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A Franco-German beauty contest

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to take part in "a severe contest between intelligence, which presses forward, and an unworthy, timid ignorance obstructing our progress."

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An Economist Group business

Politics

After months of wrangling, the UN Security Council passed a resolution authorising the presence of an American-led force in **Iraq** and requiring the American-appointed Governing Council to produce, by mid-December, a timetable for drawing up a constitution and holding elections. Sporadic violence continued to bedevil the country.

Bloodshed continued in **Palestine**. Israeli troops attacking arms-smuggling tunnels in a refugee camp near the town of Rafah, in the Gaza strip, killed eight Palestinians, including two children. A few days later, a roadside bomb killed three American officials, the first time Palestinians conducting their *intifada* had directed violence against America. Yasser Arafat called the attack "an awful crime".

A lawyer, Shirin Ebadi, who has campaigned for human and especially women's rights in **Iran**, won the Nobel peace prize, the first Muslim woman to do so. The Iranian government's reaction was muted.

Saudi Arabia's royal rulers said that local elections—the first-ever in the kingdom—would be held within a year, though it was unclear how much power local councils would have or how controlled the selection of candidates would be.

The **Sudanese** government freed a leading Islamist, Hassan al-Turabi, in an effort to widen support in its renewed effort to end a 20-year-old civil war in the country's south.

Gyude Bryant took office in war-devastated **Liberia** as prime minister of an interim government meant to disarm fighters and prepare the country for elections.

Getting a fix

The United States Supreme Court let stand a ruling allowing doctors to recommend that their patients use **marijuana** on medical grounds. It also said it would decide next year whether the words "under God" should remain in the Pledge of Allegiance.

After six months of legislative wrangling, Rick Perry, the governor of **Texas**, signed a controversial redistricting map into state law. The revised boundaries are expected to result in up to seven more congressional seats for Republicans in the 2004 election. Democrats vowed to take the matter to court.

Police in New York were waiting to question the pilot of a Staten Island ferry boat that crashed into a pier on docking, killing ten people and injuring more than 30 others.

A study by RAND found that the number of severely **obese** Americans has quadrupled since 1986. Around 1 adult in 50 is now at least 100 pounds overweight.

In an effort to woo voters in Florida, George Bush announced measures both to make it more difficult for Americans to visit **Cuba** and to intensify propaganda against Fidel Castro's Communist government.

Facing off

Talks took place between officials from **Serbian** and **Kosovan** officials in Vienna, the first face-to-face meeting since NATO drove the Serbian army out of Kosovo in 1999. The UN-sponsored talks were meant to be uncontentious, but Kosovo's president, Ibrahim Rugova, said breaking away from Serbia was still a top priority.

Russia has delayed plans to complete a nuclear reactor in Iran by one year. It claims this is due to technical reasons, not because of political pressure from the Americans.

In **Azerbaijan,** the president's son, Ilham Aliyev, won the presidential election, as expected. The ex-Soviet republic, ruled by Mr Aliyev's father for 34 years, is not renowned for the strength of its democratic institutions.

In a sign of the strength of the **Franco-German relationship,** Chancellor Gerhard Schröder of Germany asked President Jacques Chirac of France to represent him for part of this week's European Union summit. Mr Schröder wanted to be back in Berlin for a Bundestag vote on economic reforms.

A Greek court rejected a request by the Russian government that **Vladimir Gusinsky**, a former media magnate who has been in exile, be extradited to Russia where he faces a charge of embezzlement.

Gambling man

China's first astronaut returned safely after a 21-hour flight aboard the **Shenzhou 5**. Only the third country to put a man in space, China now plans space walks and a modest space station.

South Korea's president, Roh Moo-hyun, called a referendum on his leadership. He said he will resign if he loses. Mr Roh's approval rating has plummeted since assuming the presidency just eight months ago.

Afghanistan introduced a law banning armed factions from politics. The law reportedly also prohibits political parties which are against Islam, or which promote racial, religious or sectarian hatred and violence.

Close to 100 people have died since Maoist rebels tried to storm a police training centre in western **Nepal** on October 12th. The Maoists have been fighting since 1996 to set up a communist republic.

Pakistan conducted its third nuclear-capable missile test in less than two weeks, launching a medium-range missile capable of hitting many targets inside India.

Roads blocked

At least 53 and perhaps more than 70 people were killed when **Bolivia's** president, Gonzalo Sánchez de Lozada, ordered the army to clear roadblocks and protesters who brought the capital, La Paz, to a halt. The president was defying calls for his resignation, from the opposition and some allies.

Mexico's president, Vicente Fox, met Japan's prime minister, Junichiro Koizumi, in Tokyo, but did not sign a hoped-for **free-trade agreement**. Important details remained unresolved despite last-minute talks.

Under pressure from the United States, Ecuador became the fifth Latin American country to pull out of a third-world trade block set up last month by Brazil, India and China. That has left Brazil looking increasingly isolated ahead of next month's ministerial meeting on the proposed **Free-Trade Area of the Americas**.

Business

Negotiators meeting in Geneva aim to resuscitate the **World Trade Organisation's** Doha round of trade talks, which has been on life support since the group's disastrous meeting last month in Mexico. Talks will focus initially on core issues such as lowering agricultural subsidies and tariffs on manufactured goods.

British scientists released the results of the world's biggest environmental-impact study of **genetically modified crops.** Results of the three-year study were mixed. Of three crops tested, two were found to be more harmful to the environment than conventional crops; the third was kinder. Meanwhile, **Monsanto,** an ailing agriculture and biotechnology company, announced it will exit its European seeds business amid higher fourth-quarter losses of $188m.

Intel reported that profits more than doubled in the third quarter compared with a year ago, to $1.7 billion, despite lingering weakness in corporate spending on technology. Strong demand in Asia and brisk sales of its mobile computing chips fuelled growth.

Human frailty

The **New York Stock Exchange** plans disciplinary action against five floor-trading firms for improper trading practices. Separately, **Fidelity Investments**, America's biggest mutual-fund company, called for the New York Stock Exchange to go electronic. The exchange is the only major stockmarket with a residue of waving humans on the floor.

Josef Ackermann, chief of **Deutsche Bank**, Germany's biggest, may face a second criminal probe over last year's sale of the bank's life-insurance unit. Mr Ackermann is already under investigation for endorsing fat severance payments to executives of Mannesmann, on whose supervisory board he sat, when the firm was bought by Vodafone. Meanwhile Thomas Fischer, a former rival of Mr Ackermann at Deutsche, was appointed head of WestLB, a large and troubled public-sector bank.

Joining forces

General Motors announced profits of $425m in the third quarter, compared with a loss of $804m a year ago. Its booming finance arm put the firm back in black, but its car business struggles. Soaring car sales lifted **Nissan's** operating profits by 15% to ¥401 billion ($3.4 billion).

Microsoft and **Vodafone**, the world's largest mobile operator, are joining forces to develop standards for linking mobile devices to computers.

EMC, a data storage hardware company, agreed to buy Documentum, a data storage software vendor, for $1.7 billion in shares. The deal, the company's second in three months, is intended to boost revenues from software.

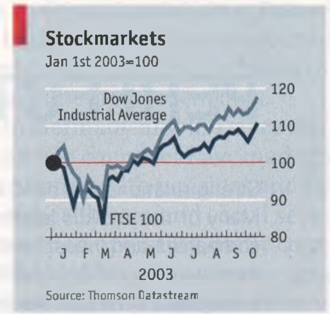
Eurex, the world's biggest derivatives exchange, is suing Chicago's two biggest futures exchanges on antitrust grounds. The all-electronic, Swiss-German exchange accuses the Chicago Board of Trade and the Chicago Mercantile Exchange of trying to stymie its plans to establish the first transatlantic futures market.

The **Food and Drug Administration** is expected to let generic-drug makers use another method of getting approval for drugs. The new approval route could speed up the time it takes for generics to reach store shelves. Pharmaceutical firms are lobbying to bar this process, but the agency is expected to persevere.

British Sky Broadcasting, a pay-television company, is considering up to five external candidates to replace Tony Ball, its chief executive. Rupert Murdoch, chairman of the media group that owns the company, bowed to institutional pressure to expand the selection process after pushing the candidacy of his 30-year-old son, James.

Looking up

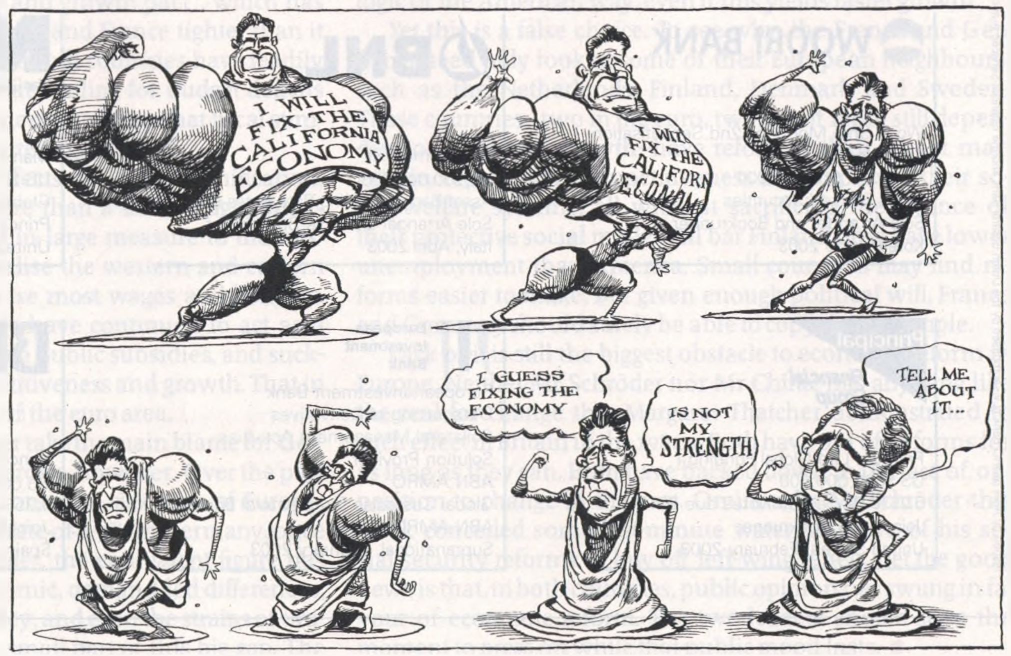
Bank of America and **Merrill Lynch** reported healthy profits, in a sign that the economy is improving. Bank of America's earnings jumped 31% compared with last year due to healthy results from consumer and commercial banking. Merrill's profits climbed 50% on robust trading and stock-and-bond underwriting business, and big cost cuts.



Fuelled by evidence and optimism regarding a reviving economy, **stockmarkets** on both sides of the Atlantic have rallied strongly since March. The Dow Jones Industrial Average and FTSE 100 are up 18% and 11%, respectively.

The **Federal Reserve Bank of New York** named Timothy Geithner, a senior official at the International Monetary Fund, as its new president. The 42-year-old, formerly in the Treasury Department, played a key role in the Asian financial crisis of 1997-98.

Other economic data and news can be found on pages 102-104



A Franco-German beauty contest

Jacques Chirac and Gerhard Schröder still have lots of economic reforming to do

EUROSCLEROSIS. An ugly word, coined for an ugly phenomenon in the 1980s, is back. The heady days of January 1999, when Europe's new single currency, the euro, was hailed as a certain harbinger of economic revival, are a distant memory. In fact the performance of the 12-country euro area over the past five years has been a bitter disappointment. And at the heart of that poor performance lie France and Germany, which account for roughly half of euro-area GDP. Unless France and Germany recover their zip, the euro area will be condemned to remain an under-achiever.

That is why the current debate over economic reform in the two countries matters so much. On October 17th, after this newspaper went to press, the German Bundestag was expected to approve, albeit by only a tiny majority, a set of labour-market and tax changes that are central to Chancellor Gerhard Schröder's "Agenda 2010" economic-reform programme. In France, the government of President Jacques Chirac is pursuing its own reforms, which it cheekily calls "Agenda 2006". Both countries' governments face opposition to their proposals from political rivals, public-sector workers, trade unions and others. For Europe's sake, they must defeat that opposition and continue their reforms.

Various explanations have been put forward for the sluggishness of Europe's biggest economies. Some pin the blame on the European Central Bank, for its overly tight monetary policy. Real interest rates have indeed been uncomfortably high in Germany, where inflation is dangerously low; but other economies in the euro area have done better, and average euro-area inflation remains over 2%. A stronger case can be built against Europe's "stability and growth pact", which has kept fiscal policy in both Germany and France tighter than it should have been. But in practice both countries have readily breached the supposedly inviolate ceiling for budget deficits of 3% of GDP. In any case, experience suggests that fiscal stimulus is not the best long-term route to growth.

A third culprit is the after-effects of German unification. Partly because it happened more than a decade ago, this is now easy to forget. Yet, thanks in large measure to the mistaken decision not only to equalise the western and eastern currencies but, worse, to equalise most wages and benefits, the eastern *Länder* of Germany have continued to act as a huge sponge, soaking up German public subsidies, and sucking down the economy's competitiveness and growth. That in turn has dragged down the rest of the euro area.

Even unification can no longer take the main blame for Germany's (and hence France's) sclerosis, however. Over the past ten years, the British economy, once the sick man of Europe, has grown at an annual average rate of 2.9%. In Germany, once the continent's *Wirtschaftswunder*, the equivalent figure has been a meagre 1.3%. Macroeconomic, demand-led differences, such as monetary and fiscal policy, and even the strains of unification, can account for only a small part of this big gap. The bulk of it must have microeconomic, or supply-side, causes. Specifically, rigidities in labour and product markets in France and Germany, aggravated by high taxes and social-security contributions, have discouraged investment and the hiring of labour, keeping growth down and unemployment high.

The reforms now proposed in Germany and in France represent the first joint effort that the two countries have made to begin remedying these failings. Starting with pensions and labour markets, and moving on to health care and social security, the two governments are partly co-operating, partly competing to outdo one another. Such rivalry is welcome and could prove highly productive, as in both countries there is now a political opportunity for reform. At present, Germany seems to be in front; but there are reasons to expect that France may in the end move ahead (see page 27). Even Italy, the euro area's other poor performer, has started to make reforms, though it has further to go than the big two.

There is another pressing reason for pushing forward with reform: the strength of the euro. In the currency's early days, its relative weakness helped to keep the continental economies growing by boosting exports. But that may also have allowed reluctant reformers to put off hard choices. With every likelihood that the dollar will continue to weaken, such a let-out is no longer available. A rising euro will make the case for economic reform in Europe even more urgent.

In others' footsteps

The doubt on which opponents of reform play is simple and seductive. They maintain that countries such as France and Germany should accept lower growth (and higher unemployment) as a price worth paying to sustain the perceived benefits of the "European social model". Rather preserve the warm comfort of that model, they advise, than embrace the cold logic of the American way, even if this yields faster growth.

Yet this is a false choice. To see why, the French and Germans need only look at some of their European neighbours, such as the Netherlands, Finland, Denmark and Sweden. These countries—two in the euro, two out of it but still dependent on euro-area growth—have reformed their labour markets, increased their competitiveness and improved their social-welfare systems, all without sacrificing the essence of their protective social model. All bar Finland now have lower unemployment than America. Small countries may find reforms easier to make. But given enough political will, France and Germany should surely be able to copy their example.

Lack of it is still the biggest obstacle to economic reform in Europe. Neither Mr Schröder nor Mr Chirac has anything like the zeal for change that Margaret Thatcher demonstrated to such effect in Britain in the 1980s. Both have put off reforms for as long as they can. Both have backed down in the face of opposition to change in the past. Ominously, Mr Schröder this week conceded some last-minute watering down of his social-security reforms to buy off left-wing rebels. Yet the good news is that, in both countries, public opinion has swung in favour of economic reform. The two leaders should seize the moment to press on while that public mood lasts. ■

China's space programme

Congratulations, China

But a man in space must mean it no longer needs foreign aid

"THE East is Red", went the old Maoist anthem. Yes, but the West is expert, was always the cutting comeback. Now the inventor of gunpowder and the rocket in earlier times has staked a claim to more modern technological prowess.

The success of the *Shenzhou 5* launch, carrying China's very own astronaut, is no small feat, especially for a developing country (see page 81). China's Communist Party bosses will, no doubt, bask in the outpouring of national pride at home, and the envy of other would-be space cadets. After all, China is only the third country to put a man in space, after Russia and America, and the poorest one at that. As a nationalist boost that is fair enough, but it does carry one awkward implication. It is that China should no longer be sent the $1.8 billion or so it is getting in foreign aid each year (much of it from Japan). It may still be a poor, if fast-growing, economy but if it chooses to spend its money on space travel there can be no good reason for outsiders to subsidise that choice.

China has long had a commercial and military space programme that has already launched more than 70 satellites. This first manned space shot will, China hopes, also advertise the reliability of its commercial satellite-launch services (after a string of embarrassing failures in the 1990s); strengthen its claim to a seat at any future space-negotiation top table; reinforce its influence in Asia; and through such heavenly exploits, put China firmly on the terrestrial great-power map.

Nevertheless, putting a man in orbit remains a rather wasteful sort of publicity stunt. No one knows how wasteful, for China is even more secretive than others both about its space budget and about the bigger military budget of which it is part. China is not alone in burning up money on unneeded space ventures—think of the original Russian space station, or America's (still grounded) space shuttle. But those two countries at least wasted their own money. China, which makes sure its otherwise opaque statistics always support its claim to neediness, is trading in space on the generosity of others. And it does not intend to stop at a single demonstration shot (which may, outsiders guess, have cost a total of $2 billion): more costly efforts are planned, including eventually a moon landing and even a space station of its own.

That is what is implied if China truly wants to catch up with America and Russia in space. The then Soviet Union managed to put its first man into space a rather impressive 42 years ago, and in the process shocked America. Much more will have to be spent if China wants to become a space pioneer, or even just to narrow the gap further.

Might those Chinese applauding this week's achievement feel differently if they knew the price tag? The party is not about to ask. There have been mutterings on internet bulletin boards; some of China's scientists have wondered privately if the cash going into manned space flight is well spent. China could be spending a lot more, say, on the search for an AIDS vaccine (it has been woefully secretive about its AIDS problem too, at the cost of many lives) or on better ways to prevent outbreaks like that of the respiratory disease SARS. But those Chinese, many of them in the countryside, with the greatest terrestrial concerns, such as no real job, corrupt officials, lousy roads and pockets of still considerable poverty, have little chance to say what they think. Bizarrely, China has tried to appeal to its peasant farmers by irradiating seeds in space to produce better strains—something else that can be done more easily and cheaply on the ground.

Might China's new space adventure nonetheless provide other commercial spin-offs in technologies and materials for its civilian economy, rather as America's space programme has done? Possibly, in some industries, but in China the process works chiefly in reverse: fast-developing commercial technologies and the infusions of money China hopes to attract through its commercial space launches help its military missile and satellite programmes—which is one reason why America is so wary of allowing its high-tech firms to have China launch their satellites. Where China's manned flights might help a bit is in making it more proficient, for the safety of its astronauts, in telemetry, the signals used to control and guide things through space. But others manage this without such extra incentives.

Some people worry that China's first man in the cosmos could bring a new space race. Not with America, which is already too far ahead technologically to bother much. But India, China's chief rival for leadership in the developing world, is egging its scientists on to get a man on the moon too; its government recently approved an unmanned moon shot by 2008. Others may now be tempted to follow.

The other coin of pride

China will be watched more closely for its military intentions. The rockets that power China's space programme are virtually indistinguishable from the intercontinental ballistic missiles that are intended to carry its nuclear warheads. China has been modernising and expanding its nuclear force for some time; it has already shown that it can release more than one satellite from a single rocket, giving it a capability to put multiple warheads on a single missile should it choose to do so.

Shocked by America's technological wizardry on display in the first Gulf war, and even more so by the speed of its victory in the second (not to mention the earlier routing of al-Qaeda and the Taliban government that supported it in Afghanistan), China is also working feverishly to overcome more conventional handicaps. Fighter aircraft, bombers, ships and submarines bought from Russia are aimed at deterring America from coming to the assistance of Taiwan, which China claims as its own, in any future crisis. So is the plan to deploy a new radar satellite in 2005, able to peek though the clouds to track America's naval movements near the island.

In many ways, China and America are rubbing along better now than they have for some time. Neither is looking for a confrontation. But this week's space spectacular, like the military modernisation going on less publicly, is China's way of saying to America, as to others: watch us, and watch out. ■

Reconstructing Iraq

Those odious debts

Should those who lent to Saddam get their money back?

THE immediate challenges confronting America and its coalition partners in their efforts to rebuild Iraq are daunting enough, from fighting terrorism and kick-starting its economy to raising money and trying to agree on a constructive new United Nations resolution. So they could have done without this week's reminder that soon they will be embroiled in the mother of all financial battles over what to do about all the debt piled up by Saddam Hussein's regime.

On October 13th, lawyers for Hyundai, a South Korean firm, said they were organising a coalition of firms owed money for work in Iraq to seek repayment of debts that may exceed $10 billion. That is on top of debt and war reparations owed by Iraq to other governments, multilateral lenders and commercial banks together estimated at up to $350 billion. There is a moratorium, including the suspension of payments, on Iraq's sovereign and commercial-bank debt until the end of 2004. Its oil is protected from being seized in lieu of cash payments. Yet American officials privately fear that the issue will undermine the UN-organised donor meeting in Madrid on October 23rd, intended to raise funds for Iraq.

The Iraqi debt problem highlights a huge unresolved flaw in the international financial system. There is an overwhelming case, both in terms of economic expediency and justice, for writing off most of Iraq's debts, and doing so fast. The uncertainty about Iraq's future financial condition is one reason why it is proving hard for it to attract new investment. The arguments made by Keynes with regard to Germany after the first world war remain valid today. Taking on Saddam's debt burden would cripple the new Iraq economically. Besides, it is clearly unfair to expect the Iraqi people to pay for the reckless waste of the regime that brutally oppressed them for so long.

