	-2.7 Apr	+0.5 May	+1.1	3.8 May§	+98.5 Apr	+6.6	+0.5
Taiwan	+3.4 Q1	+2.7	+3.9	+1.1 Apr	-0.7 May	+0.6	3.8 Apr	+72.4 Q1	+12.6	-1.2
Thailand	+2.2 Q4	+7.1	+3.8	-5.3 Apr	-1.3 May	+1.1	0.9 Apr§	+15.9 Q1	+2.3	-2.0
Argentina	+0.4 Q4	+0.1	-0.6	-1.5 Apr	— ***	—	7.1 Q1§	-5.1 Q4	-1.5	-3.1
Brazil	-1.6 Q1	-0.6	-1.1	-7.6 Apr	+8.5 May	+7.9	6.4 Apr§	-100.2 Apr	-4.1	-5.5
Chile	+2.4 Q1	+4.2	+2.9	-0.6 Apr	+4.0 May	+3.7	6.1 Apr‡‡	-1.3 Q1	-1.4	-2.0
Colombia	+2.8 Q1	+3.3	+3.4	-3.6 Apr	+4.4 May	+4.1	9.5 Apr§	-19.8 Q4	-6.5	-2.1
Mexico	+2.5 Q1	+1.6	+2.8	+1.1 Apr	+2.9 May	+3.1	4.3 Apr	-25.5 Q1	-2.3	-3.4
Venezuela	-2.3 Q3	+10.0	-3.7	na	+68.5 Dec	+69.5	7.9 Jan§	+10.3 Q3	-1.8	-16.3
Egypt	+4.3 Q4	na	+4.2	-0.2 Apr	+13.1 May	+9.8	12.8 Q1§	-10.2 Q1	-1.2	-10.9
Israel	+2.3 Q1	+2.1	+3.5	+11.6 Mar	-0.4 May	-0.3	4.9 Apr	+11.7 Q1	+4.9	-3.0
Saudi Arabia	+3.5 2014	na	+2.6	na	+2.1 May	+2.7	5.7 2014	+81.2 Q4	-2.3	-11.6
South Africa	+2.1 Q1	+1.3	+2.1	-2.6 Apr	+4.6 May	+4.8	26.4 Q1§	-19.1 Q4	-5.3	-3.8

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist poll or Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ¶New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. ***Official number not yet proven to be reliable; The State Street PriceStats Inflation Index, Apr 26.8%; year ago 40.26%. †††Dollar-denominated bonds.