Currently, the financial system does not deal with this problem sensibly. The Paris and London clubs will no doubt belatedly negotiate some sort of rescheduling and writing down of, respectively, Iraq's sovereign and commercial-bank debt. (There is no club for tackling corporate debt.) But they will almost certainly do so on the basis of what lenders judge to be Iraq's ability to pay—which will no doubt be on the high side—not on the rightness of its having to do so.

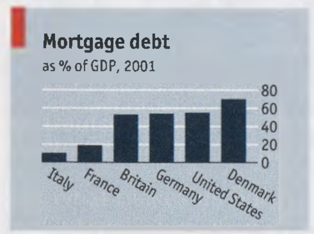
That is not good enough. The main argument made against massive debt forgiveness is that it would set a bad precedent, casting doubt over lending to all sorts of countries (China, for instance) that might one day make the transition to a better, democratic regime. There is a germ of truth here. Certainly, clear rules are needed for dealing with the debt of countries that undergo regime change. Perhaps the UN should be willing, as part of its armoury of economic sanctions, to designate loans made to identified bad regimes as "odious debt" that would not pass to a legitimate new government.

But the point about Iraq is that the circumstances of its regime change, coming after more than 12 years of UN sanctions, are simply too exceptional (and likely to remain so) to set any sort of precedent. What matters is that Iraq is given the best possible chance of success. The donor meeting in Madrid next week should debate hard about how to give Iraq the debt forgiveness it needs almost as urgently as it needs peace. ■

Housing finance

Home sweet home

To buy a house, most people need to borrow. But it's more complicated than that



BORROWING to buy a house ought to be as simple a transaction, one might think, as borrowing to buy a car. The numbers are bigger, and the period of repayment longer as a consequence, but a loan is still a loan, isn't it? Apparently not. Countries vary remarkably in the way they deal with the housing-finance conundrum—and the differences turn out to have a big effect on how their economies work (see pages 71-73).

The pattern of finance drives home ownership. In Britain and the United States, this is higher than in much of continental Europe. It is often argued that policy should push this way, because home owners (with a stake in their communities) are better and happier citizens. Hence tax subsidies for home loans—a policy lately abandoned by Britain, but retained, and how, by the United States, where the mortgage-interest deduction is one of the least touchable aspects of the tax code.

There are other effects too. In America, most mortgage finance is at fixed rates, and borrowers are free to refinance at small cost. That, one might think, is a formula for bank insolvency—and so it would be, were it not for the role played by government-chartered institutions: Fannie Mae ("our business is the American dream") and Freddie Mac. American housebuyers are heavily subsidised not only by the tax system, but also by the guarantee that lets Fannie and Freddie lend on terms that no private lender could match.

The fixed-rate bargain offered to American borrowers makes the economy stable when interest rates change: disposable incomes fall gently as interest rates rise. The same is true in much of Europe, where fixed rates and long terms (though usually with penalties to discourage refinancing) are also common. Britain, despite recent changes, is different. Loans nowa- ▸▸

days have a fixed-term component, but it tends to be brief. When the Bank of England raises interest rates, disposable incomes get hammered. The Bank is anxious about what will happen to Britain's inflated housing market—and to the economic expansion it has sustained—when rates next have to rise. Britain's Treasury regards this idiosyncratic prevalence of floating-rate debt as a danger if the country were to adopt the European single currency.

So housing finance matters. But which among this bewildering array of models is best? Hard to say. Each has its drawbacks, unintended consequences and gross inequities. It would be interesting to see how housing finance would work without governments trying to push it this way or that, but it is difficult to find any such example: politicians may have different ideas about the appropriate form of intervention, but they agree that this is not something that people and private lenders can be left to work out for themselves.

Governments are wrong about this. Fine as it may be to own one's home, people might like it even better to have a choice. In America, only a fool, somebody too poor to get credit, or somebody too rich to care would refuse the handouts that the government lavishes on home-owners. Britain's long history of inflation acted in a similar way to make home ownership on borrowed money an offer too good to turn down, and the habit is proving hard to break. Incentives in both countries have traditionally been stacked against private renting, a choice which many people might prefer, if it were offered on comparably attractive terms.

Governments should recognise, if nothing else, that explicit or implicit subsidies for housing finance are extremely inequitable. They reward the rich more generously than the moderately prosperous, and they reward the poor—who cannot aspire to buy property, even on heavily subsidised terms—not at all. If fairness counts, why not give market forces a try? ■

Auditing

Unresolved conflicts

Reforms of the auditing industry do not go far enough

EVER since the implosion of Arthur Andersen, the giant accounting firm which acted as the auditor to Enron and a string of other firms which cooked their books, the auditing industry has been in turmoil. In 2002 America's Congress hastily passed the Sarbanes-Oxley act to, among other things, untangle the auditing profession's many conflicts of interest. America's Securities and Exchange Commission also adopted new rules in January. And a new supervisor, the Public Company Accounting Oversight Board, was created.

Despite all these efforts, there are reasons to worry that the auditing industry is not in much better shape than it was before (see page 75). Because one small group of top accounting firms audit most big international companies, this is not just America's headache, but the world's.

The scandals that rocked the accountancy profession show no signs of dying away. A continuing series of arrests and regulatory censures of large accounting firms has shown that Andersen was not just one rotten apple, but that the entire barrel was tainted. Andersen's collapse should, in theory, have had a salutary effect on other auditors, serving as a stark warning of the disaster facing a firm whose eagerness to please a big client went too far. Perversely, though, Andersen's failure may have had the opposite effect.

For one thing, it pushed the auditing industry into a further, and dangerous, consolidation. With Andersen's demise, most of its thousands of partners and clients simply moved to the remaining Big Four accountancy firms. As a result, the Big Four are now bigger than ever. They audit nearly all publicly listed firms in America and the vast majority of those in Europe and Japan as well. This extreme concentration raises, in turn, doubts about whether America's regulators, or those of any other country, could afford a repeat of Andersen's prosecution, pursuing one of the surviving firms to the point of extinction if they uncover another big scandal.

So the industry's consolidation would seem to demand, at the least, a much more robust set of regulations governing its behaviour. And yet, despite new "independence" rules barring auditors from providing clients with management consulting and other advice, the Big Four still can and do offer clients lucrative tax-planning and other non-audit services. Worryingly, these have continued to grow about as fast as auditing revenue at all four firms.

The problem is that the existing independence rules are half measures. It is foolhardy to assume, given recent history, that auditors will remain unswayed by the fat fees paid to them for ancillary services. And the rules on "rotation" merely require the periodic swapping of the senior partner on audit teams, reflecting a naive view that biased people are the issue, not biased firms and incentives. If auditing firms themselves had to be changed every few years, it would go a long way toward making auditors genuinely independent.

By requiring that all companies listed on public stock exchanges file audited financial reports, governments around the world have given accounting firms not only a unique franchise, but a public mandate. Their role in ensuring the honesty of financial reports, a critical check on company management and a key component of investor trust in global markets, makes the independence of auditors a paramount concern.

Bubble protection

Deep-pocketed industry lobbyists managed to water down the reforms first proposed in America after the scandals broke. It is time to correct this mistake. Having already come part-way on both non-audit services and auditor rotation—and thus having conceded that these conflicts do matter—regulators must now finish the job. They should bar auditors from providing all non-audit services to audit clients and make audit-firm rotation mandatory. Otherwise, the next stockmarket bubble will, almost as certainly as night follows day, lead to another wave of scandals. ■

Spies and lies

SIR – You take to task the spies and politicians in Britain and America who have, you say, misled their publics about Saddam Hussein's weapons of mass destruction ("Wielders of mass deception?", October 4th). Should you not also include yourselves? In making the case for war, you repeatedly spoke of those weapons as though it were a proven fact that they existed. You asserted that Saddam Hussein "has been building stockpiles of chemical and biological weapons for 20 years, and is trying to develop nuclear weapons too" ("Pre-empting threats, threatening pre-emption", September 28th 2002). Earlier you had said: "To those who, when told that Iraq is a mortal threat to the peace of the world, say 'prove it', the only sane reply is: what more proof could anyone need?" ("Confronting Iraq", September 14th 2002). You dismissed anybody who might "swallow" Mr Hussein's plea that he had no proscribed weapons as "either a fool or a knave" ("Burden of proof", February 8th). Now you coyly say that *The Economist* was not among the very few people who believed that Mr Hussein had given up his weapons. Shouldn't you have the guts to admit that you helped to propagate the very "exaggerations" that you now lay at the door of spies and politicians?

MICHAEL ALVEAR
Atlanta

SIR – Your analysis of the case for or against the Iraq war omits an important dimension. The terrorist attacks of September 11th not only shocked America but also humiliated it; for the first time in its history, and in the most dramatic way imaginable, the homeland was shown to be vulnerable to an unforeseen and unjustified attack. The urge to strike back was irresistible and conquering dusty little Afghanistan was not enough. One more bad guy had to be attacked and defeated, even if he was not necessarily the worst available. Only now are Americans beginning to realise that perhaps the money, effort, blood, sweat and tears could have been better devoted to problems at home.

JIM WALKER
Largo, Florida

SIR – Why the question mark on your "Wielders of mass deception?" cover when you state that "Mr Bush and Mr Blair did not play straight with their people."

WILLIAM HAYES
Seattle

Reagan's bubble

SIR – I had occasion to speak confidentially with Edward Teller during Ronald Reagan's second term (Obituary, September 20th). As he was credited with authorship of the Strategic Defence Initiative ("Star Wars"), I asked him how it came about. He said that Reagan fashioned a bubble with his hands and said, "I wish I could put a protective shield over the country—to keep evil people from doing us harm." Teller told the president his vision was possible.

I asked Teller if it would work. "Now? No," he said and I asked why. He gave a bored shrug: "The technology doesn't exist." This was an astounding admission from the chief architect of Star Wars. Though it failed it is still credited with hastening the downfall of the Soviet Union. Teller displayed a profound lack of interest in the morality of launching a massive programme he knew would not work, and an overriding interest in the morality of defeating America's enemies.

GRANT STOCKDALE
Washington, DC

Union benefits

SIR – Your article on cross-border airline integration claims that unions in America are sure to oppose the opening of the domestic market to foreign aviation interests (Open the skies", October 4th). On the whole, a wave of cross-border mergers would benefit unions significantly. Presently, unions at network carriers are facing cuts to jobs and pay as a result of strong competition from discount carriers. A wave of mergers could help rationalise capacity and give the network carriers truly seamless global frequent-flyer programmes. Both would help in the competition with discount carriers, which remain largely regional. The financial benefits would reduce pressure on union jobs and wages.

The merger event represents a significant opportunity for unions as well. The strength of airline unions means they have an effective veto over any merger. In their desperation to tie the knot, airline managers are likely to offer generous concessions to co-operative unions, including job-protection guarantees and even a roll-back of pay-cuts.

PAUL BRODY
San Francisco, California

EU constitution

SIR – I agree with much that you say on the proposed EU constitutional treaty ("Roman carnival", October 4th). Using your wish list of issues for a better text, it is clear how close we are to a good final treaty. A more transparent and accountable structure for the EU, a clear reaffirmation of the principle that national governments remain in control and a more efficient and effective EU through, among other things, the European Council chair were all British wishes, achieved in the draft treaty. Making national parliaments guardians of subsidiarity was an important British proposal. We persuaded our partners that the charter of fundamental rights should list the rights of Europe's citizens but not extend the powers of the Union. We remain committed to ensuring that European security and defence policy supports NATO. In the same way the proposed foreign minister must support elected national governments. Each of these arguments has gained solid support among the 25 current and future members. Each demonstrates that engagement not entrenchment wins debates on Europe's future and brings us closer to delivering the kind of constitution *The Economist* recommends.

But while we and *The Economist* might recognise the reality of Britain's engagement with Europe, it is little use if your fellow papers in Paris, Berlin and other EU capitals tell their readers something quite different. They do so because the British media, largely cynical, condescending and even contemptuous of our partners in Europe, fosters the impression that the British people think likewise. So our common goals of ensuring that Britain is in Europe, and helping to run Europe, thereby achieving economic reform, changes to the protectionist common agricultural policy, reform of the structural funds, and so on, are made even more difficult.

DENIS MACSHANE
Minister for Europe
London

Hand signals

SIR – In spite of Patrick Jehu's huffy nationalistic objection, your "cactus" cover was entirely appropriate (Letters, October 4th). The conference took place in Mexico and one upraised middle finger is the standard mode of registering displeasure, or worse, here.

If one were to put up two fingers, someone would probably bring over a couple of beers, eventually (this is Mexico, after all).

STEVE STUPP
Puebla, Mexico

SIR – Mr Jehu calls the finger "an obscene gesture of American origin". Obscene perhaps, but the ancient Romans called it *digitus impudens*.

ED LAWTON
Farmington, Michigan ■

Letters are welcome and should be addressed to the Editor at The Economist, 25 St James's Street, London SW1A 1HG.
Fax: 020 7839 2968
E-mail: letters@economist.com

EUROPEAN UNION

UNMIK

OSCE

Senior Customs Officers

Kosovo

The European Union Pillar (EU Pillar) of the United Nations Mission in Kosovo (UNMIK) is the primary agent for economic change and restructuring in the Province. As a part of the EU Pillar, UNMIK Customs Service is one of the first public services to have been established in Kosovo. Since its creation it has developed into a department which currently collects around 80% of the revenues for the Kosovo budget and which facilitates lawful trade by contributing to a stable economic environment. As part of the mandate and responsibility of the UNMIK EU Pillar the Customs Service aims to improve compliance, reduce smuggling and improve revenue procedures in line with EU standards to facilitate trade and enhance revenue collection.

Within the Customs Service, the UNMIK EU Pillar is seeking to recruit the following posts:

Deputy Director General

Director of Enforcement

The selection criteria and background for the positions are:

- A minimum of five years experience in a middle (but preferably senior) management position within a European Union Customs Administration
- Extensive experience in Customs Law Enforcement
- Self-starters motivated to excellence and wanting to contribute to the task of fostering peace and economic development
- Familiarity with post-conflict environments and transition economies. Experience of working in Central and Eastern Europe or in the Balkans is an added advantage
- Strong managerial and communication skills. Energetic, culturally sensitive and politically astute team player.
- Proven ability to operate independently and effectively with minimum support facilities
- Problem solver, very good conceptual capabilities. Mature personality and result-oriented team player

Internationally competitive compensation package, inclusive of a living conditions allowance available

CV and cover letter in English is to be submitted to **eupillar-recruitment@eumik.org** The closing date for applications is November 9, 2003. Applicants must be nationals of EU member states or CARDS (PHARE, OBNOVA) countries. Nationals of candidate countries for accession to the EU are also eligible. Only candidates selected for interview will be contacted.

A detailed job description and selection criteria can be found at www.euinkosovo.org

International Monetary Fund

For the Tax Policy Division of its Fiscal Affairs Department, the International Monetary Fund (IMF) has up to two vacancies for a:

Senior Economist/Economist

Duties and Responsibilities: The successful candidates will take a leading role in the IMF's delivery of technical assistance on tax policy to its members. This work has included VAT design, tariff reform, fiscal federalism, business taxation and the tax treatment of the financial sector. Candidates will contribute to the wider work of the Tax Policy Division, including reviewing the tax policy component of IMF programs, preparing internal policy papers, responding to queries from member countries and IMF departments and liaising with providers of technical assistance. Candidates will also contribute to an active research program. Extensive travel should be expected.

Qualifications: Candidates should have an advanced degree in economics and five to fifteen years' experience as a tax policy specialist in government, academia or consulting. The work requires considerable technical expertise and significant personal skills of explanation and persuasion. Practical experience with tax policy formation and analysis in developing countries is extremely desirable, and working knowledge of French, Spanish or Arabic is desirable. Candidates experienced with tax policy issues in Francophone Africa are especially encouraged to apply.

Qualified candidates are encouraged to apply online at www.imf.org/recruitment, making specific reference to **Vacancy No. R03413B**, by **November 1, 2003.**

Further details about the role and function of the IMF are provided on its website:

www.imf.org

INTERNATIONAL MONETARY FUND

UNDP

LEADERSHIP DEVELOPMENT PROGRAMME

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The United Nations Development Programme (UNDP) is the UN's global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life.

UNDP has over136 offices worldwide and are on the ground in166 countries and territories in Africa, Asia and the Pacific, Arab States, Latin America, Eastern Europe and the CIS. We work closely with governments and civil society to refine and implement their own solutions to global and national development challenges.

To achieve the above goals UNDP is inviting motivated and talented young people who are interested in an international career in development to submit their application to the Leadership Development Programme (LEAD). LEAD provides qualified individuals exciting opportunities to develop their experience, knowledge and skills, to serve as development practitioners and leaders in UNDP, while contributing to UNDP's development work.

Interested candidates must have a strong commitment to development, be able to listen to and understand the ideas and concerns of the people we serve, mobilize and share knowledge and resources that inspire and catalyze development, and can communicate and work strategically and effectively with others to achieve results.

The qualifications and experience that we seek are:

- A Master's degree (or equivalent) in development related studies, economics, politics, public administration, governance, environmental management, law, conflict resolution;
- Proficiency in English and at least one other language i.e. Arabic, French, Spanish and Russian.
- 2-3 years relevant work experience, in development, crisis/post conflict management, consultancy work (particularly in the public sector) work in developing countries, management in a multicultural context;

Application deadline - 31 October 2003. For on-line application and more information on LEAD visit: www.undp.org/ohr/lead.

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London

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Add an exceptional leader whose track record demonstrates mature management ability, substantial policy and advocacy impact, whose intellectual grasp of relevant issues commands respect and who has an active Christian faith. Our current International Director retires in early April 2004, and his successor will head the International Department and become a senior member of Christian Aid's corporate and change management team, under the leadership of Daleep Mukarji. The salary is pensionable. Assistance with relocation expenses may be offered where appropriate.

Then change the world for good. To find out more download an information pack from **WWW.SAXBAM.CO.UK/ARC** or request a pack by telephone on **+44 (0)1483 409 713** (office hours) quoting reference DJQA/F not later than Monday 27 October. ***Applications will close at noon on Tuesday 4 November 2003.*** *Interviews will be held in London on 4 and 8 December 2003.*

As an equal opportunities employer, Christian Aid works to provide hope, health and a chance of a decent life to the world's poorest communities, whatever their race or religion. We value diversity and welcome applications from all sections of the community.

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Director – Economic Regulation

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The new independent Bahrain Telecommunications Regulatory Authority (TRA) has been formed to protect the interests of consumers and promote effective and fair competition between licensed operators. The aim is for Bahrain to lead in the Gulf Region in offering new and value-oriented services by attracting new entrants, and encouraging greater efficiency in existing ones – to create a fully open market by the end of 2004.

The TRA now seeks to appoint a Director to lead the Economic Directorate within the TRA. The Directorate is intended to work alongside the Market Operations Directorate, and will address the economic and financial aspects of regulatory issues, including interconnection, tariff control, universal service and accounting separation. The primary requirement is for a proven, experienced economist, who has contributed to a programme of real change in a telecommunication market sector, and who can demonstrate a track record of working to build an effective regulatory environment. You will be a first class communicator and an advocate for the TRA externally, while internally you will determine the structure and help build the team of the Economic Directorate.

As a Director, your principal responsibilities will include: developing the economic resources of the TRA, preparing consultations, determinations and regulations, managing advice to the Government, monitoring the development of the market in Bahrain, and implementing relevant measures. You should meet the highest standards of professional ethics, working in a collaborative way, and take a genuine interest in adapting to the environment. You will report to the General Director of the TRA.

With a post-graduate qualification, preferably in economics but also possibly in other financial disciplines, you will have at least 8 years' experience in the economics of telecommunications and regulation, and have delivered results of the highest quality within the telecommunications industry. Fluent English is a requirement, and a period of working overseas is desirable. The contract will carry an excellent tax-free, US dollar-based remuneration package, including accommodation, education, pension and other expatriate benefits.

If your experience matches the above, please apply in confidence via email, within **10 days** of this advertisement, to: Human Resources, e-mail: executive.recruitment@bh.ey.com quoting DER as the Subject, or fax to: +973-527863.

Only short-listed candidates will be contacted.

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We are looking for an energy market expert with at least 10 years experience and extensive knowledge of market design and regulation.

You will have:

- the track record and credibility to help Board level and senior management in energy companies to develop their strategy and adapt and improve their business processes to cope with change; and
- direct experience of delivering strategy to successfully enhance measurable business performance and communicating strategic goals both internally and externally.

Carbon and Emissions – Principal or Senior Consultant

This is an exciting opportunity to advise European industry and government on the implications of the developing legislation and markets in carbon and other gaseous emissions.

You will have:

- 10 or more years experience in the energy industry and an extensive knowledge of the emerging environmental markets (5+ years for a Senior Consultant) either working for corporate, consultancy or government bodies. You will be familiar with the key national and European policy instruments aimed at reducing the impact of gaseous emissions, and have a good understanding of their implications for industry; and
- a strong background in economics and policy, and be comfortable with using complex models to perform fundamental market analysis.

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You will have 10 or more years experience in the 'downstream' energy industry (electricity and gas) with extensive technical expertise (regulation, market design, modelling) and business development skills (sales and client management).
Fluent in Spanish and English, you will have worked extensively within the Iberian energy markets and would have developed a wide range of contacts within this industry.

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Send your CV with current salary to: wendy.warrick@ilexenergy.com

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ILEX ENERGY CONSULTING

ILEX is part of the Electrowatt-Ekono Managing Consulting group with offices in Zurich, Helsinki, Hamburg and Oxford.

Dean

College of Commerce & Economics

Sultan Qaboos University, the national university of the Sultanate of Oman, invites applications for the position of Dean, College of Commerce and Economics.

The College of Commerce and Economics, established in 1993, provides high quality undergraduate educational programs in business and economics. With over 70 instructors and 2,000 students, the college is regarded as the premier institution for business education in the country. It awards degrees in accounting, information systems, economics, finance, marketing, general management, operations management and business statistics and is currently developing an MBA program. The goal is to build the College into the top-ranked institution for business education in the region. The new Dean will be a key player in this endeavor.

The position offers the appropriate candidate the unique opportunity to mould an important educational institution. The Dean would shape the vision of the College within the goals of the University. He would oversee all educational aspects of the College including faculty and curriculum development and would set standards of excellence. The Dean would also work to foster ties between the institution and the Omani business community so that the academic resources of the College as well as its graduates can play a productive role in the economic development of the country.

The ideal candidate would be an outstanding leader and communicator who already has an excellent track record of achievements in academic administration. It is required that the candidate holds a PhD degree in a business discipline and has had at least ten years of full-time experience as a teacher or administrator in a reputable institution of learning. Candidates with at least five years of experience as a Dean will be preferred. A strong commitment to quality improvement and faculty development is also a requirement. Since English is the medium of instruction, fluency in English is essential.

The successful candidate will receive a generous salary tax free in Oman and an excellent benefits package including paid annual leave of 60 days with first class return air tickets for self and family to home country, free family accommodation, end of service gratuity and free medical treatment in government hospitals.

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More information about the University and the College is available on the University's website, www.squ.edu.om

The deadline for applications is November 30, 2003. Candidates should send a cover letter and an up to date curriculum vitae, including the mailing address, telephone number and email addresses of three references to the address below quoting **Ref: ADV/CCE/Dean/09/2003:**

The Director, Personnel Affairs
Sultan Qaboos University
P.O. Box 50, PC 123, Muscat, Sultanate of Oman
Fax: (968) 513 255 E-mail: vacancies@squ.edu.om
www.squ.edu.om

SULTAN QABOOS UNIVERSITY
Sultanate of Oman

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As a Senior Economist with the Commodity Research team, you will be expected to provide a research and marketing focus on global economic conditions, commodity prices and derivatives, and their relation to asset returns. The position will provide an excellent opportunity for conducting research in empirical macro and microeconomics. In addition, it will offer extensive exposure to different divisions within Goldman Sachs and a diverse client base.

You should have an excellent academic record, with a graduate degree in economics or finance and five + years of academic or industry experience in applied price theory. Preference will be given to derivative and/or commodity market experience. The position requires a solid understanding of price theory as well as strong quantitative ability. Familiarity with commodity pricing models, corporate finance and financial engineering is a plus. Oral and written communication skills are essential and you must be comfortable presenting in front of groups of people.

To apply, please email your CV, complete with a covering letter, to appliedeconomist@gs.com. Deadline for applications is 31st October 2003.

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Chief, Office for Africa

to manage its technical cooperation activities in Africa, South of the Sahara.

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ITC provides capacity building support to developing and transition economies for improved global competitiveness at enterprise-level.

EXECUTIVE MANAGEMENT - LEADING TOURISM COMPANY

Abha, Saudi Arabia, Attractive Package

- Our client is one of the Kingdom's leading tourism companies, and has a vision of developing a preeminent year-round tourist area through innovative product development and marketing. Their business is diversified and includes a 5 star hotel, a motel, several villa resorts, a recreation park, a restaurant, a ladies health spa and an exhibition center. Our client wishes to recruit dynamic and seasoned individuals for the following positions:

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- You will be based in Abha, Saudi Arabia and will be expected to develop and implement operational strategies. Having responsibility for corporate-level management of the extensive facilities, you will work with business unit heads to set operational targets and monitor performance. Reporting to the CEO, you will have direct interaction with the Chairman and Board of Directors.
- Ideally you are a university graduate with a degree in business management and possibly additional training or certification in hospitality management.

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- Reporting to the COO, you will have responsibility for financial planning, accounting and internal control, treasury management and financial reporting functions at a corporate level. You are an enthusiastic team leader with outstanding finance and accounting skills and a "hands on" approach.
- You must be a Chartered Accountant, Certified Public Accountant or Certified Management Accountant. A CFA designation or post-graduate degree in accounting and financial management would be an asset.

CHIEF MARKETING OFFICER

- Reporting to the COO, you will be responsible for the development and implementation of innovative marketing programs aimed at broadening our client's market penetration. You will also lead all strategic marketing and events management initiatives and will provide guidelines and monitoring for the implementation of marketing programs.
- Ideally you are a university graduate with a degree in marketing management and additional training or certification in hospitality management.

These positions require a minimum of 10 years relevant experience with significant exposure to the Middle-Eastern environment. Excellent communication skills in English are required for these positions. Arabic language skills are a plus.

Our client has designed a competitive remuneration package to attract and retain professionals of high caliber, which includes an attractive tax-free basic salary, housing and transportation allowances, leave passage, gratuity and medical benefits.

INTERESTED?

Please apply in confidence with your detailed resume (without certificates) via fax or e-mail to: ***EXECUTIVE MANAGEMENT LEADING TOURISM COMPANY, Ernst & Young Executive Recruitment, P. O. Box 2732, Riyadh 11461. Fax: (966)-1-273 4730. E-mail: riyadh.bas@sa.ey.com.*** Please put job title in email subject header. Resumes should contain detailed description of work responsibilities and related experience for each position held. Please include details of current and expected remuneration and contact numbers. We will review all applications, however only short-listed candidates will be contacted.

Deadline for resume submissions November 1, 2003

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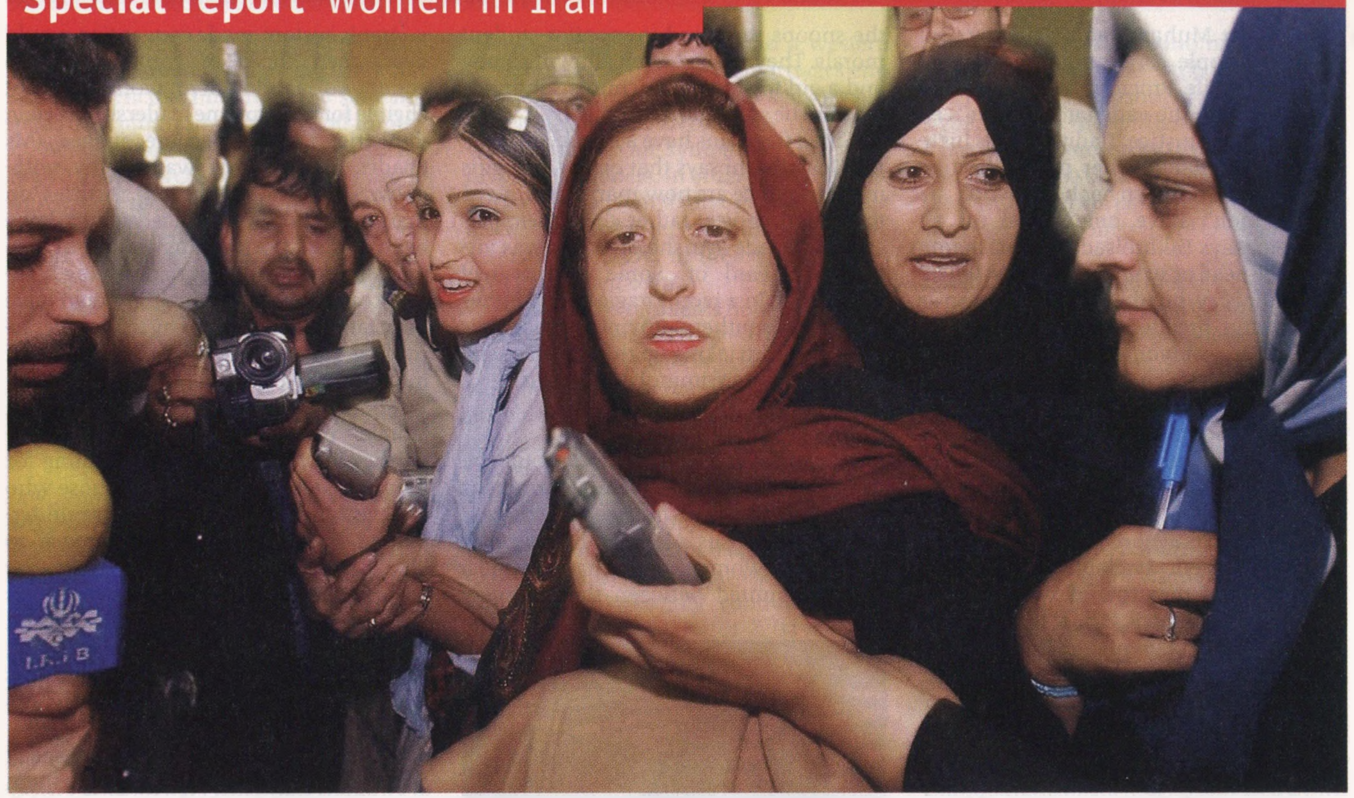


Shorn of dignity and equality

GHAZVIN AND TEHRAN

Iranian women are proud of the lawyer (above, at the centre) who has won the Nobel prize. But her reformist approach has not done much to improve their lot

SHIRIN EBADI, this year's winner of the Nobel peace prize, is the sort of woman—assertive, severe and frighteningly well-versed in Islamic and western law—that Iran's conservative establishment cannot stand. A judge under the monarchy, she did not follow colleagues to overseas refuge after the revolution, but stayed on as an advocate, fighting cases of political murder, repression and domestic violence. A defender of Islam, she wrote learnedly about women's and children's rights under Islamic law. She lost most of her high-profile cases, but survived. Overnight, she has become a celebrity.

Ms Ebadi, who has always argued that Iran must solve its own problems, returned home this week from a visit to Paris to find hardline newspapers charging her, yet again, with supposed links with foreign powers. One paper surmised that devious America had influenced the Nobel committee's decision. Her celebrity will probably protect her from a repeat of the short prison term she served in 2000, but not from the restrictions and dangers that dog all Iranian women who struggle for their rights.

It has been a bad summer for assertive women. A female journalist was slain in custody (true to form, Ms Ebadi has let it be known that she will represent the dead woman's Canadian-Iranian family). A young mother was sentenced to death for killing her would-be rapist; her mode of dress had, the judge believed, "prepared the ground for her rape". Four women were given suspended prison sentences for disseminating contentious ideas about women in Islam. Iran's appointed upper house, the Council of Guardians, vetoed the country's adherence to the UN's 1981 convention against sex discrimination. Worse still, the mass of Iranian women reacted to all this with indifference.

Women were at the forefront of the 1979 revolution that toppled the monarchy, although they had not done so badly out of the shah. Under his rule, women got the vote, polygamy was, in effect, outlawed and the divorce laws were egalitarian. If anything, the state was too permissive for most tastes; the elite gyrated in bikinis to Shirley Bassey, and swam in pools full of milk. The revolution promised women dignity, as well as equality.

A quarter of a century on, they have neither. Rather than the flexible jurisprudence to which Shia Islam lends itself, and which Ms Ebadi champions, Iran's Islamic Republic has promoted what Farideh Gheirat, a leading women's lawyer, calls a "bone-dry version". Lawmakers and judges reinstated polygamy, made it virtually impossible for women to divorce without their husband's consent, and condemned adulteresses to be stoned to death. The intrusion that offends foreigners the most, the compulsory head covering, is a minor irritant.

Iranians' patriarchal mind set, says Ms Gheirat, is as constricting as the fustian legalism. Many official buildings do not admit women without a black chador, even though Islam has nothing against bright colours, and a coat and headscarf can be concealing. Only in the teeth of vociferous opposition did women win the right to ride a bicycle in public.

Healthy, well-educated and abandoned

But Iranian women have the Islamic Republic to thank for two things: health and education. After a baby boom in the 1980s, family planning reduced the national fertility rate to two. Women live to 72, two years longer than men. In 1975, women's illiteracy in rural areas was 90%, and more than 45% in towns. Now, the nationwide literacy rate for girls aged between 15 and 24 has risen to 97%. Last year, for the first time, female students in state universities outnumbered male ones.

There is disagreement over the responsibilities that society should assign to these healthy, well-qualified girls. The state-approved role model is Fatima Zahra, ▸▸

the Prophet Muhammad's daughter, but different people concentrate on different facets of her life. Progressives recall her active politics, in the vanguard of Islam's efforts to fight injustice. Traditionalists highlight other qualities: her piety, chastity, devotion to God, even her housework.

"We don't have one model for all women," says Fakhrolsadat Mohtashamipour, the head of women's affairs at the Interior Ministry, but the law regards men as the rightful breadwinner. Friday prayer leaders counsel women to concentrate on raising children. Senior clerics assert that a woman needs her husband's permission even to go shopping.

With inflation running at more than 15%, few families can survive on one income. But the economy is not generating enough jobs to absorb educated women. The most recent available figures, from 1999, showed that 10% of women were part of the workforce, 3% less than the proportion in 1972. Although unemployment is high across the board, it is much higher among women than men. Senior positions in the civil service are overwhelmingly a man's preserve. And since it is not uncommon for male bureaucrats to use spurious sexual slurs as a means of keeping uppity female colleagues in their place, some women prefer not to work in government offices that are male dominated.

Indeed, a lot of young women are not offended by the idea that Iran is churning out overqualified housewives. "The majority", says Mahdiyeh Ghafelbashi, who helps run the Association for Tomorrow's Women, an NGO in the city of Ghazvin, two hours from Tehran, "subscribe to their grandmothers' view that men should bring home the loot and protect them." As elsewhere in provincial Iran—as distinct from Tehran—awareness of women's issues among Ghazvin's 350,000 residents is virtually nil. At a recent exhibition to publicise the city's new NGOs, Ms Ghafelbashi's activities were met by incomprehension by local women. "Unless there was money in it," she recalls, "they couldn't understand the point." Even so, she insists, "a historical process" is in train.

There are ten universities in Ghazvin province, which has about 1m inhabitants, and they provide an environment for boys and girls to mingle that exists nowhere else. Gone are the days when a curtain divided male and female students. Now, young Ghazvinis grade universities according to the tolerance they show in allowing the sexes to mix.

Conservative-minded university chancellors used to cite Fatima Zahra's pious aphorism: "The best thing for a woman is not to see, and not to be seen by, an unrelated man." But they are now fighting a losing battle to prevent boys and girls socialising on campus. Progressives at the city's three private universities have reined in the snoops that used to monitor student morals. They concede that allowing a boy and a girl to share a lunchtime sandwich may not be so terrible after all.

Small freedoms have a knock-on effect. Ms Ghafelbashi says that quite a few girls in the province are now marrying boys of their own choice, rather than their parents'. A decade ago, she says, that was virtually unheard of. Some parents feel threatened. In a recent tragic case, a father in Shiraz, a southern province, forbade his daughter from taking up the MA place she had won. The girl immolated herself.

Political football

The journey to emancipation would be less daunting if there were a consensus among politicians on the need. But there is no such consensus. Along with much else, the issue of women's rights has become a football, punted between the relatively

Following tradition and...

progressive reformists, led by President Muhammad Khatami (who himself belittled Ms Ebadi's achievement in winning the peace prize), and his traditionalist, conservative opponents.

Punted rather gently: the reformists are not great goal-scorers. Prayer leaders on good terms with the supreme leader, Ayatollah Ali Khamenei, fulminated from their pulpits against the UN's anti-discrimination convention, which was, in the words of a senior ayatollah, "a pretext by westerners to impose their culture on Muslims." But even if the Council of Guardians had endorsed parliament's decision to sign the convention, the result would have still been a sham. The parliamentarians had ruled that Iran would opt out of all obligations that conflicted with Iranian law.

Iran's custom-made convention would have been shorn of commitments to equality of employment: women are not eligible for the supreme leadership, certain ministries, or to become judges (Ms Ebadi's appointment was swiftly withdrawn after the revolution). Articles on marriage and inheritance would have been binned: the law puts women at a severe disadvantage in both. Even the blandest commitment to equality would have been fatally undermined by the setting, according to Iranian law, of a man's blood money at twice the level of a woman's.

Shadi Sadr, a courageous and talented female newspaper columnist, distinguishes between two groups fighting for women's rights. First, there are those who believe that piecemeal legal reform, underpinned by an enlightened approach to Shia jurisprudence, can solve women's problems. She puts Ms Ebadi, who insists on the essential compatibility of Islam and human rights, into this category. Second, there is the more radical group that "takes issue less with laws than with the whole legal superstructure".

It is hard for the second group to speak out: expressing their beliefs might get them thrown into jail. But the first group—which includes reformist parliamentarians and Mr Khatami himself—has achieved little. Parliament's progress, in its three-way slugging match with the Council of Guardians and the marginally more progressive arbitration body, the Expediency Council, has been modest. After wrangling, the marriageable age for girls was raised from nine to 13. The *mehriyeh*, a pre-fixed sum that women receive on demand from their husbands, has been linked to inflation. Girls can now get grants to help them study abroad; before, there were fears that the experience would corrupt them.

The Expediency Council tends to echo the Council of Guardians. It did so when it spiked parliament's plan to award a temporary stipend to widows, disadvantaged by inheritance laws, from their late husbands' estates. It agreed with the Council of Guardians that husbands should retain their all but unassailable right to custody over their children.

Ms Mohtashamipour's office in the Interior Ministry, staffed by women, and with a dress code that tolerates jolly colours, is one of the less overpowering government departments. She talks seductively of "empowerment". In this year's budget, the government gave her department a big dollop of extra cash, and obliged provincial governors to devote 0.25% of their budgets to "women's affairs".

The free marriage-guidance and vocational classes being offered by Ms Mohtashamipour and her colleagues in the provinces seem only modestly enlightened. But the advantage of their blandness is that they might survive if the conservatives took over the government again. Moreover, cautious as they are, they constitute an encroachment by the state into areas of feminine life that were off limits.

At the same time, the reformists are trying to help NGOs whose goals may be much more radical. According to Mahboobeh Abbasgholizadeh, who trains NGO activists, Iran has gained some 150 women's NGOs in the past few years. It will take time, she accepts, for the organisations to become effective advocates. With a few exceptions, they are little more than talking shops for young women: "a way for these girls to express their own identity, to announce: 'I'm here'."

They have a precarious toehold. The law is ambiguous on who should register NGOs, the legality of their accepting foreign money, and their tax status. They are deeply vulnerable to the conservatives' fear of civil society. The newly-elected Tehran municipality, which is dominated by conservatives, recently expelled Ms Abbasgholizadeh and several NGOs from the building that the previous, reform-minded, municipality had lent them.

Six years after Mr Khatami came to power with an overwhelming majority of women's votes, some women, even in parliament, suspect that the reformists are more interested in women's votes than in women's rights. The president, they point out, did not see fit to appoint a woman to his cabinet (before the revolution, there were two female ministers). His most forceful intervention on behalf of women, when he insisted that the judiciary introduce a moratorium on stoning adulteresses to death, was obviously motivated by a desire to improve Iran's image abroad.

A cracked society

The scene for women is gloomy, the pace of change sluggish. Even professed reformists are reluctant to challenge patriarchal attitudes. Beyond this, it is perfectly possible that the reformists will lose their dominance of parliament at next year's elections, when the expected disqualification of reformist candidates, and a low voter turnout, may favour conservatives. Against this dispiriting backdrop are the more immediate, and more shocking, incidents of female degradation.

It is a tribute to Mr Khatami, and to his genuine, if feebly advocated, commitment to transparency, that such subjects as prostitution, domestic violence and drug addiction are being discussed at all. Before 1997, they were taboo. Nonetheless, so long as the transparency is not accompanied by plans to tackle the ills, the impression will grow of a cracked society.

Shoukou Navabi-Nejad, a north Tehran family psychologist, sees the cracks in her middle-class patients. Familiar western complaints—domestic violence, infidelity and fear of AIDS—are multiplied. The erosion of family values has had a western consequence: a third of all marriages end in divorce, whereas 15 years ago, Ms Navabi-Nejad recalls, divorce was a rarity. Yet very few judges are sympathetic to female divorce petitioners. In order to secure their husbands' consent to divorce, women are often forced to barter away their *mehriyeh*: assets that should, in theory, help them start up on their own.

Many of the problems noted by Ms Navabi-Nejad are exacerbated by a sexual frustration that is writ large across society. No one knows how many prostitutes work in Tehran, though their visibility on street corners suggests that there are tens of thousands. There is agreement on three things: most prostitutes are runaways from poor and broken homes, they are getting more numerous and their age is falling.

A journalist from a magazine called *Zanan* (women) recently conducted a remarkable interview with a 17-year-old prostitute. Arrested in Tehran's southern bus terminal, the girl was condemned to 80 lashes and to a fine that was commuted, when she pleaded penury, to a three-month prison term. Upon her release, her brother tried to kill her for staining the family honour. In a year or two, she will be past her prime, and alone.

The few NGO activists who work with prostitutes attest to the government's inability to deal with the problem. Women's prisons are full to bursting. Tehran's previous mayor stopped providing money for the capital's sole rehabilitation centre for female runaways. The new mayor, a conservative, has no plans to restart it.

Even if the government was co-ordinating attempts to wean girls off prostitution, says Khosro Mansuriyan, who runs two NGOs in Tehran, they would fail. Why should young prostitutes quit a well-paid profession, he asks, when poverty awaits and they are already outcasts? The causes of decay are as much economic as they are social and legal. Ghar Park, in south Tehran, provides a snapshot of this decay. Designed to raise the spirits of poor Tehranis, it has been colonised by drug addicts. One female addict estimates she has spent 18 of the past 24 years in jail. Being inside is bad, she says; the heroin is more expensive.

Looking for a role model

It is a far cry from Fatima Zahra. In these confusing times, the prophet's daughter faces stiff competition for women's loyalty, especially among the 19% of the population that is female and aged between 10 and 25. *Zanan* recently ran a flattering profile of Hillary Clinton. Some girls like Madonna, in part because her music is banned. Iran's most talked-about young movie directors, two siblings by the name of Makhmalbof, are women. Comely actresses abound.

Iranian women, even many who are indifferent to her causes, are intensely proud of Ms Ebadi's achievement. But do not expect her to become a role model. Despite a dash of radicalism—she goes bare-headed outside Iran—she remains wedded to the cautious reformism that is espoused by Mr Khatami and his supporters. And that, many believe, has failed. A small but growing number of women are coming to reject the legal superstructure to which Ms Ebadi is committed.