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Markets

	% change on			
	Index Jun 17th	one week	Dec 31st 2014 in local currency terms	in \$
United States (DJIA)	17,935.7	-0.4	+0.6	+0.6
China (SSEA)	5,203.3	-2.7	+53.5	+53.4
Japan (Nikkei 225)	20,219.3	+0.9	+15.9	+11.8
Britain (FTSE 100)	6,680.6	-2.2	+1.7	+2.5
Canada (S&P TSX)	14,733.0	-1.0	+0.7	-5.3
Euro area (FTSE Euro 100)	1,139.9	-2.7	+9.9	+2.0
Euro area (EURO STOXX 50)	3,428.8	-2.8	+9.0	+1.2
Austria (ATX)	2,428.7	-4.6	+12.4	+4.4
Belgium (Bel 20)	3,567.5	-2.6	+8.6	+0.8
France (CAC 40)	4,790.6	-2.9	+12.1	+4.1
Germany (DAX)*	10,978.0	-2.6	+12.0	+3.9
Greece (Athex Comp)	680.9	-10.5	-17.6	-23.5
Italy (FTSE MIB)	22,225.1	-3.8	+16.9	+8.5
Netherlands (AEX)	471.6	-2.1	+11.1	+3.1
Spain (Madrid SE)	1,096.7	-2.6	+5.2	-2.3
Czech Republic (PX)	978.2	-2.8	+3.3	-2.4
Denmark (OMXCB)	837.8	-3.8	+24.1	+15.0
Hungary (BUX)	21,720.2	-1.1	+30.6	+22.7
Norway (OSEAX)	678.8	-1.9	+9.5	+6.1
Poland (WIG)	53,203.7	-2.2	+3.5	-0.8
Russia (RTS, \$ terms)	966.6	+0.8	+10.4	+22.2
Sweden (OMX30)	1,567.5	-2.7	+7.0	+2.0
Switzerland (SMI)	8,906.7	-2.2	-0.9	+5.9
Turkey (BIST)	80,713.3	+1.2	-5.8	-19.6
Australia (All Ord.)	5,590.3	+1.9	+3.7	-1.6
Hong Kong (Hang Seng)	26,753.8	+0.2	+13.3	+13.4
India (BSE)	26,832.7	nil	-2.4	-4.0
Indonesia (JSX)	4,945.8	+0.2	-5.4	-12.3
Malaysia (KLCSE)	1,726.9	-0.5	-2.0	-8.8
Pakistan (KSE)	34,482.0	+0.5	+7.3	+6.0
Singapore (STI)	3,325.9	nil	-1.2	-2.9
South Korea (KOSPI)	2,034.9	-0.8	+6.2	+4.4
Taiwan (TWI)	9,189.8	-1.2	-1.3	+0.9
Thailand (SET)	1,514.8	+0.7	+1.1	-1.2
Argentina (MERV)	11,151.5	-1.9	+30.0	+21.7
Brazil (BVSP)	53,248.5	-1.2	+6.5	-8.7
Chile (IGPA)	19,238.4	-0.2	+1.9	-3.1
Colombia (IGBC)	10,240.6	-0.7	-12.0	-18.0
Mexico (IPC)	44,792.0	+0.5	+3.8	-0.8
Venezuela (IBC)	13,160.1	-6.2	+241	na
Egypt (Case 30)	8,556.6	-1.0	-4.1	-10.2
Israel (TA-100)	1,457.2	+0.6	+13.1	+14.6
Saudi Arabia (Tadawul)	9,544.5	nil	+14.5	+14.6
South Africa (JSE AS)	51,595.7	-0.7	+3.7	-3.4

Private wealth

Private wealth in Asia overtook that in western Europe in 2014, and is set to overtake North America by 2016, according to a report by the Boston Consulting Group (BCG). The strong performance of equity and bond markets contributed to a \$17.5 trillion increase in private wealth worldwide last year, to a total of \$164 trillion. Asia-Pacific (excluding Japan) provided over 60% of the increase. Across the region, private wealth grew by 29% in 2014 to reach \$47.3 trillion; in North America and Europe it grew by 5.6% and 6.6% respectively. China will account for 70% of Asia's wealth accumulation between now and 2019, BCG reckons. By 2021 it will overtake America as the world's wealthiest nation.



Source: The Boston Consulting Group

Other markets

	% change on			
	Index Jun 17th	one week	Dec 31st 2014 in local currency terms	in \$
United States (S&P 500)	2,100.4	-0.2	+2.0	+2.0
United States (NAScomp)	5,064.9	-0.2	+6.9	+6.9
China (SSEB, \$ terms)	502.7	-3.7	+73.0	+72.9
Japan (Topix)	1,633.7	+0.3	+16.1	+12.0
Europe (FTSEurofirst 300)	1,521.9	-1.7	+11.2	+3.2
World, dev'd (MSCI)	1,763.7	-0.7	+3.2	+3.2
Emerging markets (MSCI)	965.3	-1.3	+0.9	+0.9
World, all (MSCI)	429.3	-0.8	+2.9	+2.9
World bonds (Citigroup)	864.8	+0.2	-4.2	-4.2
EMBI+ (JP Morgan)	692.9	nil	+0.2	+0.2
Hedge funds (HFRX)	1,243.6 ^b	-0.1	+2.1	+2.1
Volatility, US (VIX)	14.6	+13.2	+19.2 (levels)	
CDSs, Eur (iTRAXX) ^f	74.0	+11.7	+5.2	-2.4
CDSs, N Am (CDX) ^f	68.8	+4.8	-0.6	-0.6
Carbon trading (EU ETS) €	7.5	-2.0	+2.1	-5.3

Sources: Markit; Thomson Reuters. *Total return index.