Take the increasing interest being shown in the poetry of Forogh Farokhzad. In the 1960s, Ms Farokhzad was a beautiful hell-raiser who had an affair with Iran's hippest film director. Shortly before her legend-sealing death in a car crash in 1966, she observed that social change had endowed concepts like religion, morals and love with new meanings. Forty years on, expressing such revisionism can get you jailed, but the judges are powerless to stop lots of young women from agreeing. ■

...going on stage

Also in this section

German and French economic reforms

A long, hard climb

BERLIN AND PARIS

The German and French governments are, belatedly, reforming their economies. But will they overcome inevitable opposition to change?

OPEN a newspaper, pick up a bestseller or listen to a debate: the mood in France and Germany these days is irredeemably glum. Europe's two biggest economies are bumping on the edge of yet another recession. Already-high jobless rates are rising again. The brief flicker of growth in 1999-2000 was snuffed out by a gloomy world economy, exacerbated by tight monetary and fiscal policies in the euro area, and shows little sign of reacting to the general global revival now under way. Above all, both countries suffer from longstanding structural rigidities in labour and product markets, and from an overly generous welfare system.

France has "plunged into decline", says Nicolas Baverez in a new book, "La France Qui Tombe" (France is falling over). Germany "is in crisis, because there is no political model and no vision for the future", argues Wolfgang Schäuble, a conservative politician, in another book, "Scheitert der Westen?" (Is the West failing?).

Yet, for all this morosity, something is stirring on both sides of the Rhine. Chancellor Gerhard Schröder of Germany and President Jacques Chirac of France have both been sounding like reformers. Mr Schröder this week put his job on the line, threatening to resign if left-wing Social Democratic rebels refused to back new social-security rules that are a key part of Agenda 2010, his reform programme. The vote in the Bundestag, which Mr Schröder was expected to win narrowly, was due on October 17th. In France, Jean-Pierre Raffarin, Mr Chirac's prime minister, has a far bigger parliamentary majority. But he too will have to face down protests to push through his own measures, which the French have christened Agenda 2006.

It would be easy to dismiss the Franco-German reforms as thin gruel, likely to be watered down further in the face of hostility. But public opinion has changed. In France, a new realism is taking hold: the word "privatisation" has passed from unmentionable to commonplace. The government won praise for sticking to its pension reforms after this summer's protests. Officials say France has no choice but to change. "We have lived for too long with the idea that the state was always right," declared Mr Chirac on July 14th. "We must move out of this impasse…the state cannot decide everything."

Sources: National statistics; Thomson Datastream

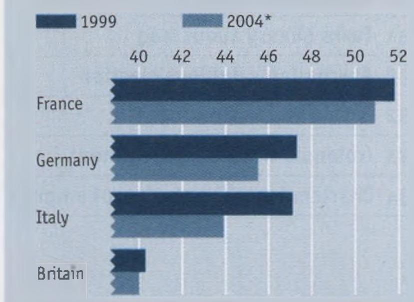
The change is even more evident in Germany. The word "reform" now crops up with monotonous regularity in the press. After long declaring Germany the "sick man of Europe", economists at investment banks are now putting out bullish reports with such titles as "Germany Gets Going". Have Europe's two giants at last accepted the case for change?

The similarities between Agenda 2010 and Agenda 2006 are certainly striking. Both focus on three big issues: pensions, health care and labour markets. In neither is the need for generous social protection challenged. But each makes a serious effort to reduce the burden. The two countries are keenly comparing notes, to the extent of having joint working groups to examine policy options. As a symbol of their close relationship, Mr Schröder even asked Mr Chirac to represent him at part of this week's European summit, so that he could return to Berlin for the Bundestag vote.

Both governments are trimming **pensions** by making people work longer. A commission has proposed cutting German pensions to 40% of average gross earnings, from today's 48%, and raising the retirement age from 65 to 67. Mr Raffarin's pension reform has already passed into law—despite protests. It raises from 37.5 to 40, and later to 42, the number of years that public-sector employees must work to gain a full pension. Both countries' reforms have shortcomings: neither abandons the pay-as-you-go system, and France has left ▸▸

Down, a little

General government receipts, % of GDP



Source: OECD *Projection

untouched special regimes for railway and utility employees. Yet in both, some responsibility for security in old age is shifting towards individuals.

On **health care**, the two countries share the same problem: a first-class health system bedevilled by ever-rising costs. Germany's reform is the more advanced. Last month, Mr Schröder pushed through a measure making people pay for more of their dental and optical care. Mr Raffarin began a discussion of health care only this week; proposals are due in mid-2004, after next spring's regional elections.

As for **labour markets**, both countries are introducing more flexibility. Germany plans to make it easier to fire workers, at least in small firms, to curb unemployment benefits and to make jobseekers take unattractive jobs. The French are working on similar lines, though hampered by the 35-hour-week introduced by the former Socialist government. With an annual cost put at €8 billion-15 billion ($9 billion-17 billion), this policy has frozen pay of many workers who would work longer if they could earn more. Even a majority (61%) of French people now think the 35-hour week has penalised France. Mr Raffarin has ordered a study of its economic effect.

The two governments are also tackling other difficult reforms, such as education and decentralisation in France, or bureaucracy and a loosening of the laws regulating craftsmen in Germany. And both governments are trying to kick-start their economies with tax cuts, even though these are pushing their budget deficits above the ceiling of 3% of GDP set by the euro area's "stability and growth pact".

The burden of history

Europe's cherished social model has a long history in both countries. It was Bismarck who pioneered the welfare state; France started to build a comprehensive social-security system in the 1930s. The two countries now offer comparably high levels of protection, financed by payroll taxes rather than income taxes, for health care, state pensions and unemployment insurance. Until the 1980s, this worked well enough, with no discernible cost to growth. But in recent years, the European social model has proved a strong disincentive to growth and to job creation (unemployment is 9.4% in both countries); it has deterred foreign investors; and it has kept labour costs uncompetitively high.

The economies of both countries are burdened by too many bureaucrats, too many rules and too many taxes. There are some 3m civil servants in Germany, and over 2m in France, though the numbers are slowly coming down. Despite recent cuts, corporate and income taxes still make both countries expensive places to live in or to do business. Average growth rates in France and Germany have been declining every decade since the 1970s.

Given all this, why did it take so long for the two countries to deal with their structural problems? The response may also answer a second question: what grounds are there for believing that, this time, the two genuinely want to push through reforms?

One answer to the first question is that things were never bad enough to persuade people that change was necessary. In the late 1990s, the French economy grew faster than the European average, allowing the Socialist government to indulge in such goodies as the 35-hour week. Germany, for its part, was distracted by unification, and took some years to grasp the cost this was imposing on the economy. Neither Mr Chirac nor Mr Schröder is a naturally enthusiastic reformer; both prefer the quiet life and the calming hand.

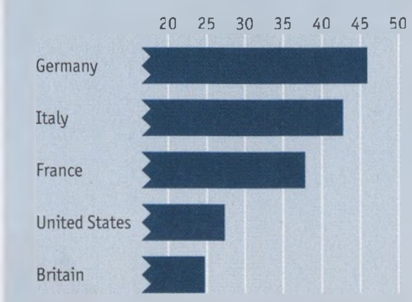
The institutional setting in both countries has also led to political gridlock. In France, there have been several periods of "cohabitation", when the president and prime minister are of different political stripes. Union opposition has been especially effective during such periods. Now cohabitation is over, at least for the time being. And Mr Raffarin has started to decentralise the country's public administration, breaking up another French institutional obstruction to reform.

As in France, the Germans have been frightened by the trade unions. But the collapse in June of the IG Metall strike in support of shorter working hours in the east has weakened the unions in general. Germany still suffers its equivalent to France's cohabitation in the form of its federalist system. In particular, most federal legislation must be approved by the Bundesrat, Germany's upper chamber, which consists of representatives from the German *Länder*, many of them under opposition control. Unsurprisingly, important laws are often blocked by the Bundesrat.

If Germany's chief barrier to implementing reform remains institutional, in France the problem is more a lack of political will. French politicians are haunted by the street, a fiercer source of opposition than any deputies in parliament. The right

Still too high

Non-wage labour costs*, % of gross income, 2002



Source: OECD *Lowest rate for single childless employees

was bruised by the experience of Alain Juppé, prime minister in the mid-1990s, who abandoned ambitious reforms after paralysing strikes and protests. French politicians have singularly failed to make the case for reform to the electorate. It is nonsense, argues Mr Baverez in his book, to say that France is unreformable: "It is the government which is incapable of conceiving and implementing reform."

Will it be different this time? Perhaps. For a start, a long economic slump, more competition and a weaker dollar have blown away all conceivable covers for structural weakness. Both countries are heading for budget deficits of nearly 4% of GDP. Social-security deficits are out of control. The shortfall in the French public health-insurance fund, for instance, will reach €10.6 billion in 2003 and €14.1 billion in 2004. Unless changes are made, social-security contributions might have to rise to prohibitive levels. In Germany, social-security payments (by employers and employees) could rise from over 45% of pay to 54% in 2030, by some estimates.

Such numbers are finally driving home the message that reforms, even painful ones, are inevitable. Today, only 35% of Germans believe that comprehensive social protection is possible without high contributions, down from 53% a decade ago; and as many as 70% agree that reforms are necessary. In France, a recent poll suggested that 51% of French people are in favour of the government continuing with reform. That Mr Raffarin got his pension changes through was due to the fact that people believed there was no alternative. Mr Raffarin has learnt from Mr Juppé's failure in 1995-96: where the former centre-right prime minister was imperious and heavy-handed, Mr Raffarin is a painstaking seeker of consensus and compromise. Some observers note that the parlous state of French public finances could also help to persuade the voters of the need for more reform, especially spending cuts.

Moreover, in both countries there is now an unusual opportunity to force through reforms. In France, the president and prime minister are of the same politi- ▸▸

cal party, the government has a crushing majority in parliament, and national elections are not due until 2007. Mr Raffarin, with a firm eye on the rise of the National Front, has cultivated an image as a blokeish man of the people, ready to take on the establishment. If Mr Schröder wants to have a chance of winning the next general election in 2006, he too must bet everything on reform. The opposition is unlikely to block him completely in the Bundesrat, because many of its key supporters in business urgently want change.

Cautionary words

All this said, however, some caution is in order. Nobody expects either France or Germany to subject their social models to genuine shock therapy. In France, the heavy weight of the public sector continues to hold up reform, however well-intended. The government has already deferred some changes, officially in the name of public consultation, but plainly with an eye on next March's regional elections. Although there is a reforming instinct in some parts of the French government, notably in the finance ministry and the prime minister's office, well-placed observers say that anything too likely to provoke public anger may still be blocked by Mr Chirac, whose instincts for survival are greater than those for reform.

In Germany too, there remain big barriers to change. Unsurprisingly, people's eagerness for reform drops when they are told they must share the pain. And the idea of social equality is still as central for Germans as, say, personal liberty is for Americans. Mr Schröder's commitment to reform may be stronger than Mr Chirac's, but past experience suggests that it cannot be relied on.

Despite this, the two countries may go further than they would have on their own, as peer pressure comes to bear. So which will go furthest and fastest? At present, Germany is in the lead, concede the French. Yet this could change, even if Mr Schröder wins his Bundestag vote, as Agenda 2010 gets stuck in other bits of what Germans call the *Politikverflechtungsfalle*, or joint decision-making trap. It could turn out that the French, whose programme looks on paper to be the less ambitious of the two, manage to manoeuvre more of it through in the end.

Conversely, a failure of the French and German reforms would be a watershed, perhaps as significant as the emergence of the welfare state in both countries. In a way, this is the last chance to modernise the social-market economy without abandoning it.

If the reforms succeed, and their economies pick up, France and Germany may yet surprise with a strong performance after years of relative weakness. If both countries would fully embrace labour- and product-market reforms, the International Monetary Fund has calculated that their GDP could be 10% higher than otherwise. There is, in other words, a high upside risk very much worth taking. ■

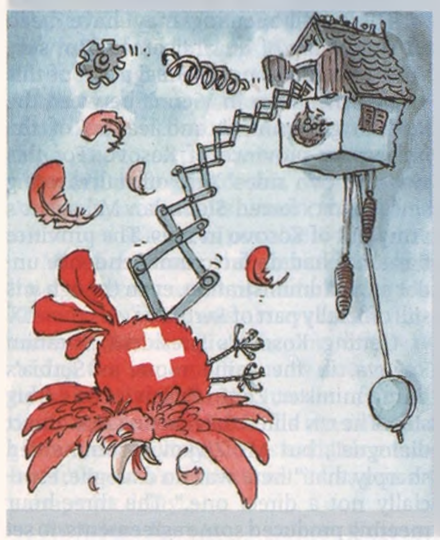
Switzerland

Fading Alpine rose

Can Switzerland regain its shine?

IT IS not a happy country. Switzerland's economy is stagnating, unemployment is rising, its airline still ails, Martin Ebner, a fêted financier, has stumbled, and many Swiss insurers and banks are struggling. Last year saw the first labour unrest in 50 years. This September 25,000 people marched in Bern against pension cuts. So it is not surprising that the Swiss People's Party (SVP), an anti-foreigner party whose best-known spokesman is Christoph Blocher, may win the most votes in elections on October 19th. The SVP wants to keep foreigners out of Switzerland and Switzerland out of the European single market.

What has gone wrong in a country that was once a byword for prosperity? As in Germany, consensus politics and cosiness in corporate Switzerland, once the basis of the economy's success, have become an obstacle to reform. Old friends sit on each other's boards and back each other's management decisions, however misguided. Consensus has now started to crumble, but only slowly. Company boards are becoming more international. Last year's protests could herald more labour unrest.



Some argue that Switzerland's non-membership of the European Union makes it less competitive. If it were in the EU, Switzerland would have to reform its protected domestic market, says Roger de Weck, a journalist based in Zurich. It is easier for a German lawyer to work in France than for a lawyer from Geneva to set up shop in Zurich. But others, such as Mr Blocher, say the country would lose what is left of its competitive edge, as well as being swamped by immigrants, if it joined the EU.

Despite today's malaise, many countries would love Switzerland's problems. The country's three linguistic groups and its large contingent of foreigners (one-fifth of Switzerland's 7m inhabitants) get along well. Many Swiss multinationals, such as Nestlé, a food manufacturer, or the drug giants Roche and Novartis, are doing fine. Unemployment is 3.7%, compared with over 9% in France and Germany. Even so, Switzerland will have to work harder at reform. That is a better cure than the isolationist fix that the SVP is campaigning for. After all, some of Switzerland's proudest corporate names, such as Swatch, a watchmaker started by the Beirut-born Nicolas Hayek, owe their existence to foreigners.

Turkey

Aftermath

ANKARA

More fallout over Turkish troops in Iraq

THIS week's suicide-bomb attack outside the Turkish embassy in Baghdad gave millions of Turks a chilling preview of the welcome their troops might get if the government delivers on last week's promise to send them to help the Americans in Iraq. It also gave the country's prime minister, Tayyip Erdogan, who persuaded parliament to authorise the dispatch of troops, a glimpse of the troubles he may face at home. Most Turks are against sending any soldiers across the border.

No Turks were killed; the Iraqi suicide bomber was the only victim. Yet members of Iraq's Governing Council, who view Turkey's motives with deep suspicion, were quick to seize on the bombing as proof that Turkish soldiers are sure to be attacked and should therefore stay out of their country.

Paul Bremer, the American in charge of Iraq, is said to have told his bosses at home that any help from Turkey may not be ▸▸

worth the trouble it will create, not least between the Americans and the council. The British quietly agree. But Paul Wolfowitz, America's deputy defence secretary, who favours bringing in up to 10,000 Turkish troops (their presence would let some Americans go home) is fighting back.

Mr Erdogan has shown no signs of backing down either. He insisted that the bomb attack was not aimed at Turkey, but was "an attempt to block positive developments in Iraq" that highlighted the need for a common front against terrorism. Yet for all his bravado and continuing popularity, Mr Erdogan is feeling squeezed.

The main reason that he ignored public opinion and persuaded most of his ruling Justice and Development Party to vote in favour of letting the government send Turkish soldiers to Iraq for a year was that he wanted to mend fences with America. Relations soured last March, when Turkey's parliament refused to let American troops cross its territory to open a northern front against Saddam Hussein.

Mr Erdogan's second argument, supported by several of Turkey's generals, is that the presence of Turkish troops would deter the Iraqi Kurds from breaking away to form an independent state. Any such step would inflame separatist passions among Turkey's 14m or so Kurds. It could also force the Americans to move against the 5,000-odd members of Turkey's Kurdistan Workers' Party (PKK), who are ensconced in the mountains of Kurdish-controlled northern Iraq.

Yet millions of pious voters, who helped propel Mr Erdogan's party to power last year, remain unswayed. "What kind of Muslim orders his people to lose their lives fighting fellow Muslims, just to save American ones?" fumes an Ankara kebab-vendor.

Unfortunately, should Mr Bremer's apparent view prevail and Turkish troops be asked to stay away, relations with the Americans could get worse. The fear of some Turks (including many in the army) that America is secretly backing the establishment of a Kurdish homeland would increase. America's reluctance to disarm and kick out the PKK, on the grounds that this would destabilise one of the few relatively calm bits of Iraq, has fed these worries.

Not everybody is so gloomy. "We will have made our gesture to the Americans and come away without paying the price," says Emin Sirin, who is the only representative of the tiny Liberal Democratic Party in the parliament. "It will be a win-win situation for the government and the Turkish people." ■

Azerbaijan

President Pinocchio

MOSCOW

Ilham Aliev is being made a leader, but not necessarily a real one

NOBODY ever doubted that Ilham Aliev would secure the presidency of Azerbaijan. He had the benefits of a split opposition, despite a last-minute attempt to unite; and, more usefully, of the fact that his father, Heidar Aliev, had spent the past 34 years turning the country into a personal fief. The ailing father only withdrew from the race 13 days before the vote on October 15th. The usual methods were deployed in the run-up to the election: bribery, beatings and arrests of opposition supporters, exclusion of strong opposition candidates, restrictions on election observers, stacking of election committees with government supporters. The result duly gave Ilham Aliev almost 80% of the vote, handing him an outright first-round victory.

Puppet on a string

The doubts come after the election, not before. The first is how the younger Aliev will handle Azerbaijan's biggest political issue, the 15-year-old conflict with Armenia over Nagorno-Karabakh. In 2001, the two countries came close to a deal on the status of Karabakh, a mostly-ethnic-Armenian enclave usually recognised as part of Azerbaijan. Then electioneering put the talks on ice.

Now, with Armenia's Robert Kocharian safely (if equally dubiously) re-elected in February, and the dynastic succession assured in Azerbaijan, many think an agreement could be revived, giving Karabakh self-government. Ilham Aliev has, however, sounded more belligerent in the past few months, hinting that he is prepared to use force again if need be. That may just be vote-mongering; opposition candidates have taken a similar tough line. But there are fears that he might be driven to war if he cannot broker a peace.

His ability to broker anything at all is the second doubt. The elder Aliev was a skilled politician. He kept a balance between the rival factions of the ruling New Azerbaijan party. Abroad he not only maintained a fragile stalemate with Armenia but also juggled Russia, America, Turkey, other Caspian states and foreign oil companies, all vying over Caspian energy resources, pipelines and strategic alliances.

The younger Aliev is better known as a cosmopolitan pseudo-intellectual, fond of gambling and good living, unlikely to be popular even with his father's traditional allies. One sign: earlier this year his uncle was said to be thinking about an election bid. Ilham Aliev's only political experience is a brief stint as a member of parliament and titular deputy leader of the ruling party; his management experience comes from only a few years as a vice-president of the state oil company. He could become a puppet of his father's advisers, not their boss. Which strings they will pull is anybody's guess.

Serbia and Kosovo

Unfriendly fire

VIENNA

The first talks between Serbian and Kosovar leaders

THE actual meeting may have been something of an anticlimax. But substantive talk was not the real point of this week's encounter in Vienna between the Serbian government and leaders of the breakaway province of Kosovo. For this was the two sides' first official meeting since NATO forced Slobodan Milosevic's army out of Kosovo in 1999. The province has since had de facto independence under a UN administration, even though it is still officially part of Serbia.

Getting Kosovo's president, Ibrahim Rugova, in the same room as Serbia's prime minister, Zoran Zivkovic, was a big step. The UN billed the meeting as a "direct dialogue", but Mr Zivkovic commented sharply that "there was no dialogue, especially not a direct one." The three-hour meeting produced some agreements: to set

up bilateral working groups on transport and communications, on the return of (mostly Serb) refugees, on missing people (mostly ethnic Albanians) and on energy.

Although the meeting was held behind closed doors, an aide to the Kosovo delegation reported later that the two sides had simply read out prepared statements. Such outside dignitaries as Javier Solana, the European Union's high representative for foreign policy, Chris Patten of the European Commission, and Lord Robertson from NATO, added little beyond a certain gravitas to the proceedings.

Until the moment that the delegations arrived, it was unclear even who would be there. Kosovo's prime minister, Bajram Rexhepi, decided not to come, saying that he had no mandate from the Kosovo assembly. The Serbs took umbrage at the lack of ethnic Serb representatives from Kosovo, and at one point said they would not come either. In the end both Mr Zivkovic and his deputy responsible for Kosovo, Nebojsa Covic, arrived, but only after a game of brinkmanship, in which their aircraft landed in Vienna minutes before the talks were due to begin.

In press conferences after the meeting, Mr Zivkovic reminded Mr Rugova sourly that, although this was their first meeting since 1999, Mr Rugova had always managed to find time to meet Mr Milosevic. The Serbs also asserted that Kosovo was a province of Serbia and Montenegro; the Kosovo delegation retorted that "the independence of Kosovo is an irreversible process." The talks do at least constitute a tentative first step towards final-status negotiations over Kosovo, which some western governments would now like to see started as soon as possible.

Michael Steiner, the previous head of the UN interim administration mission in Kosovo (UNMIK), was always reluctant to move in this direction, fearing that even raising the issue of Kosovo's final status could be explosive. His mantra of "standards before status" sounds sensible, but given the appallingly low standards prevalent in Kosovo's institutions, it has proved a recipe for delay.

As Adem Demaci, a veteran Kosovar nationalist, put it, "as long as none of us is politically accountable for our own institutions, they will remain weak and corrupt, and we will never see independence." Nexhat Daci, president of the Kosovo assembly, added that "without full responsibility and competences, the Kosovo government cannot take responsibility in its hands." The new head of UNMIK, a Finnish diplomat named Harri Holkeri, seems to many to be gradually backing away from the "standards before status" position, even if there is still no talk of timetables for negotiations.

Elections are likely in both Kosovo and Serbia next year, and neither side's politicians see many voters from making compromises. With both sides using this week's talks to solidify their maximalist positions, Mr Holkeri needs to pull something novel from the hat if he is to achieve more than a few working groups. ■

Ireland

Teflon no more

DUBLIN

Bertie Ahern loses popularity

THE Irish taoiseach (prime minister), Bertie Ahern, is shedding some of his "non-stick" coating. Public satisfaction with his centre-right coalition government has collapsed since it won a second term in May last year. Last weekend, at the annual conference of his Fianna Fail party in Killarney, he set out to recover his fabled "man of the people" image.

Mr Ahern's sharp fall in the opinion polls echoes the experience of his British counterpart, Tony Blair, and for rather similar reasons: a loss of public trust and a failure to deliver public-service reforms. Mr Ahern may have an even harder time reversing his low ratings. Opinion polls show only 36% of respondents as satisfied with his performance, compared with 70% before his re-election last year (see chart). His party is at a 20-year low in the polls.

Some disenchantment with the government was inevitable. The economy has turned sharply downwards after the heady 1996-2001 period, when it grew by 8% a year. Last year, it barely expanded at all; and it is forecast to grow by only 1.5% in 2003. But Mr Ahern's woes also reflect rising disapproval over what has become an increasingly accident-prone government.

One example is the government's handling of cases of victims of childhood sexual abuse who had been in state-supervised residential institutions run by Catholic orders. Last month Mary Laffoy, a judge chairing a commission of inquiry into this matter, resigned. She claimed that the government had impeded the commission's investigations.

Later in September, the Comptroller and Auditor General's office, a parliamentary watchdog, gave warning that taxpayers could face €1 billion ($1.2 billion) in compensation to victims of abuse. The government had struck a deal with the religious orders to limit their liability. It capped the orders' share of the compensation costs at €128m, leaving the taxpayer facing unlimited liability for the rest.

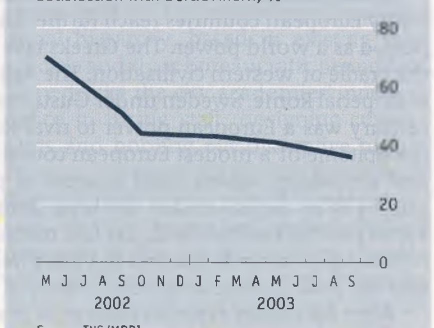
The government has suffered two further embarrassments. A judge, Alan Mahon, whom it had recently appointed as chairman of a tribunal examining allegations of planning corruption, was himself uncovered as a tax defaulter, albeit a decade ago. And the Revenue Commissioners also named a government backbencher as a tax cheat.

As far as the public is concerned, too much was promised by Mr Ahern before the May 2002 election, and too little has changed since, fuelling dissatisfaction. A "world-class health service" was pledged, for example. And yet 17 months later there are still queues for hospital beds.

Mr Ahern sought to steady nerves at the Fianna Fail conference. Next June the party faces European and local elections. He insisted that his government was not for turning, and he promised to think long term. In the short term that may not save the party from an electoral pasting next year. But by 2007, when the next general election looms, economic recovery may have lifted his popularity. The Teflon taoiseach may have lost his moniker—but he is not quite down and out yet. ■

Bertie's bother

Satisfaction with Bertie Ahern, %



Source: TNS/MRBI

Charlemagne | The shadow of empires

What really unites Europe are faded imperial memories

PASCAL LAMY, a European commissioner from France, recently mused publicly about why some members of the European Union are more awkward to deal with than others. "We have to recognise", he said, "that there are some countries which remember that they were once great world powers and which believe that this was not an accident—that they still have special qualities that deserve recognition: France, Britain, Spain, Poland." At the mention of Poland, there was a snort of derision from a Hungarian in the audience. But the real quarrel with Mr Lamy's list is not that it is too long, but too short. The remarkable thing about the European Union is how many of its 15—soon to be 25—members once had a crack at world, or at least continental, power. A shared sense that they have seen greater days is now a big psychological link between EU members.

France has its memories of Napoleon; Britain and Spain had their empires. But faded grandeur is a characteristic of smaller countries too. When Arnold Schwarzenegger won the Californian governorship, Anneliese Rohrer, an Austrian journalist, wrote in the *International Herald Tribune* that their compatriot's success had inspired Austrians and "stirred memories of the times when there was an emperor and an empire; when the country was a force to be reckoned with." Similar sentiments could be echoed by many countries around Europe. The Netherlands, Portugal and Belgium may just be small-to-middling European countries today. But within living memory the Dutch controlled Indonesia, the Portuguese large chunks of Africa and the Belgians ran the Congo, a country the size of western Europe.

Colonialism is not nowadays something to boast about. But many European countries reach further back in history for their period as a world power. The Greeks take pride in having been the cradle of western civilisation. The Italians aspire to be heirs to imperial Rome. Sweden under Gustavus Adolphus in the 17th century was a European power to rival Russia. Even Denmark, the epitome of a modest European country with modest views and ambitions, whose chief sources of pride seem to be the quality of its social services, the royal family and the occasional victory on the football field, has folk memories. Danish fans like to turn up at football matches in Viking helmets, revealing a certain shy pride in their ancestors' history of rape and pillage.

After the Union expands from 15 to 25 members next year, it may be tempting to assume that the new members will not carry the same sort of historical baggage. When did Malta dominate the world, or Latvia? But the fact that eight of these countries have only recently shrugged off years of communism has in some ways made them even more conscious of their decline. Hungarians know that their country was once three times its current size, until it was dismembered after the first world war. The Poles and Lithuanians recall medieval times, when their joint empire stretched from the Baltic to the Black Sea. And just wait for the Turks, who can recall an Ottoman empire that once came close to the gates of Vienna.

Europe or bust

The relationship between awareness of national decline and a desire to be in the European Union is complicated and varies from country to country. Germany's bid for world power ended in disaster and disgrace; for modern Germans Europe represents an effort to transcend traditional realpolitik, so the EU is associated more with peace and prosperity than with power projection. The French sometimes complain that "the Germans just want Europe to be a big Switzerland." They, by contrast, want the European Union to be a big France. As the Iraq war has shown, the French are a long way from abandoning the idea that their country can still play a glorious role on the world stage. But since modern France cannot aspire to be a superpower alone, the French elite has sought to build up the EU as a surrogate. Much of the panic now discernible in Paris about the future of Europe stems from a growing realisation that an enlarged Union of 25 countries can no longer be so easily moulded to serve the interests of France.

The dilemma of the French is sharpened by the fact that they have no Plan B: no alternative to the Union as an instrument of national greatness. By contrast, Britain's problem with the EU has stemmed from an acute awareness of an alternative way of compensating for national decline, using the network of cultural and linguistic ties left by empire. When Britain joined the EU in 1973 (just before an acute economic crisis at home, which accentuated feelings of national decline), many felt that the British had finally plumped for "Europe" over the old imperial connections.

But subsequent experience suggests that no definitive decision was ever made. In moments of crisis, Margaret Thatcher and—perhaps more surprisingly—Tony Blair have instinctively sided with the United States and other anglophone nations. Interestingly, Spain is now evolving from a French to a British view of the role of the EU in promoting national interests. José Maria Aznar, the Spanish prime minister, has ambitions that go far beyond Europe. He recently contrasted France's cultural protectionism with Spain's vision of reaching out to millions of Spanish-speakers in Latin America and the United States.

And yet, although nationalism and pride in past greatness certainly exists across the European Union, it is usually tempered by an acute awareness of its potential costs. Many Europeans seem to have concluded that competition for national greatness leads ultimately to bloodshed and chaos. Nadezhda Mihailova, a former Bulgarian foreign minister, once remarked that "the problem with our region is that it has too many great countries in it: greater Bulgaria, greater Serbia, greater Albania. But the consequences have been not so great." The eagerness of so many countries to join the EU is, in part, a recognition that the period of lone national greatness is now in the past. ■

Also in this section

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Education

Untying independent schools

The stark dividing lines between private and state schools are blurring. It will be good if this continues to happen

FURY, envy and tribal loyalty are among some of the milder emotions that independent fee-paying schools arouse in the British psyche. For a lucky 7% of children they provide a good education for £7,000 ($11,500) a year or more. Critics call it educational apartheid: pampered treatment for a few, with selfish middle-class parents keeping the ablest kids and best teachers from the schools attended by the many.

But the independent schools' supporters, notably Oliver Letwin, the home-affairs spokesman for the opposition Conservatives, are in the news too. Himself educated at Eton, the country's best known fee-paying school, Mr Letwin said he would "go out on the streets and beg" rather than send his twins to his local state school in London. That echoes the feelings of many middle-class parents in big cities. They do not see comprehensive schools as bracingly educative introductions to the real world, but ghastly, rough places where their nice, studious children will be distracted and bullied.

Yet the battle lines are blurring. Independent schools like Eton were set up to educate not the children of toffs, but "poor scholars". Most benefit from charitable status, which saves them millions of pounds in tax. Some of the people who run them are increasingly uneasy at the way that soaring fees have turned them into finishing schools for the rich. Now they face their biggest shake-up for decades.

This is partly thanks to new competitive pressures. A Dubai-based company called GEMS is putting £300m into dozens of affordable new independent schools. Its lean, customer-focused management contrasts sharply with the often complacent governance and bloated costs at existing private schools. These are also facing uncomfortable outside scrutiny about possible cartel-like collusion in fee setting, and the way that their charitable funds help the rich more than the poor.

Yet the real change arises from a new approach by government. An architect of the policy puts it thus: "Old Labour's attitude was 'You are a lot of evil bastards who just educate the rich. We'd abolish you if we could.' New Labour's is 'You run excellent schools, you have a social mission, let's take you at your word.'"

In practice, that means the private schools sponsoring city academies. These are new independent state schools, financed by a mixture of public and private money, competing with schools run by the local education bureaucracies. Twelve have opened already; the government plans 53 by 2007, and 100 eventually. Their aim, in part, is to fill the void left by Old Labour's abolition in years gone by of the highly academic grammar and state-subsidised direct grant schools.

The Church Schools Company, a charity that runs eight well-regarded independent schools, sponsors two such academies and plans eight more. "We asked ourselves what our founders would have done if they were alive today," says Sir Ewan Harper, its director. The sponsors' aim is to inject and support the same excellence and sense of purpose that good private schools exude. That does not usually mean providing cash directly, but moral support plus administrative back-up.

A lot more cheaply, too. National and local bureaucracies absorb up to a third of spending on state education; administration by the Church Schools Company costs just 3% of its members' fee income. Another powerful example is North London Collegiate, one of the capital's best independent girls' schools, which is sponsoring a new academy in Hackney, an area of east London with notoriously bad schools.

Some independent schools are still very sceptical about all this. They fear that state involvement is bound to mean political meddling and bureaucracy. Others find the financing too murky, or think that the scheme is too limited: only proper education vouchers, already endorsed by the Conservatives and gaining support elsewhere, will change the system thoroughly. Some are honest enough to admit that their snobby parents will shun links with the plebeian inner cities.

But the main hostility to the new plan comes from the egalitarian-minded educational hierarchy, based in existing state schools and their bureaucratic penumbra. They dislike the city academies' independence in hiring staff, designing curriculums and booting out disruptive pupils. They are jealous of the gleaming new facilities and mistrust the role of outside sponsors, be they companies, private philanthropists, or the detested private schools, with their politically incorrect likings for discipline, morals and excellence. After all, where might such horrid ideas lead? ■

GM crops

Harvest time

New research sends mixed signals on genetically-modified crops

BOTH sides in Britain's debate over genetically-modified (GM) food took heart from scientific results released this week. In 1999, the government commissioned field trials of GM oilseed rape, maize and beet to compare their effects on local plants and animals with conventional farming practice. The worry is that these herbicide-resistant GM crops mean such good weed control that bug and bird numbers will fall.

The trials' design has been criticised, and there have been physical attacks too. But the results give food for thought. In fields of GM rape and beet, fewer weeds, and therefore fewer butterflies (and in some cases, fewer bees) were found than with conventional varieties. Research suggests that could mean fewer birds too. Among GM maize, though, weeds and bugs did better than with ordinary varieties. Such differences are due, not to genetic engineering *per se*, but to how herbicides are used on GM versus non-GM fields.

These findings join other results, also published this week by the government, on the spread of GM genes to other crops. Friends of the Earth, a pressure group which led an anti-GM protest in London earlier this week, cheered their conclusion that pollen from GM rape can fertilise plots 15 miles (26 km) away. Using such crops in Britain would irreversibly contaminate conventional varieties, it argued. At the same time, however, the Agricultural Biotechnology Council, which represents the industry, trumpeted results showing that a distance of only 25 metres between fields of maize would be enough to reduce genetic contamination below the 0.9% threshold above which European regulations call something GM.

While gene flow raises serious environmental questions, its immediate significance is commercial, says Brian Johnson, head of English Nature, a conservation group. Britain's Soil Association, which certifies organic produce, will reject any crop with more than 0.1% accidental contamination with GM material. As a result, organic farmers are fearful of losing their livelihoods should their neighbours, near or far, choose to plant GM crops. The government is struggling to produce regulations for the "co-existence" of GM and non-GM varieties, as well as rules on who should pay if contamination occurs.

The government has long said that this week's results are vital for the decision on whether to allow the commercial cultivation of GM crops in Britain; they will also be scrutinised by European authorities. While they could strengthen the case for GM maize to be commercialised, that is unlikely to do much for British agriculture, since far less of it is grown than oilseed rape and beet, and most goes into lower profit animal feed anyway.

Just as well, since an earlier economic review, and substantial public consultation, suggest that Britons are unwilling to swallow the new technology. Caught between grassroots resistance at home, and American pressure at the World Trade Organisation to be more GM-friendly, the government faces a tricky few months. ■

Cross-border finance

Small world

Informal money transfer faces more rules and less profits. A familiar story?

IT IS a globalised financial service worthy of the skyscrapers of the City of London, rather than the huddled immigrant masses in the next-door inner city. Whereas outfits like Western Union charge more than £10 ($17) to send, say, £50 to Bangladesh, informal operators offer a better service—including delivery to the recipient's door—for just 1% commission.

Such systems rely on reputation, trust and kinship, much like exchanges in the City during its gentlemanly heyday in the 19th century. Shops, travel agents and restaurants offer remittance services as a sideline, providing plenty of competition and keeping costs down. These small operators may send their orders to larger dealers, thus reaping economies of scale.

Official figures suggest workers in Britain send around £1 billion abroad every year. That is puzzlingly little—less than half the amount sent from countries like France and Germany. Up to £2 billion probably goes by informal, unrecorded channels.

These happy arrangements are now threatened by crackdowns on terrorist finance and laundering of drug money. Several large merchants have already been convicted of money laundering, and another is due to stand trial next month. The seizure by Customs and Excise of millions of pounds in cash caused a series of defaults in the system, eroding trust. New rules designed to promote openness are increasing costs and may be deterring some customers.

Too harsh a regime would be a mistake. Any new rules will not put off real criminals, while informal channels provide capital and hard currency for some of the world's poorest countries. These flows dwarf development aid. Remittances are dependable and bypass sticky-fingered bureaucracies. Moreover they work in places where little else does, like Afghanistan and Somalia.

Conventional moneymen have realised there is money to be made from sending small payments cheaply. MasterCard, a credit card operator, is offering transferable cards. British-based customers can pass them on for use abroad. But the informals have an edge. "If someone with a fax and e-mail can send money to a god-forsaken country for 1% commission, I would expect a western company at least to match that", says Nikos Passas, professor of criminal justice at Northeastern University in Boston, "But they don't." ■

Bagehot | Graceless under pressure

Iain Duncan Smith is stranded in no-man's land. But the Tory leader has only himself to blame

DESPITE some pretty fierce competition between Tory MPs for the title, Iain Duncan Smith is easily his own worst enemy. Just when it seems things can't get any worse, the Conservative leader can be relied upon to prove everyone wrong.

"Betsygate", as it has inevitably become known, perfectly demonstrates the problem. The allegations into the way Mr Duncan Smith ran his private office are not of the kind to register high on the Richter scale of political scandals. The matter is now being investigated by the parliamentary standards watchdog, Sir Philip Mawer, following a complaint by an investigative journalist, Michael Crick. However, even if some discrepancy is found between the £15,000 ($25,000) of taxpayers' money given to Betsy Duncan Smith for working a 25-hour week and the time she actually put in, proving wrongdoing, as opposed to sloppy book-keeping, will be difficult.

The appropriate response from Mr Duncan Smith would have been a display of calm fortitude. On this subject at least, most MPs can identify with their leader, if only because their own arrangements might not withstand the closest scrutiny. But he immediately forfeited sympathy and respect by embarking on a series of near-hysterical interviews, yelling that he would "fix" the "cowards" who were attacking his "wonderful wife". Coming so soon after his intemperate speech to the party conference, it raised questions about both his judgment and his ability to cope with pressure.

The charges now being made are themselves a direct consequence of Mr Duncan Smith's poor leadership. For the last 15 months, he has fought a running battle with Conservative Central Office, which, supposedly, exists to sustain the leader. Having sacked the party chairman, David Davis, while Mr Davis was on holiday last year, Mr Duncan Smith applied precisely the same treatment in February to the party's chief executive, Mark MacGregor. At the same time, he fired its chief agent, Stephen Gilbert and its head of research, Rick Nye. Next, he controversially appointed Barry Legg, not only as the new chief executive, but also his chief of staff. Mr Legg's sole qualification was that he was an old crony of Mr Duncan Smith and a fellow Europhobe.

Mr Duncan Smith had over-stepped his authority, blurring the lines between the party organisation and the leader's office. He came close to losing Mr Davis's successor, Theresa May, while the party treasurer, Sir Stanley Kalms, an electrical retailing tycoon, quit a few months later. After a humiliating climb-down, Mr Duncan Smith was forced to re-employ Mr Gilbert and had to get rid of Mr Legg expensively. But huge damage had been done. Influential people within the party machine had been dismayed by what they saw as Mr Duncan Smith's pettiness and insecurity.

He urgently needed to rebuild bridges, but instead allowed the animosity to simmer. It is this that has left him vulnerable. There is a clear link between perceived injustices at Central Office and the leaking of potentially embarrassing information to Mr Crick. Unsurprisingly, his appeals to personal loyalty have had a hollow ring. Though the allegations themselves are hardly earth-shattering, the suggestion that improper pressure may have been applied to one official, Vanessa Gearson, to back the leader's version of events is worrying. Ms Gearson ran his office during the period in question and is now a deputy director of Central Office. It would not be the first time that an attempted cover-up had graver consequences than the original charges.

Loyalty, or rather the lack of it, is a problem that afflicts Mr Duncan Smith in several ways. Just as Central Office feels it owes this leader less loyalty than his predecessors, the same is true of Conservative MPs. This is not all his fault. He is the first Tory leader for nearly half a century not to have been elected by a majority of the parliamentary party. Of all the flaws in the party's electoral system, bequeathed by his predecessor, William Hague, this is the most damaging. It has reduced his legitimacy in the eyes of MPs, while encouraging him, dangerously, to seek the support of the activists over their heads. The silly idea that surfaced last week of summoning dissident MPs into the whips' office for "career development interviews" was a crudely unconvincing attempt to threaten them with deselection.

An officer and a gentleman?

But Mr Duncan Smith's demands for loyalty founder for another reason. Few can forget his relentless harrying of the 1992-97 Conservative government over Europe. Many senior Tories, some of them whips at the time, do not forgive him. Mr Duncan Smith, they claim, not only serially voted against the government, but even conspired with Labour to bring it down.

Dire though his predicament is, Mr Duncan Smith's fate as leader is not yet sealed. Raising the 25 signatures needed to trigger a vote of confidence is not guaranteed. The front-runners' supporters don't want to harm their cause by breaking cover too early. Those who still pine for Michael Portillo, the hero of the party's liberal modernisers, but no longer a candidate, may think twice about taking risks on behalf of others.

Sir Philip's inquiry has complicated things in ways that may even assist Mr Duncan Smith. To strike before Sir Philip reports might appear too much like kicking a man when he's down, even for unsqueamish MPs. But if they wait and Mr Duncan Smith is exonerated, they may lose their chance to be rid of him before the general election.

Such tactical considerations should be beside the point. Before becoming an MP, Mr Duncan Smith was a junior army officer. His limitations would be tolerable only if they were offset by the qualities usually associated with that profession: steadiness under fire; a sense of obligation to the men he commands; loyalty, above all else, to the regiment. Enough said. ■

Also in this section

America and the Palestinians

An ever-bloodier stalemate

RAMALLAH

Why the Palestinian leadership may become more extreme—with Americans, as well as Israelis, becoming targets

THIS week a massive roadside bomb killed three American officials in a convoy travelling in the Gaza Strip under a Palestinian Authority (PA) police escort. Yasser Arafat, the authority's president, denounced the attack as "an awful crime", while his prime minister, Ahmed Qurei, promised to investigate who was behind it. None of the main Palestinian fighting groups has claimed responsibility, nor is it clear that the convoy was the intended target. Just south of Gaza's main crossing into Israel, convoys of Jewish settlers and Israeli soldiers have quite often been hit.

Few Palestinians would be surprised if the attack was deliberate. But it would mark the first time American government officials have been targets in the *intifada*, the Palestinian uprising that began in 2000. The ambush came a day after the United States vetoed a UN Security Council resolution condemning the expansion of Israel's security wall and settlements in the West Bank, amid a big Israeli army incursion into Gaza and just when the Palestinian leadership is in crisis. Palestinians blame the Americans for all three events.

On October 12th Mr Qurei became the second Palestinian prime minister in five weeks to tender his resignation. It is still unclear if he will stick with the job: he says his watch will last three weeks, after which "there will be a new government with a new prime minister too". He may well take the same path as his predecessor, Mahmoud Abbas, who resigned last month after 100 futile days in office.