^bCredit-default-swap spreads, basis points. ^fJun 15th.

Indicators for more countries and additional series, go to: Economist.com/indicators

The Economist commodity-price index

	2005=100			% change on	
	Jun 9th	Jun 16th*	one month	one year	
Dollar Index					
All Items	143.6	140.0	-2.7	-16.7	
Food	159.9	156.7	-1.2	-18.0	
Industrials					
All	126.6	122.7	-4.5	-14.8	
Nfa ^a	126.7	125.9	+1.3	-14.5	
Metals	126.5	121.3	-6.9	-14.9	
Sterling Index					
All items	170.5	163.0	-3.4	-9.5	
Euro Index					
All items	158.7	155.0	-3.6	+0.5	
Gold					
\$ per oz	1,177.1	1,178.2	-2.5	-7.2	
West Texas Intermediate					
\$ per barrel	59.9	60.1	+4.4	-43.5	

Sources: Bloomberg; CME Group; Cotlook; Darmann & Curi; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Thomson Reuters; Urner Barry; WSJ. *Provisional

^aNon-food agriculturals.

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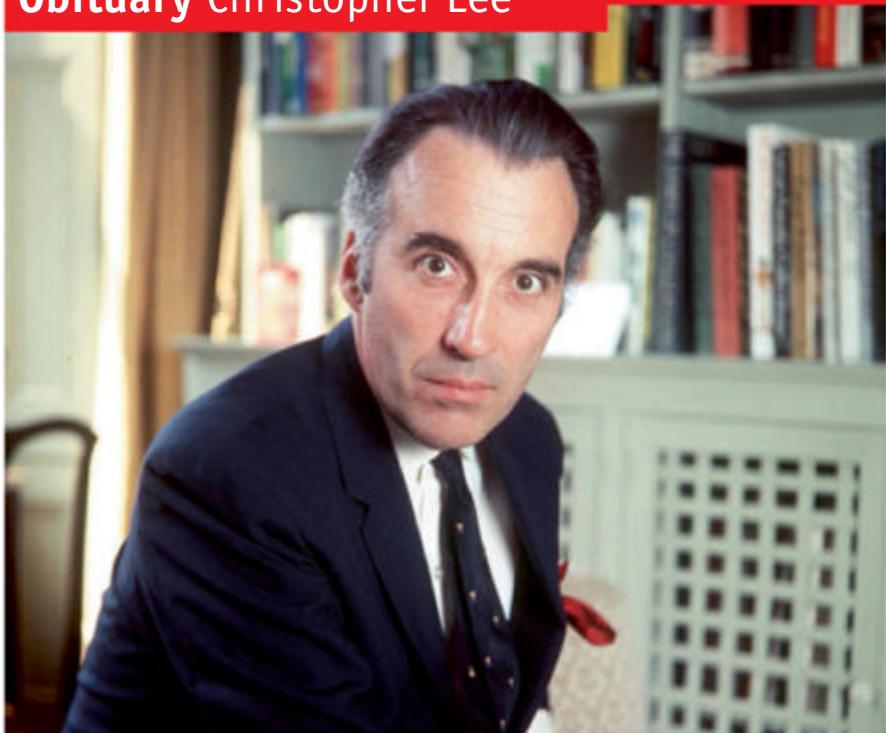
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Noblesse oblige

Christopher Lee, portrayer of villains, died on June 7th, aged 93

WHAT makes a man noble? Blood, above all; and Christopher Lee possessed it. Through his mother, the Contessa di Sarzano, he was related to the 19th-century nobilità nera of Modena and Parma as well as to the Borgias, who added to the flow in his veins an underlick of venom. Extend the line yet further, into a past roiling with sepulchral fire, and it reached as far as Charlemagne, first holy Roman emperor and wearer of the iron crown of Lombardy. (The family arms, much like the Habsburgs', were the eagle sable displayed.) But by the 1930s, though the blood remained impeccable, the money had gone on the horses; so it was Wellington, not Eton, for young Christopher, and an office boy's chores rather than some cushioned billet in a City brokerage house. His eventual fame rested, too, not on his own aristocratic credentials but on those of a count of Transylvania, whom he played in no fewer than ten films between 1958 and 1976; and Count Dracula's blood, though undeniably blue, needed regular topping up with copious scarlet streams of best Hammer-horror gore.