Mr Abbas blamed his failure on Israel, the Americans and Mr Arafat. Mr Qurei's obstacles are the same. The latest row was over who becomes interior minister, mandated under the near-defunct "road map" to meld the PA's police forces into a power that would take on and disarm the Palestinian militias. Mr Qurei had wanted to give the job to Nasser Yusuf, a former PA police chief in Gaza. Mr Arafat agreed, then refused, because—say sources in the PA—the Americans had made the appointment of an "independent" interior minister a condition for supporting Mr Qurei's call for a simultaneous Palestinian-Israeli ceasefire. In Mr Arafat's eyes, that was enough to tar Mr Yusuf as a conspirator.

With the road map in shreds and with Israel's decision "in principle" to "remove" Mr Arafat hovering like a guillotine over him, the old man's recalcitrance may seem pointless. Certainly, mere survival is Mr Arafat's priority. Since Mr Abbas's resignation, he has recouped the limited powers he devolved to the prime minister. He has defied his own parliament by appointing—unconstitutionally, as many Palestinian MPs see it—an "emergency government" stuffed with loyalists. He has also reasserted himself as "supreme commander" of all the Palestinian police forces, courtesy of a national security council, which he heads. Ailing he may be, but Mr Arafat has revamped himself as the irreplaceable glue that holds what remains of the Palestinian regime together.

Palestinian reformers say he can get away with such obstructiveness because of America's policy towards him. In June last year, President George Bush called on Palestinians to elect "a new and different leadership". That, in effect, was a call for regime change by quietly shifting Mr Arafat from the centre of financial and military power and by cultivating a more malleable Palestinian prime minister and government that would be beyond his control.

The flaw in that plan was that it let Mr Arafat cast what had been a genuine and worthy Palestinian demand for reform as an American-Israeli plot to unseat him. This, he intimated, was but the first step to impose a leadership that would give up Palestinians' aspirations to self-determination, national sovereignty and a right of refugees' return. Given how bitterly Palestinians view America's support for Israel, Mr Arafat's tactic has worked well.

Why the nicer guys lose

"Abbas tried to bring in many reforms," explains a leading Palestinian analyst. "But Israel and the Americans did nothing to help him by relaxing the occupation. In Palestinians' eyes this meant that reform was seen, not as a means to end the occupation, but as a means of accepting it—a formula that no Palestinian can accept."

It is easy to see why. While Palestinian leaders in Ramallah, just north of Jerusalem, were debating the finer points of their constitution, refugees in Rafah, in the southern bit of Gaza, were suffering the heaviest Israeli assault on their lives, lands and properties in three years of fighting. ▸▸

On October 10th Israeli tanks, bulldozers and helicopters entered the Yebna refugee camp there, ostensibly to unearth tunnels used to smuggle arms from Egypt.

The Israelis found three tunnels—but no arms. They also killed eight Palestinians, including two children, and wounded scores. After the army's partial withdrawal three days later, Rafah's mayor, Majid al-Agha, likened the camp to a "disaster zone", with rescue efforts impeded by the Israeli siege so that Rafah was cut off from Gaza's main hospitals. UN officials said it resembled an "earthquake", with 114 refugee shelters destroyed or badly damaged, and 1,300 Palestinian refugees made homeless. An American State Department official said that the raid and the demolition of houses were consistent with Israel's "need to defend itself".

Palestinian fighters say the same about the fierce resistance they put up. And, if the ambush on the American convoy was deliberate, a few may now have decided to export their *intifada* to include attacks on a superpower whose policy they deem to be long on the war against terror but short on ending Israel's occupation of their land and the cycle of violence it engenders.

Until that policy is changed, Mr Arafat is likely—unless he is physically evicted—to remain indomitable in Ramallah. And as the violence worsens, the chances are rising that he will eventually be replaced, not by the likes of Mr Qurei, let alone Mr Abbas, but by the sort of Palestinians forged in the ruins of Rafah, where America is the enemy just as much as Israel. ■

A plan for Palestine and Israel

A "virtual" road map

JERUSALEM

If other Israelis were elected, the outlook might be very different

WHILE war raged in the Palestinian territories occupied by Israel, an oasis of peace shimmered on the shores of the Dead Sea in Jordan. On October 12th former Palestinian and Israeli negotiators met there to seal a "model peace agreement". This Geneva accord, so named since the Swiss government sponsored the two teams, will now be taken to governments and peoples for approval. Yasser Arafat, the Palestinian Authority's president, blessed his men but stressed that the "virtual" deal did not represent official policy. The Israeli government said the oasis was a mirage.

The accord is the fruit of a two-year slog by a former Israeli justice minister, Yossi Beilin, a former Palestinian information minister, Yasser Abed Rabbo, and remnants of the Palestinian and Israeli peace camps, including members of Israel's Labour Party, the main opposition. The result is a document of compromise, especially by the Palestinians.

Without saying so, their draftees gave up the right of return. Instead, Palestinian refugees would be able to come back to a Palestinian state in the West Bank and Gaza or settle for good in their present host countries, mainly Jordan, Syria and Lebanon. Some would live in "third countries", including Israel. But the numbers repatriated would be at Israel's "sovereign discretion", not by the refugees' own choice. Israeli draftees say this means about 30,000 people. There are 3.5m registered Palestinian refugees, says the UN, and 5m altogether, says the Palestine Liberation Organization.

In exchange, the Palestinians would get 97.5% of all the land occupied by Israel in the 1967 war. The majority of settlements in the West Bank and all of those in Gaza would be dismantled but Israel would annex two big Jewish settlements south and east of Jerusalem, Maale Adumim and Gush Ezion, plus another 12 in East Jerusalem, which Israel conquered in 1967. Some 115,000 settlers out of 400,000 would be evacuated, say Israeli draftees.

On the devilish borders that would be demarcated in Jerusalem's Old City—holy to Muslim, Christian and Jew—the accord follows the guideline laid down by President Bill Clinton in 2000: what is Arab should be Palestinian and what is Jewish should be Israeli. The Palestinians would have sovereignty over the Harem al-Sharif (also known as the Temple Mount), while Israel would have sovereignty over the Wailing Wall and the old Jewish quarter. "The refugees' right of return was the toughest issue for the Palestinians to accept. Jerusalem was ours," said an Israeli participant.

They had no right to tackle it, said Ariel Sharon, Israel's prime minister. He denounced the accord as a "cynical attempt by Labour and the left to topple the [Israeli] government by illegitimate means when we are in a difficult campaign against terror". Ehud Barak, a former Labour leader and prime minister, said much the same, while the party's current leader, Shimon Peres, was prudent. "If the Palestinians really gave up the right of return and recognised Israel as a Jewish state, then the [draft] agreement is a good basis for negotiations between governments who want to hold a true dialogue," he said.

Iraq's Shias

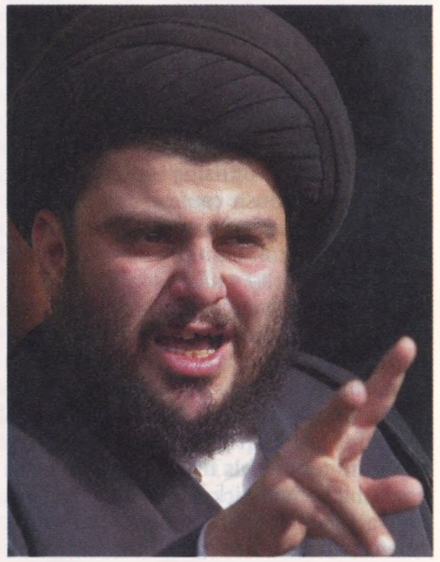
The rise of a radical

BAGHDAD

The Americans do not know how to handle a rising and rabid Shia cleric

AWORRISOME young Shia clergyman this week launched an alternative to the Governing Council that was set up and is still controlled by the Americans as Iraq's fledgling ruling body. Because the Americans, under their proconsul, Paul Bremer, have either co-opted the main Shia religious parties or convinced them at least not to oppose American rule for the time being, Muqtada al-Sadr and his cohorts have found a niche as spokesmen for Iraqi Shias' discontent. And it is plainly proving hard for the Americans, and Iraqis co-operating with them, to deal with Mr Sadr and his movement. Too heavy an American hand might increase resentment and restlessness among Iraq's hitherto acquiescent Shias, some 60% of the population. But doing nothing means letting Mr Sadr roam free to spread the word against "the great Satan".

Most Shias welcomed American liberation from Saddam Hussein, only to be dismayed by the slow progress towards their betterment so far. Mr Sadr's call for an alternative cabinet to run Iraq taps into widespread disillusion with the Governing Council, most of whose 25 members seem to be closeted much of the time behind concrete barricades in their Baghdad compound. The latest carnage—a suicide car-bomb on October 12th at the gates of the fortified Baghdad Hotel in the heart of the capital, another outside the Turkish embassy, an abortive assassination attempt on the oil minister and the killing of a Spanish military attaché—has only intensified the council's siege mentality.



Just a family man

Fear is but one factor hamstringing the council. Deep ethnic and sectarian rifts, plus its difficulties in co-operating with American advisers, are others. Moreover, the council so far has little power to take big decisions—on such matters, for instance, as the Americans' invitation, accepted last week by Turkey, to send in peacekeeping troops. The council's decrees tend to affect less controversial matters—such as giving teachers a bonus for the imminent fasting month of Ramadan. The expected passing this week of a UN Security Council resolution declaring, among other things, that the council should "embody the state" will not, at least in the short run, increase its clout.

So Mr Sadr—and his fiercier counterparts in Sunni mosques—have jumped at the chance to fill a leadership vacuum. Their pulpits and health centres provide a link to the people. They are courageous and canny. The Americans and the Shia religious establishment, which casts doubt on Mr Sadr's religious credentials, admit that he can no longer be ignored as an upstart. Last week, American tanks rolled into his stronghold in the al-Thoura slum district of Baghdad after his preachers, in their Friday sermons, proclaimed it an "American-free zone". This week in Karbala, the Shias' nearest holy city to Baghdad, supporters of the Shia traditionalist with the biggest following, Ayatollah Ali Sistani, vowed to recapture the loot Mr Sadr's militia had earlier pillaged.

Megaphonic mayhem

So far Mr Sadr's disciples have held firm. The loudspeakers of mosques in al-Thoura enjoined the faithful to stop the American forces' advance. In the ensuing clashes, two American soldiers and two Shias were killed. The al-Thoura loudspeakers also called on the faithful to mobilise in Karbala. Baffled Bulgarian peacekeepers, who patrol the town, sealed it off.

Mr Sadr says he backs civil, not armed, disobedience and blames the violence on thugs who mug in his name. He calls for rallies to endorse his proposal for an independent cabinet and says he will have no truck with terrorism. But he is no Gandhi. In the lawlessness of post-war Iraq, he set up a militia which the Americans and their Spanish allies in Najaf, the other town most holy to Shias, have tried but failed to disarm. And his adherents have threatened clergymen close to Mr Sistani for being too cosy with the Americans. One of them, who received a death-threat along with a bullet in the post, predicted a civil war unless Mr Sadr's militia is squashed.

Many Shia religious leaders fear a repeat of their setback in 1920, when their predecessors' call for an uprising led Britain to create a state led by Sunnis. But arrests and round-ups might bolster Mr Sadr's lot in Iraq's Shia urban slums. Moreover, repression has often aroused Shia sentiment, from the assassination of the Shia founder, the Prophet Mohammed's son-in-law, Ali, to Mr Hussein's more recent suppression of Shia uprisings.

Deliberately invoking Shia millennialism, Mr Sadr named his militia after the Mahdi, the 12th imam in succession to Ali who disappeared and is due to return as the Messiah. He published his plan to restore Iraqi rule on the 15th of the Muslim month of Shaaban, the Mahdi's birthday, when hundreds of thousands of Iraqi pilgrims mass in Karbala. Mr Sadr wants to move Iraq's capital from Baghdad to Najaf.

So far, his bark is worse than his bite. His call for demonstrations to endorse his cabinet when 1m pilgrims gathered in Karbala for the Mahdi's birthday went unanswered. But he can certainly make trouble. The latest clashes began when Mr Sadr's representative in west Baghdad, Muiyid al-Khazraji, was nabbed by the Americans from his mosque.

Could the Americans have done more to accommodate Mr Sadr? Yes, says the man himself. We were ready to talk, when you excluded us from the Governing Council, partly to mollify rival Shias. Besides, the House of Sadr has long been at the forefront of Iraqi politics. A head of the clan was a prime minister under the monarchy; a relative founded the Dawa underground after the revolution of 1958; and Shias revere Mr Sadr's father, the only top cleric to stand up to Mr Hussein inside Iraq after the suppression of the uprising in 1991: his bravery cost him his life. The son may not live up to that pedigree but feels impelled to maintain the family honour. ■

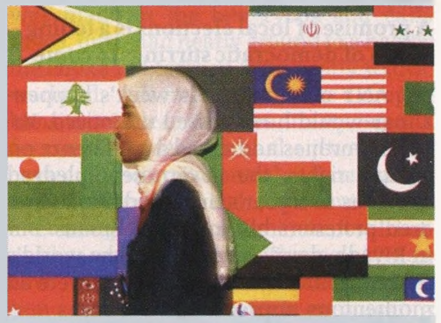
The Organisation of the Islamic Conference

Times are changing

PUTRAJAYA, MALAYSIA

Muslims see the world shifting—and aren't sure what to do about it

THE delegates to the summit of the Organisation of the Islamic Conference (OIC) had no trouble agreeing on one point, at least: the Muslim world is going through its roughest patch in a good long while. Since the leaders of Muslim countries last assembled, in November 2000, a lot has changed. The Israeli-Palestinian peace process has all but collapsed; America has toppled a Muslim regime in Afghanistan, and occupied a Muslim country, Iraq. A third Muslim country, Syria, has recently been on the receiving end of Israeli missiles, while a fourth, Iran, is facing flak about its nuclear programme.



A flagging debate

The 57-member OIC would have responded with a lot of bickering and finger-pointing, rounded off with a bombastic denunciation of Zionism. Instead, Malaysia, the host of this year's summit, tried to steer the group towards "practical, implementable" measures. Mahathir Mohamad, who steps down as prime minister at the end of this month, deplored "the Jews' rule of the world by proxy" but stressed a need to negotiate with Israel. He also said more scientific research and economic development would set the Muslim world to rights. Abdullah Ahmad Badawi, his deputy and successor, called for more introspection and dialogue between Muslims. The hosts organised a trade fair (arms dealers to the fore) to coincide with the summit and even touted a quixotic idea for an Islamic trade system, denominated in gold dinars.

There was the usual talk of reforming the OIC itself. Pakistan wanted members to contribute more money, to give the outfit more clout, though many do not pay their current dues. The group's secretariat presented a consultant's report detailing how it could make itself more effective. There was even a move to raise the OIC's profile by elevating the soon-to-be-jobless Dr Mahathir to the post of secretary-general, though he insisted that he was not interested.

In the end, however, the usual point-scoring dominated the discussions. Some delegates sniffed at the presence of Iraqis from the Governing Council appointed by America. Others, the Iraqis included, decried Turkey's decision to send troops to Iraq. Yet others berated Malaysia for inviting Russia, given its ill-treatment of Muslims in Chechnya. The final communiqué had not been settled by the time *The Economist* went to press, but Zionism was unlikely to escape unscathed. Times, it seems, have changed more than the OIC has.

Saudi Arabia

Quite a step

CAIRO

A promise of local elections is a telling omen of democratic stirrings to come

IN ANY other city, this week's happenings would have passed unnoticed. Various worthies addressed a conference on human rights; the government pledged elections in a year's time; and a few hundred protesters blocked a crossroads. But in Riyadh, dour seat of one of the world's most absolute monarchies, these were all momentous, unprecedented events.

That Saudi Arabia should undergo change is not new. It has changed a great deal from the parched, poor and fanatically conservative place it was a few decades ago. Yet political reform has lagged miserably. The only representative institution of any kind is the appointed Shura Council, which can tinker with laws. The al-Saud family takes all serious decisions.

Pressure for change has been mounting. From abroad, especially from America, comes increasingly pointed advice about the need to fend off religious radicals by granting citizens the right to influence policy. But the bigger pressures are internal. Oil income has stayed flat even as the population soars, encumbering the kingdom with a swelling pool of jobless youths who are prey to radical ideas. A spate of deadly attacks by al-Qaeda sympathisers earlier this year jolted even the most complacent of princes. Liberals and loyal religious conservatives alike now concur that a new, less paternalist social contract is needed if the country is to overcome such problems.

Emboldened by the receptiveness in some royal circles, prominent citizens have taken to bombarding their rulers with petitions. The most recent, signed by 300 eminent professionals, among them 50 women, demands an elected legislature, an independent judiciary, guaranteed civil rights and the promotion of religious tolerance. The exposure of ordinary Saudis to the internet and satellite television, meanwhile, has prompted ever-franker talk of such notions. This week's protest in Riyadh's business district may have been organised over the ether by a London-based opposition group.

To date, much of the response has been window dressing. The fancy human-rights conference, for example, spent more time accusing the West of double standards than addressing chronic local abuses. While outspoken liberals have been quietly banned from Saudi media, dozens of radical preachers have been sacked from state posts. Hundreds more Islamists have been jailed in anti-terror sweeps.

Yet the very holding of such a conference, with a full array of princes in attendance, marks an important widening of public discourse. The elections pledge is even more telling. The promised polls will be only for city councils, and will fill only half their seats, the rest being princely appointments. Still, they will be the first elections of any kind since a brief stab at local democracy in the stone age of the 1950s.

And more may soon come. Saudi Arabia's foreign minister, Prince Saud bin Faisal, says the promised polls are but the first step in reforms that envisage "citizens' participation" as a prerequisite for progress. The trouble is that not all princes are quite so keen on change. This week's demonstration, swiftly broken up by police, could, say some observers, prompt foot-dragging rather than speedier reform. ■

Economic reform in Nigeria

Shock therapy

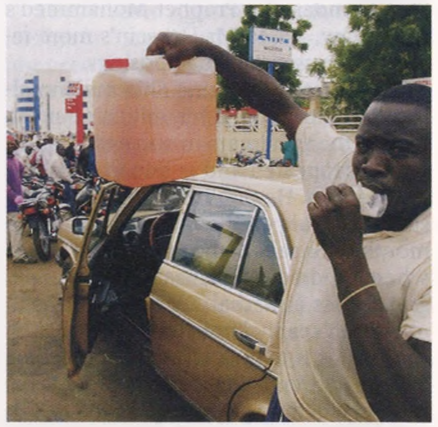
LAGOS

The sudden deregulation of fuel prices could herald economic reform at last

MOST Nigerians see cheap fuel as their birthright. Nigeria is Africa's biggest oil producer yet petrodollars have enriched only an elite, while the poor lack clean water and regular electricity. The one thing government does provide, Nigerians reckon, is cheap petrol, most of it imported, then sold locally at much subsidised prices. Until recently, a litre of petrol cost less than a bottle of mineral water.

No more. In a radical change of policy, Nigeria's President Olusegun Obasanjo has put an abrupt end to that perk. On September 30th the government's fuel-price regulator lifted the price cap on petrol, diesel and kerosene, throwing the market open to competition.

Chaos ensued. Trade unions called a general strike, then suspended it when fuel retailers promised not to raise prices—but did. In Lagos, the commercial capital, pump prices jumped by a quarter overnight. Union members picketed petrol stations and browbeat station attendants into dropping prices. Many stations have closed, waiting for the row to blow over.



The government should carry the can

Mr Obasanjo, re-elected for a second term in April, has been criticised for failing to explain to Nigerians why they will have to pay more for bus fares and groceries. Still, freeing up the market is the first serious step he has taken towards mending the country's battered economy since he came to power four years ago. Fuel subsidies cost at least $1 billion a year—and breed corruption, create shortages and discourage the development of other energy sources, such as Nigeria's natural gas.

Worst of all, subsidies have turned the fuel business into a racket controlled by crooked officials at the Nigerian National Petroleum Corporation (NNPC), the state oil company. Over the years its four refineries, having fallen into chronic disrepair, have run at only one-third of production capacity. The NNPC also imports fuel, but not enough to meet the country's needs.

The resulting shortage creates fertile ground for bribe-taking. Petrol-station owners grease the palms of NNPC officials to get their allocation, then pass on the cost of the bribe to consumers by selling most of their stock more expensively on the black market. Petrol stations outside Lagos and the capital, Abuja, are often empty. But just a few yards away, jerrycans filled with petrol sell briskly at the roadside for up to four times the official price.

Fuel deregulation should get rid of the ubiquitous queues snaking outside petrol stations and should pave the way for the state refineries to be sold off. Yet Nigerians suspect the government's motives for taking away cheap petrol and doubt that the money saved will be put to good use.

You can't blame them. The government spends over 80% of the budget running its own incompetent and corrupt bureaucracy. When not asleep at their desks, civil servants openly and cheerfully ask visitors to their offices for cash. Higher up the ladder, government procurement officers inflate contracts for anything from paper clips to luxury cars. Mr Obasanjo uses several presidential planes and moves around town in a convoy of over 50 cars.

Yet there is some hope for change. The president has gathered a team of good economists under a new finance minister, Ngozi Okonjo-Iweala, once a high-up at the World Bank. They have drawn up an ambitious clutch of reforms focusing on job cuts in the public sector, investment in agriculture and infrastructure, and a new drive to speed up halting privatisations. Nothing new, but there may be a greater willingness to implement it all this time. ■

By invitation: Mohamed ElBaradei

Towards a safer world

VIENNA

The shortcomings of the present nuclear non-proliferation regime are becoming evident. Mohamed ElBaradei offers his views on how it could be improved

THE very existence of nuclear weapons gives rise to the pursuit of them. They are seen as a source of global influence, and are valued for their perceived deterrent effect. And as long as some countries possess them (or are protected by them in alliances) and others do not, this asymmetry breeds chronic global insecurity.

The present nuclear-arms-control regime is looking battered. But any reform of that regime must begin by conceiving a framework of collective security that does not rely on nuclear deterrence. The rise of terrorist groups makes this essential. A nuclear deterrent is clearly ineffective against such groups; they have no cities that can be bombed in reply, nor are they focused on self-preservation. Moreover, their constantly shifting targets and modes of attack demand a more co-operative and flexible international response. The "war on terror" should provide an impetus to work towards a global security culture that will serve the interests of all countries equally, and will make reliance on nuclear weapons obsolete.

By invitation

Mohamed ElBaradei, a former Egyptian diplomat and professor of law at New York University, has been director-general of the International Atomic Energy Agency in Vienna since 1997.

Revisiting the NPT regime

In hindsight, a number of the premises of the 1970 Treaty on the Non-Proliferation of Nuclear Weapons (NPT) seem less than optimal. In a nod to "the early bird gets the nuke", it temporarily legitimised the arsenals of the five countries that had already developed nuclear weapons. It forbade other signatories to develop such weapons, but included no strategy for persuading countries that refused to sign—a loophole which India, Pakistan and, presumably, Israel have used, raising the number of nuclear-armed states to at least eight. And it relied on the promise of the signatories to use nuclear materials for peaceful purposes only. They could use them for health care, agriculture or energy production, but could not divert them to non-peaceful purposes. In fact, however, they have been able to operate very close to a nuclear-weapons capability.

In the climate of the mid-to-late-1960s in which the NPT negotiations took place, this bargain was the best that could be achieved. But the asymmetry it endorsed was never intended to be permanent. The nuclear-weapon states agreed to move towards full disarmament—a commitment renewed "unequivocally" by all five states as recently as 2000—although without a timetable. Some progress on disarmament was made in the late 1980s and early 1990s, but it had nearly ground to a halt by the end of the century, with nearly 30,000 warheads still in existence. The Comprehensive Nuclear Test-Ban Treaty, sought for over four decades as the jewel in the crown of the arms-control regime, was finally concluded in 1996; but seven years after being opened for signature, it still languishes unimplemented. The recent "Moscow Treaty" between the Russian Federation and the United States is encouraging; however, it is not permanent, and it does not address non-operational warheads. And despite volumes of rhetoric on the topic, no progress has been made on persuading India, Israel and Pakistan to abandon their nuclear-weapons programmes.

Similarly, on the non-proliferation front, many countries that have signed the NPT have never brought into force the required safeguards agreement with the International Atomic Energy Agency (IAEA). Fewer than 20% have finalised an additional protocol—endorsed in 1997 after the discovery of Iraq's clandestine nuclear programme—which gives the IAEA the authority to inspect countries more broadly, particularly for undeclared nuclear material and activities.

This sluggish performance on all fronts signals the need for a different approach. Reluctance by one party to fulfil its obligations breeds reluctance in others. Each discovery of a clandestine programme makes us question whether more exist. While I in no way wish to undercut the importance of states' adherence to their NPT obligations, I believe it is time to begin designing a framework more suited to the threats and realities of the 21st century.

In too many hands

Countries with nuclear industries have set up elaborate accounting and protection measures to ensure strong national oversight of their nuclear material. The IAEA inspects regularly to verify the accuracy of what countries report. Export controls restrict the transfer of sensitive technologies that could be misused for nuclear-weapons production.

But controlling access to nuclear-weapons technology has grown increasingly difficult. The technical barriers to designing weapons and to mastering the processing steps have eroded with time. Much of the hardware in question is "dual-use"; for example, it is hard to justify restrictions on exporting "hot cell" technology that could be used for plutonium separation when the same equipment is vital for producing ▸▸

radioisotopes used in modern medicine. Changes in political fortunes or economic downturns have at times found nuclear scientists without jobs and reportedly willing to offer their knowledge and services elsewhere. And with the passage of time, the sheer diversity of technology has made it harder to control both procurement and sales. In pre-1992 Iraq, for example, scientists were simultaneously pursuing no fewer than six different technologies to enrich uranium for eventual weapons use, shopping for essential equipment and specialised materials in more than ten countries.

Uranium enrichment is sophisticated and expensive, but it is not proscribed under the NPT. Most designs for civilian nuclear-power reactors require fuel that has been "low-enriched", and many research reactors operate with "high-enriched" uranium. It is not uncommon, therefore, for non-nuclear-weapon states with developed nuclear infrastructures to seek enrichment capabilities and to possess sizeable amounts of uranium that could, if desired, be enriched to weapons-grade.

While high-enriched uranium is easier to use in nuclear weapons, most advanced nuclear arsenals favour plutonium, which can be tailored for use in smaller, lighter weapons more suited for missile warheads. Plutonium is a by-product of nuclear-reactor operation, and separation technology ("reprocessing"), also not proscribed under the NPT, can be applied to extract the plutonium from spent fuel for re-use in electricity production.

Under the current regime, therefore, there is nothing illicit in a non-nuclear-weapon state having enrichment or reprocessing technology, or possessing weapon-grade nuclear material. And certain types of bomb-making expertise, unfortunately, are readily available in the open literature. Should a state with a fully developed fuel-cycle capability decide, for whatever reason, to break away from its non-proliferation commitments, most experts believe it could produce a nuclear weapon within a matter of months.

In 1970, it was assumed that relatively few countries knew how to acquire nuclear weapons. Now, with 35-40 countries in the know by some estimates, the margin of security under the current non-proliferation regime is becoming too slim for comfort. We need a new approach.

My proposal has three parts:

- First, it is time to limit the processing of weapon-usable material (separated plutonium and high-enriched uranium) in civilian nuclear programmes, as well as the production of new material through reprocessing and enrichment, by agreeing to restrict these operations exclusively to facilities under multinational control. These limitations would need to be accompanied by proper rules of transparency and, above all, by an assurance that legitimate would-be users could get their supplies.
- Second, nuclear-energy systems should be deployed that, by design, avoid the use of materials that may be applied directly to making nuclear weapons. These systems should have built-in features that would prevent countries diverting material to weapons production; prevent the misuse of the facilities and equipment for clandestine manufacture of such materials; and facilitate efficient oversight to ensure continued peaceful use. This is not a futuristic dream; much of the technology for proliferation-resistant nuclear-energy systems has already been developed or is actively being researched. In addition, existing facilities around the world that use high-enriched uranium applications—for

example, to produce medical radioisotopes—should continue, gradually but irreversibly, to be converted to low-enriched processes.
- Third, we should consider multinational approaches to the management and disposal of spent fuel and radioactive waste. More than 50 countries have spent fuel stored in temporary sites, awaiting reprocessing or disposal. Not all countries have the right geology to store waste underground and, for many countries with small nuclear programmes for electricity generation or for research, the costs of such a facility are prohibitive.

Considerable advantages—in cost, safety, security and non-proliferation—would be gained from international co-operation in these stages of the nuclear fuel cycle. These initiatives would not simply add more non-proliferation controls, to limit access to weapon-usable nuclear material; they would also provide access to the benefits of nuclear technology for more people in more countries.

The new framework should also "turn off the tap", for all countries, on the production of new material for nuclear weapons. This year marks the tenth anniversary of an historic United Nations resolution calling for a ban on the production of fissile material for weapons use—the so-called Fissile Material Cut-off Treaty—on which little recent progress has been made. This treaty could cap and make public all inventories of fissile material still available, and serve as a starting point for future arms reductions.

I do not have all the answers on what this framework should look like. But it should be inclusive; nuclear-weapon states, non-nuclear-weapon states, and those outside the current non-proliferation regime should all have a seat at the table. The security concerns of all parties should be heard and weighed, and the aim should be to achieve full parity among them under a new security structure that does not depend on nuclear weapons or nuclear deterrence. This naturally should include agreement on a concrete programme for nuclear disarmament, complete with a timetable.

And lastly, once in force, this new framework should be regarded as a "peremptory norm" of international law—not vulnerable to any nation subsequently withdrawing, based on the whim of a new government or a vote of the latest parliament. In short, it should be enduring.

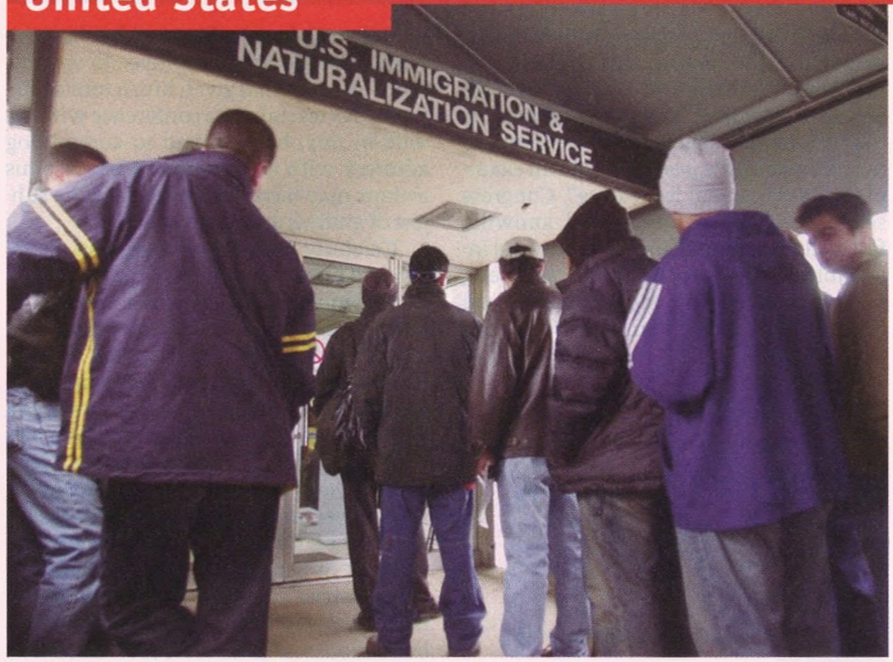
A call for leadership

In all of human history, no civilisation has ever voluntarily laid down its most powerful weapons. It remains to be seen whether ours can be the first.

We have not yet reached the mid-1960s' prediction of a world of 15 or more nuclear-weapon states, but we are over halfway there. And the trends indicated by recent events should have us all worried.

I worry that, in our collective memories, the horrors of Hiroshima and Nagasaki have begun to fade. I worry about nuclear weapons falling into the hands of terrorists or ruthless dictators. I worry about nuclear weapons already in the arsenals of democracies—because as long as these weapons exist, there is no absolute guarantee against the disastrous consequences of their theft, sabotage or accidental launch, and even democracies are not immune to radical shifts in their security anxieties and nuclear policies.

I worry, but I also hope. I hope that a side-effect of globalisation will be an enduring realisation that there is only one human race, to which we all belong. I hope that dynamic leaders within national governments, international institutions and civil society will step forward with the vision, the integrity and the will to reverse the inertia of fear and insecurity. I hope we can all agree to sit down together, and to start anew. ■



Also in this section

The politics of immigration

Business v Bush

NEW YORK

Why you may not need to rush to change your passport after all

BASHING big business is part of the routine of "liberal" America: just pluck any book written by Michael Moore from the bestseller lists. Yet in between corrupting politicians, ripping off honest workers and undermining democracy, the "stupid white men" who run America's evil corporations have somehow found time to force the White House to retreat on a subject close to the hearts of liberals of all sorts: the rights of immigrants.

In the wake of September 11th, most people accepted that some form of clampdown on immigrants was justified. The hijackers, all foreigners, had brutally exposed the inadequacies of America's immigration system. The Bush administration's response has come in three basic parts: stepping up policing of immigrants inside the country; moving the bureaucrats who deal with immigration into the new Department of Homeland Security, alongside the customs and borders people; and making it harder for visitors of all sorts to get into the country.

So far, the noisiest part of the debate has focused on the civil liberties of those affected by the first two parts of this response. Immigrant groups claim that, under cover of national-security interests, officials have been harassing ethnic communities, especially Muslim ones. The American Immigration Lawyers Association counts 50-odd separate government actions which, it says, have undermined civil liberties and due process for immigrants.

Critics also claim that moving the immigration bureaucrats from the Justice Department to Homeland Security has produced a change of attitude. Jose Pertierra, an immigration lawyer, says there is now "a police mentality and a culture of no".

These protests have not gone unnoticed. Republicans worry about Mr Bush's popularity with Arab-Americans, a group he has been courting. A sharply worded report from the Justice Department's own inspector-general in June caused embarrassment. But little change of heart has resulted. For most conservatives, anything that increases domestic security and annoys the American Civil Liberties Union (ACLU) must, *per se*, be good.

In contrast, the business assault on immigration policy focuses on a more sensitive subject for Mr Bush: the economy. Businessmen claim his changes are choking tourism, hampering trade and preventing firms from hiring workers. Their main target is the third part of Mr Bush's strategy—the rule-changes that are making it harder for foreigners to enter America.

America admits only 1.1m immigrants a year. Most of them are already resident in the country in one way or another, having previously entered the country on temporary visas. On top of this, America probably gets 1m-2m more people a year coming across its frontier from Mexico, though these border-slippers are not counted. Most of the recorded 25m people who fly in for a holiday or to do business come from rich countries, more than 4m of them from Britain alone. Under America's visa-waiver programme, most European visitors do not need special permission.

America has announced four recent changes to all this. From August 1st, almost all travellers who need visas have had to go through interviews at consulates, replacing a system in which the consulates decided whom they should interview. Since October 1st, travellers from visa-waiver countries have needed a machine-readable passport. From next January 1st, all visitors who travel on visas are supposed to be photographed and fingerprinted on entry into America. And from next October new passports issued by visa-waiver countries are supposed to include "biometric" data taken from, say, fingerprints or a facial scan.

Foreign tourists spend $65 billion a year in America. Last year the number of tourist and business arrivals dropped by 15%, the biggest fall since 1983. Groups such as the Travel Industry Association and the National Business Travel Association have been lobbying Congress to "balance homeland and economic security".

On September 9th, they announced their first victory. Countries within the visa-waiver scheme who have plenty of people with low-tech passports (such as France, Italy and Spain) can now apply for an extra year to get machine-readable passports into circulation. Should foreign governments fail to meet next year's improbable deadline for the new biometric rules, lobbyists think those rules too can be delayed.

The fingerprinting and photographing ▸▸

of foreign visitors on arrival may also have to be put back. There had been talk of introducing the system at America's 30 busiest airports at the start of next year. Now managers at these airports are saying they have had no time to get ready, and the travel industry is floating the idea of a further delay.

Another target for the business lobby is the growing queues for visa interviews in non-waiver countries such as Brazil (up to six weeks) and South Korea (up to seven). These are making spur-of-the-moment business travel—often the most productive sort—impossible. Again, lobbyists seem confident they can get the problem fixed, if the government pays more money for more State Department officials.

Pleading for workers

Quietly, the business lobby is also pushing to change the rules for foreign workers inside America. The main target is the annual quota for H-1B visas (six-year work permits for white-collar employees, most famously Indian software engineers). In 1990 Congress introduced an annual H-1B quota of 65,000 people. This rose to 195,000 in 2000 as firms lobbied for more engineers. This month, the cap reverted to 65,000. Even in recession, this will not be enough to meet demand.

Until recently, lobbyists had given up any hope of a higher cap. America overflows with unemployed software engineers protesting about imported foreigners. One otherwise out-of-work engineer, Rob Sanchez, puts his energies into a website (zazona.com) that claims to lay bare a policy "designed by big business to replace American workers with cheap young blood"—even though a recent study by the Migration Policy Institute (MPI) found that, when you allow for age, experience and education, employers actually pay foreigners more than Americans.

Yet the politics has begun to brighten a bit recently. According to Theodore Ruthizer of Bryan Cave, a law firm, lobbyists are hoping for progress on two fronts: getting more exceptions to the sorts of work and levels of experience that make a job count towards the annual H-1B quota, and persuading Congress to put the yearly cap back to 115,000 or so.

Business has also begun to fight on behalf of the 11m undocumented workers it surreptitiously employs. Here the main problem is not the hairy-armed brutes at the Department of Homeland Security, say lawyers, but a law passed in the 1990s that took full effect in 2001. Before then an employer could sponsor an undocumented employee for a work visa, creating a "path to citizenship". Now anyone who has worked in America illegally for more than a year must go home for ten years before qualifying for sponsorship. Several bills (all deeply flawed, complain immigration lawyers) are trying to overturn this rule in both the House and the Senate.

These "victories" for business should not be exaggerated. Kathleen Newland of the MPI argues that the law demanding machine-readable passports was an example of "aspirational legislating". Congress set a hopelessly optimistic goal, knowing full well that foreign bureaucrats would inevitably fail to meet it. But, for the moment, businessmen are having more effect on immigration policy than the ACLU can possibly claim. ■

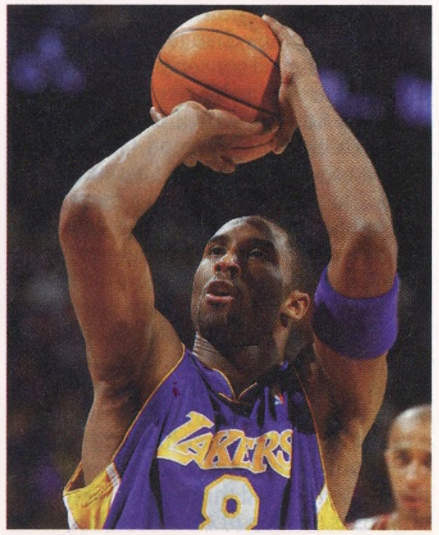
Celebrity justice

Kobe in the dock

Yet another "trial of the century" is gearing up

HAPPILY for television-addicted Americans, another media event may arrive just in time to fill the gap left after California's recall election. That is the trial of Kobe Bryant, a star basketball player for the Los Angeles Lakers, who stands accused of sexual assault. Mr Bryant's preliminary hearing, the first step towards a jury trial, was adjourned early after the prosecution announced that it had evidence of the accuser's physical injuries, and Mr Bryant's lawyer, Pamela Mackey, replied by hinting that the defence was willing to offer graphic details about the alleged victim's recent sexual history. The judge will rule soon on whether the full trial goes ahead.

Mr Bryant, a precocious athlete who was brought up in Italy and skipped university to play professional basketball, was recovering from knee surgery this summer at a hotel near the classy ski resort of Vail, in Colorado. He is said to have invited a female hotel employee to visit his room after she had given him a tour of the hotel. At a tearful press conference with his wife in July, he admitted to committing adultery with the woman. What else his actions may have amounted to is the subject of endless argument.



He's famous, his accuser's unknown

Celebrity trials have a long and distinguished history in America. Hollywood in its golden years saw one after another. In more recent times, when OJ Simpson, a star football player, was accused of murder in 1994, his flight from arrest and subsequent trial eclipsed all other news. Ask almost any American where he or she was on the day OJ fled down the San Diego Freeway, and you will get a ready answer.

A closer analogy to Mr Bryant's case is the trial of William Kennedy-Smith, the nephew of Senator Edward Kennedy, on rape charges in 1991. Mr Kennedy-Smith had returned with a woman to his family's beach house in Palm Beach, Florida, after a night out at Au Bar, a local watering hole. He was accused of rape, but was acquitted at trial. Live television broadcasts from the courtroom blocked out his accuser's face with a black cloud in an attempt to protect her anonymity.

The Bryant case, like Mr Kennedy-Smith's, will no doubt revive discussion over the way rape cases are handled by America's courts. Prosecutors have kept the accuser's name under seal, now a standard practice. Almost all American newspapers have adopted a similar policy of non-disclosure of the names of victims and alleged victims of sexual assault. But in this age of the internet, and of rabid sports fans wanting to defend their hero, that has not stopped some people posting the accuser's name online and reportedly making death threats against her. The court, too, inadvertently posted on the web a document containing her name.

Court rules also forbid rape defendants from besmirching an alleged victim's name or detailing her sexual history, which was common practice until around three decades ago. That makes rape cases unique in their protection of the accuser's rights. Yet this did not stop residents of Eagle County, Colorado describing the accuser's wayward way of life on television last summer, as if she were so well known locally that anonymity was absurd.

So far, no decision has been reached on allowing television cameras in court if a full trial goes ahead. Their presence was blamed for the carnival atmosphere in the OJ Simpson case. Hundreds of film crewmen stand ready outside the courthouse; yet, with the rise of cable television channels such as Court TV, and of many more round-the-clock news outlets, fewer of them can make a profit solely on Kobe's woes. This case may in fact mark the waning of the era of trial by television. ■

The right to die

But who says?

CLEARWATER, FLORIDA

An agonising quarrel between parents and husband

Doctors call her unconscious

FOR those unfamiliar with right-to-die decisions, the web videos of 39-year-old Terri Schiavo are painful to watch. Here is a woman whose expression appears to go from stupor to joy at the sound of her mother's voice. She opens her eyes wide on command and moves her head to track a floating balloon. Although clearly mentally impaired, she does not look like the vegetable one normally associates with debates over withdrawing life-support.

But on Wednesday, to the horror of thousands of web surfers worldwide, doctors removed the feeding tube that has been keeping her alive. The formerly healthy Mrs Schiavo was left brain-damaged and dependent on the tube by a heart attack in 1990. Without it, she is expected to die within two weeks.

The decision, by Judge George Greer in Clearwater, Florida, ended a long legal battle between parents who wanted to take care of Mrs Schiavo and a husband who pleaded for her death. Bob and Mary Schindler believed that, with therapy, their daughter could eat and speak. Michael Schiavo said his wife had permanently lost all awareness and should be allowed to die. In November 2002 Judge Greer cleared the way for her death by siding with three of five doctors who testified that her movements were the normal reflexes of someone in a persistent vegetative state, not conscious responses.

Until recently, it seemed a tragic family feud. News reports described her as vegetative, leaving many casual observers to wonder whether grief had overridden logic in the parents' decision to fight for life-support. But the videos, taken a year ago and posted on the web in July, have rattled this idea. Although other patients in Mrs Schiavo's condition have been taken off life-support, outsiders rarely saw them. Mrs Schiavo smiles and laughs on home computers around the world.

Visitors to the website have sent some 57,000 e-mails to the office of Florida's Catholic governor, Jeb Bush, asking him to keep Mrs Schiavo alive. Some viewers expressed shock at finding her moving and making sounds, not just lying there completely comatose. The governor did ask both federal and state courts to review her case before the feeding tube was removed, but his arguments were rejected.