Nobility also consists in the habit of authority. Mr Lee was very tall, aquiline, saturnine and with the lithe, determined stride of a man who knows his own mind. The very quirk of a jet-black eyebrow could

enforce obedience. As a child he was used to staff and was expected to be, at the least, an ambassador. From his first days at Rank, however, where he played a Spanish sea-captain tangling with the hero Hornblower, it was evil orders on celluloid he most memorably handed down.

He had long wanted to play Fu Manchu; and as the Chinese master-intellect and criminal, in five films, he icily dispatched his agents to do his killing for him with spiders, snakes, bacteria and their own bare hands. As the tweed-jacketed Laird of Summerisle in "The Wicker Man" (1973), a favourite role, he calmly directed the servile villagers to set their flaming brands to the wickerwork giant in which poor Police-sergeant Howie was burned alive as a sacrifice to Nature. In "The Man with the Golden Gun" (1974), as Francisco Scaramanga, he controlled a whole household of servants, chief among them the midget Nick Nack, who was sent not only to spy but to cook lunch, move interior walls, and welcome James Bond to the secret island with a bottle of chilled champagne. ("I could have shot you down when you landed," Scaramanga purred, "but that would have been ridiculously easy.")

Familiarity with weapons and coolness under fire were part of any nobleman's portfolio. Mr Lee's father, an officer

in the King's Royal Rifle Corps, had been one of the best shots in England. He himself did gallant war service, won medals and was mentioned in dispatches; but much of his work, in special forces, was so secret that he could not talk about it. This added to his air of mystery, as well as to the implacability with which he approached the business of murdering people on screen. He had seen so many people killed, he said—beginning with the last public guillotining in France, observed when he was 17—that he had acquired a shell every bit as hard as those of his villains. Guns, knives and swords were handled with a tenderness that approached love. He knew, he told one director, just what sound people made when they were stabbed in the back: a soft groan, as blood seeped into their lungs. He had seen it done.

These points were made in a voice that, in itself, was redolent with good breeding: deep, measured, forceful, and with perfect enunciation. He might have been an opera singer, regretted that he never was, and lustily tested his baritone on the sets of the 278 films in which he ultimately appeared. At 90, he sang as Charlemagne in a heavy-metal version of his ancestor's life. When reduced to speaking roles, he made sure they throbbed with power. "I speak to the entire world," cried Fu Manchu. "What I tell you to do must be done immediately, or 10,000 will die." The voice of silvery-garbed Saruman, the evil wizard in "The Lord of the Rings", rang out chillingly over Middle-earth, and would have done so yet more forcefully if his final scenes had not been cut, to his fury, from the general release. He had originally wanted to play the good wizard Gandalf, and said Tolkein himself had told him the part was his; similarly Ian Fleming had told him he should play Bond. But his habitat, after "Dracula", was almost always the dark side.

Out of the shadows

Marvellous as it was, even the voice was not essential to the persona. When scripts were bad, as they often were, he refused to speak them. Some of his best performances were silent, save for the odd gasp and groan: both as the Mummy in 1959, and as the Creature in "The Curse of Frankenstein" (1957), he contrived to bring pathos, stateliness and complexity to characters almost entirely swathed in bandages, patched with stitches or smothered in fake gangrene. The original "Dracula" of 1958, which made his name and dominated his career, gave him only 13 lines to say. Yet even those were hardly necessary as he slowly, relentlessly materialised out of the dark, his cloak swishing, his black eyes sparkling with joy, his red lips nuzzling the white, submissive, swooning neck and his incisors, just slightly showing, beginning to glisten. Noblesse oblige. ■

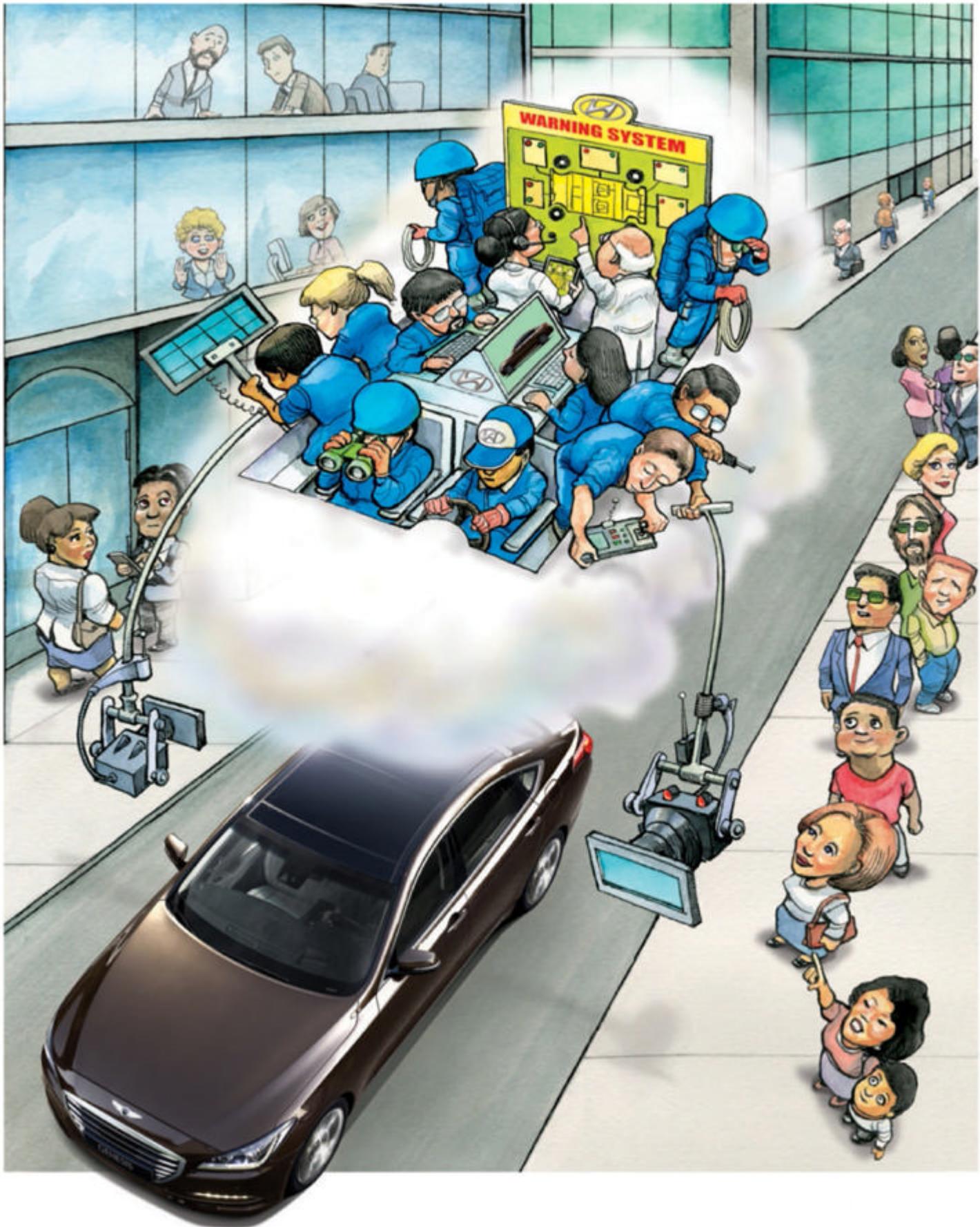


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