For her husband's supporters, the video clips were patently misleading: a few seconds of coincidental movement and sound in more than a decade of unresponsiveness. "The video clips don't show the 99 other times out of 100 when the mother came in and said, 'Hi Terri, hi Terri,' and nothing happened," says George Felos, Mr Schiavo's lawyer. "Any person who has spent any time with Terri knows she has no consciousness."

Having lost the court battle last year, the Schindlers have fallen back on legal technicalities. In a hearing on October 10th their lawyer, Patricia Anderson, asked a federal judge for therapy that might teach Mrs Schiavo to eat by mouth before her feeding tube was removed. Mr Schiavo refuses to allow such therapy, citing doctors who say she cannot do it, and could choke if she tried. This puzzles those who want to keep Mrs Schiavo alive. "It's like saying, there's a woman drowning, but don't rescue her...you might hurt her neck," a frustrated Ms Anderson argued in court. The judge sympathised, but ruled he had no power to stop the tube removal.

Some doctors say that whether or not Mrs Schiavo can use a spoon was not the real issue. "The question is, what did she really want?" says Dr Linda Emanuel, a specialist in end-of-life issues at Northwestern University in Chicago. "Anyone has the right to avoid unwanted life-sustaining treatments. That goes for people in persistent vegetative states as well as patients with full consciousness."

Mr Schiavo insists that his wife made it clear before the heart attack that she would not want to live hooked up to a tube. His still numerous supporters say the parents showed no mercy by taking 13 years to carry out her wish. But the Schindlers argued that she would have wanted help, at least the chance at getting better with therapy: to deny her that constitutes cruelty to a disabled person.

Some of those who wanted Mrs Schiavo to live gathered this week for a vigil outside her hospice. On the internet, the videos continue to play, illustrations of the fine line between mercy and cruelty. ■

New York

Charon's ferry

NEW YORK

The safest tourist attraction turns deadly

THE Staten Island ferry is considered the ultimate low-risk thrill in New York, a leisurely half-hour free ride past the Statue of Liberty across the narrow straits between Manhattan and Staten Island. At 3:20 on a beautiful, though windy, Wednesday afternoon, the inconceivable happened: one of the cheery, orange, 300-ft boats overshot its terminal in Staten Island, crashing into another pier. Ten people died, at least three lost limbs, and more than 30 others have serious injuries. After the accident, the ship's co-captain and pilot fled ashore and attempted suicide at his house nearby. He was in critical condition at a local hospital.

It was by far the worst ferry accident in New York since the 1800s, long before the city took over operating the franchise. Passengers say the first impact sounded like an explosion, causing widespread panic. The boat did not slow down as it approached the harbour, instead coming to a halt only after a grinding collision with concrete and wood pilings. The impact tore the boat open along its right side, just above the waterline. On the upper decks, people were jarred but unharmed. Down below, the pilings acted as wrecking beams, destroying a wide swathe of the passenger area and bringing down the ceiling and a stairway.

Victims were crushed between the pilings and the boat while others, better situated or quicker to react, managed to stay ahead of the devastation. Some escaped by jumping into the cold harbour. One body was subsequently removed from the water and divers continued to search well into the evening for more. Since the ferry is free, there is no passenger list, complicating the effort to determine the number of casualties. If there was any good fortune, it was the timing of the incident, well before the evening rush. The ferry, with a capacity of 6,000, was operating at only a quarter of its peak capacity.

News of the collision raised familiar fears in a city still on edge from the terrorist attacks two years ago, a subsequent American Airlines plane crash, a fatal subway fire in December, a fatal shooting inside City Hall in July, and the recent blackout. In what has become one of New York's new skills, emergency measures were quickly put into place. The city's mayor, Michael Bloomberg, immediately left a much-heralded playoff game between the New York Yankees and the Boston Red Sox ▸▸

to be taken by helicopter to the site of the accident. Afterwards he went on television, in his now-routine, businesslike way, to provide information and show that, even in the inevitable confusion, there was no panic. Hospitals started up their newly devised disaster plans and the city improvised alternative transport routes, tying special buses to subways so that the 70,000 people who commute daily on the ferries could get home.

Speculation about what caused the crash was rampant. The most commonly cited villain was the weather. There were high winds and larger than normal waves. Earlier in the day, the small boats that provide taxi service on the city's two rivers had already suspended service and gusts were so strong near the Manhattan side of the ferry terminal that fixtures had blown off buildings.

There was also, inevitably, concern about mistakes. Police administered drug and alcohol tests to crew members. The co-captain, who had been at the ship's controls, may have blacked out briefly before the collision. There were also reports that, as he lay unconscious in his hospital room, not only doctors, but at least one lawyer were waiting to counsel him. ■

Prescription drugs

Canada, ho!

CHICAGO

Illinois joins the clamour for cheap medicine from the north

BACK in the 1960s, young Americans fled in droves to Canada to avoid conscription into the armed forces, which might send them to Vietnam. Now older Americans—some of them, no doubt, those same draft-dodgers—are streaming north in search of cheap prescription drugs. (In Canada, government controls keep the price down.) The drug price-gap has caught the attention of state governors, too, who face mounting consumer frustration, rising health-care costs and whopping budget deficits. They would love to pay as little as the Canadians do; but, for now, Washington won't let them.

The movement took a populist turn on October 14th when the governor of Illinois, Rod Blagojevich, launched an online petition-drive to pressure the federal Food and Drug Administration (FDA) to lift its ban on drug "reimports" (medicines made in America, sold abroad and brought back for consumption) by states. The governor is asking consumers across the country to sign an online petition to push change through Congress, which is considering prescription-drug costs amid a broader debate about Medicare, the government health-care programme for the elderly.

The Illinois website contains cost comparisons for a list of FDA-approved drugs that show potential savings of 30-50% on American prices at Canadian online pharmacies. Canadian pharmacists estimate that at least 1m Americans buy prescription drugs in their country, many by post or over the internet. Legislation backed by Congressmen Rahm Emanuel of Illinois and Gil Gutknecht of Minnesota that would allow consumers to shop for better drug prices in Canada has passed the House but is stalled in the Senate.

Mr Blagojevich's efforts, which critics dismiss as unsafe and purely political, highlight the cost of medication programmes to cash-strapped governments. Illinois currently spends about $1.8 billion on prescription drugs, including $340m on drugs programmes for state employees and retired folk—up 15% over the previous year. Last month the governor asked experts to study the feasibility of reimbursing these people for medicines they purchase in Canada, and their findings are due within weeks. Minnesota and Iowa, also within striking distance of the Canadian border, are conducting similar studies; Springfield, in Massachusetts, has allowed its city workers to buy cheaper drugs from Canada for the past three months.

Nearly every state has addressed the drug issue. As of September, at least 38 states had established or authorised some type of programme to provide drug-cost assistance, mainly to poor elderly or disabled people. Programmes range from bulk purchasing within states to multistate drug purchasing in the Medicaid programme for poor Americans, a co-operative approach led by Michigan.

The elderly, in particular, are struggling. A 2001 report for the Kaiser Family Foundation found that average drug expenditures by people over 65 were almost double the average drug spending by all consumers. Yet Medicare, which covers about 40m old people, does not include a prescription-drug benefit. America's uninsured, who number around 44m, are also vulnerable to high drug costs. Poor older people pose a particular burden for states that must pay for their medicine.

Not surprisingly, critics of the Canadian reimport plans include the FDA, pharmacists (who fear for patients' safety, and their own jobs), and drug makers. For pharmacists, this is the latest in a string of threats: mail-order and online drug retailers are already popular with a growing number of Americans. According to IMS Health data, last compiled in 2002, 18.4% of prescription sales in the United States were delivered by post.

But pharmaceutical companies are usually cast as the villain in the battle over prescription drugs. A spokesman for PhRMA, the industry association, says drugs account for only 10% of America's health-care costs, and the drug-price inflation rate has been cut in half over the past 15 years. He blames inadequate health coverage for many people's problems. Still, the industry remains a favourite target for officials. Minnesota's attorney-general has filed suit against GlaxoSmithKline, alleging that it organised a boycott of Canadian wholesalers and pharmacists for selling drugs to American citizens.

Not all local politicians, however, are on Mr Blagojevich's side. Dennis Hastert, the powerful Republican speaker of the House of Representatives in Washington, has raised points about safety and the impact on Illinois businesses if drug reimports from Canada are allowed. Walgreen's, one of America's largest pharmacy chains, is based in Illinois.

There appears to be a healthy dose of political posturing in all this for the ambitious Mr Blagojevich, who rushed to launch his petition drive even before his own investigators had completed their study of the Canadian drug issue. It is hard to imagine his predecessor, George Ryan, an old-school Republican and a pharmacist to boot, doing the same. ■

Lexington | Tom DeLay's chef d'oeuvre

A new low in the abuse of electoral rules for partisan advantage

AMERICANS are profoundly democratic folk. Not for them the European habit of letting unelected committees draw up basic election rules. That would be elitist. In America, elected representatives do the drawing. But, when you look at Texas, you find yourself wondering whether electoral rules are sometimes too important to be left to politicians.

This week, the state's governor quietly signed into law a new map of congressional districts, subject to legal review. If Americans have noticed this story at all, it has been for its entertainment value. Democratic legislators twice fled to neighbouring states to prevent the legislature having the required quorum. The Texas Rangers were sent to rope them in, and the doors of the state Capitol were locked on two occasions to stop anyone escaping again. All good, dirty fun.

But (as with the California recall) the knockabout antics in Texas obscure an important message. Gerrymandering—redistricting, as Americans quaintly call it—is becoming a threat to the integrity of American democracy.

It has to be admitted right away that the new Texas map will not unfairly tilt the state's political balance. If anything, it will reflect it more accurately. Twenty of the 32 districts will lean Republican; 12 will probably vote Democratic. That would be close to the share of the vote George Bush and Al Gore got in the state in 2000. In this respect, the new map is fairer than the existing one—a Democratic gerrymander which conjured 17 Democrats and 15 Republicans out of a solidly Republican state.

Even so, the new map raises hackles. Redistricting is supposed to reflect demographic shifts and to take place only after the ten-yearly census. This one does not. Texas has a map from 2001, with boundaries based on the 2000 census. The new map rejects those in favour of lines based on partisan affiliation. Almost half of all Texans will now be put into new districts.

It is also unheard of for congressional leaders to play a big role in redistricting, which is a state affair, decided by state legislatures. But the new map was the brainchild of Tom DeLay, the majority leader in the House of Representatives. He stepped in at the 11th hour, dicing and chopping boundaries with all the aplomb of a fine French chef (Lexington can think of no greater insult to a Texas Republican). The resulting hotch-potch is ridiculous even by American standards.

To resolve an inter-Republican fight, two districts in the Texas panhandle look like a chess-board. Austin, the state capital, was a single (Democratic) seat once held by Lyndon Johnson. It has been sliced into three. One ribbon runs to the western suburbs of Houston, another to northern San Antonio, and the third flutters down to the Mexican border 250 miles away, linking rich, granola-crunching Austin liberals with one of the poorest, most rural counties in America. These groups have nothing in common, save that they make it easier for Republicans to win seats.

Perhaps the main charge against the map is that it shows parties prepared to gerrymander even when they don't really need to. Because of their dominance of Texas, Republicans could have divided up the state with a set-square and still got 60% of the vote, and 60% of the seats. But that would have taken time, because Texas has half a dozen popular conservative Democrats who attract Republican votes, and might have done so until they retired. Republicans were not willing to wait.

A memo acquired by the *Washington Post* expressed one Republican lawyer's attitude to the threatened Democrats. "Ha, ha, ha, ha, ha, ha," it gloated. But this story isn't funny.

The tragedy of safety

Redistricting is damaging America. It usually makes seats too safe. In 2000, almost four-fifths of congressmen won with 60% or more of the vote—ie, by landslides. In 2002, not a single incumbent who stood lost in California, Illinois, Massachusetts, Michigan, Pennsylvania or Wisconsin.

Safety reduces the moderating effects of centrist voters. In a safe seat, the main threat to an incumbent comes from party activists who put up a challenger in a primary election. Redistricting aligns the interests of politicians with activists, who tend to be more extreme in their views.

As a result, it polarises opinion and poisons debate. The Texas legislature used to be a redoubt of bipartisanship. George Bush, when governor, used to boast that he would "change the tone" in Washington to make it more like Texas. He gave his first address as president-elect from the floor of the state legislature, where he was introduced by the Democratic speaker, Pete Laney.

Instead, Texas has become like Washington. Mr Laney's aircraft is the one those Democrats used to flee from the state during the redistricting debates. Mr DeLay's staffers got the Federal Aviation Administration to track his plane, apparently on national-security grounds, an abuse of power that caused outrage among Democrats. The fury deepened when Republicans tore up long-established customs, such as requiring two-thirds super-majorities for some bills, to ram redistricting through.

Redistricting is also an established custom. But new technologies, notably computerised maps, have made it a precise and potent weapon. The courts have particular reason to look at it now. An appeal against the new map has gone to a federal court in Texas. If it passes muster—or perhaps even if it doesn't—other states will doubtless emulate the Texas legislature's pioneering work. One day, either voters will have to demand independent redistricting commissions (Iowa has one), or the Supreme Court will end up ruling on how much partisanship is too much.

In elections, it is said, voters choose politicians; in redistricting, it is the other way round. The lesson of the Texas gerrymander is that politicians are getting more ruthless at choosing voters. So the voters may have to get more ruthless, too. ■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Also in this section

Trade in the Americas

Much wind and little light

WASHINGTON, DC, AND SÃO PAULO

The Cancún fiasco has hurt the chances of freer trade in the Americas

NINE years ago, at a summit meeting in Miami, the leaders of 34 countries in the Americas (all of them except Communist-run Cuba) unveiled a bold vision, one of free trade from Alaska to Argentina. Now, at last, their self-imposed deadline for agreeing upon the Free-Trade Area of the Americas, or FTAA, is fast approaching: the accord is supposed to be finalised by December 31st 2004. Trade ministers from all the countries will meet in Miami on November 21st, supposedly to prepare the final rounds of talks. But after last month's collapse of the Doha round of global trade talks in Cancún, the prospects for an overarching Americas-wide accord, always uncertain, look stormy.

The United States was quick to stress that the Cancún fiasco did not spell the end of its efforts to get freer trade. Its plan, said Robert Zoellick, George Bush's top trade man, involved "advances on multiple fronts". If "won't do" countries held up the global talks, the Bush administration would proceed with "can do" countries on a bilateral and regional basis.

Yet that approach has problems too, partly because the FTAA is not insulated from the global talks. The United States and Brazil, the economic heavyweights of each half of the Americas, are the co-chairs of the FTAA talks. Not only are they further apart than ever on the accord's scope and ambition, but they have spent the past few weeks publicly bad-mouthing each other.

After Cancún, Mr Zoellick cast Brazil as leader of the "won't-do" countries. Celso Amorim, Brazil's foreign minister, accused the United States of "making threats" against its partners. Unless both draw back, the Miami meeting could collapse amid Cancún-style recriminations.

Talks on a smaller regional deal between the United States and five Central American countries have made more progress. But there, too, trouble is brewing over Washington's demands that Costa Rica open up its state-owned telecoms industry. Is all this just tactical toughness? Or is the whole pan-American free-trade project doomed to peter out in a series of rows and a few squalid bilateral deals?

The momentum that has carried the FTAA talks forward may indeed have been lost, and for reasons that are not easy to reverse. The first arises from the fact that, at Cancún, many Latin American countries joined the G-21, a new group of developing countries led by China, India and Brazil. This block pushed hard for more ambitious agricultural reform by rich countries, while defending high farm tariffs in poor countries. Brazil's pivotal role in the G-21 infuriated American trade negotiators.

The Bush team's strategy seems to be to demonise Brazil as an obstreperous villain, rather than treat it as a serious trade partner. That view is a gross simplification, but once entrenched in Washington it will not be easily changed. America's lawmakers are already blunt. After Cancún, Charles Grassley, chairman of the powerful Senate Finance Committee, suggested that no country in the G-21 could get a bilateral deal with the United States.

Several Latin American countries have got the message. Costa Rica, Guatemala, Peru, Colombia and this week Ecuador—all desperate for a deal with the United States—have pulled out of the (ex)G-21. Álvaro Uribe, Colombia's president, said this month that he hopes the Bush administration will agree to start bilateral trade talks with his country by the end of the year.

The cloudy view from Brasília

There is a second big obstacle. At a meeting of negotiators this month in Trinidad, Brazil stuck to its demand that the FTAA should be scaled back. That view is rooted partly in politics, partly in economics. Luiz Inácio Lula da Silva, Brazil's left-wing president, who took office in January, dreams of his country leading a commonwealth of South American nations. A hemispheric trade block dominated by the United States does not quite fit this vision. With his leftist allies berating him for taking orders from the IMF, bashing the FTAA is a way to soften the criticism. Most of Brazil's industrialists, though not its farmers, fear competition more than they crave access to the vast North American markets.

That shapes Brazil's view of what an FTAA should do. The United States wants the regional accord to open up services and government procurement, and to tighten rules to protect investment and intellectual property. Brazil fears that such measures would hamper an "industrial policy", and wants to leave them to the WTO. Its idea is to make the FTAA the ▸▸

▸ weakest of "three tracks": tariff-cutting would be negotiated directly between the United States and Mercosur, an embryonic customs union that Brazil dominates; the FTAA would handle the little that remains. That is partly because the Americans have given equally short shrift to Brazil's priorities: farm subsidies and anti-dumping duties (which fend off imports when they cause political trouble) should be handled, they say, in the Doha round.

Such disagreements could be finessed if the Doha round were to conclude, in tandem with the FTAA, in December 2004. After Cancún, that timetable has gone awry, posing a big problem for Brazil. Few of its neighbours share its preference for an "FTAA-lite". That is prompting, for the first time, a serious debate in Brazil over the FTAA. "Courage or stupidity?" asked the cover of the latest edition of *Veja*, Brazil's leading news magazine, of the government's defiant approach.

Many other Latin American countries, and those of the Caribbean, have small, simple economies with little to fear from America's industry and much to gain from its markets. Some of the bigger ones, such as Colombia and Peru, want to secure the temporary trade preferences they already have. The FTAA "is a good option for most Latin American countries but dangerous for Brazil," says Gilberto Dupas, co-ordinator of the international economy group of the University of São Paulo.

At the Trinidad meeting, a dozen countries, including Colombia and Peru, joined the United States in calling for a broad and ambitious FTAA. Even Mercosur is not monolithically behind Brazil: Uruguay has publicly defended a broad agreement, as does Argentina, privately.

The United States has tightened the screws by making it clear that, if it doesn't get its way on the FTAA, it will strike bilateral deals with individual countries or sub-groups of them. These countries might then attract investment and trade that would otherwise go to Brazil. Some Brazilian exporters are worried. Last week, the ministers of agriculture and trade, both agri-businessmen, complained about the handling of the FTAA by the foreign ministry, which leads trade negotiations. That may portend a more pragmatic line.

But even if Brazilian intransigence does not sink the FTAA, rising protectionist feeling in the United States may. Concerns about congressional opposition may already be affecting Mr Bush's trade strategy. One example is Mr Zoellick's unexpected demand that Costa Rica open up industries such as telecoms, electricity and insurance. That might make economic sense, but it is politically explosive.

So what led Mr Zoellick to say this? Beyond a rebuke for Costa Rica's fleeting membership of the ex-G-21, it could provide an excuse for dragging out the Central American negotiations. At a technical level, these have moved swiftly. An accord may be ready for congressional approval in 2004. No one doubts that the battle in Congress will be bruising, particularly in a presidential-election year, when lawmakers tend to be most protectionist. How convenient, then, to have an excuse for putting the whole matter off until 2005.

A collapsed Doha round, a stalled FTAA and a delayed accord with Central America would not leave much of Mr Zoellick's grand strategy for competitive liberalisation intact. For Latin America, the question all this poses is whether a second-rate, largely American-tailored FTAA might still be better than none at all. ■

Mexico's trade

Pigs may fly

MEXICO CITY

Bilateralism crosses the Pacific

HAVING cut its own North American Free-Trade Agreement with the United States and Canada a decade ago, Mexico has been content to play a back-seat role in the Americas trade talks. Its energies have long been devoted to arranging the kind of bilateral deals the Bush administration now favours. As well as NAFTA, Mexico has some 30 other trade agreements, with the European Union, a number of Latin American countries—and soon, it hopes, Japan.

Vicente Fox, Mexico's president, visited Japan's prime minister, Junichiro Koizumi, this week. They had hoped to sign a trade deal. But after a year of increasingly frantic negotiations, the two sides are still separated by some tricky details.

The agreement matters for both countries, but for different reasons. Mexico's trade deals have turned it into one of the world's most open trading nations. But it is also struggling to revive a sluggish economy, which is suffering from increasing competition from China. One way of doing so is to get more access to the Japanese market, in which Mexico already has exports worth $1.6 billion a year.

For Japan, by contrast, this treaty would be only its second free-trade agreement, after one with Singapore, and the first to include agriculture. Especially since the setback to the WTO talks at Cancún, Japanese officials worry that they will be at a relative disadvantage without more such deals. But Japan has a habit of protecting its farmers.

Not surprisingly, farm products, especially pork, are the main obstacle in the talks with Mexico. Pork already accounts for 10% of Mexico's exports to Japan. Remove the tariffs, and some say the Japanese would gobble down six times as much Mexican pork. Japanese officials wince for their pig farmers—and complain, in turn, at Mexico's reluctance to lower its tariffs on steel.

Jaime Serra, Mexico's chief NAFTA negotiator and now an independent economic consultant, points out that last year Mexico's trade with countries with which it has agreements showed a surplus of $23.2 billion, while it registered a trade deficit of $31.3 billion with other countries (mainly China). Some hard bargaining with Japan remains, but this will spur its negotiators on.

Bolivia

On the brink

LA PAZ

Rioting, a bloodbath and vacillating allies undermine a defiant president

THIS week, for the second time in eight months, the presidency of Gonzalo Sánchez de Lozada hung in the balance, and with it a South American democracy. Faced with strikes and street protests orchestrated by a truculent opposition, Mr Sánchez turned to the army to restore order. It failed to do so, at a cost of at least 53 lives and perhaps more than 70. Despite the bloodbath, the president remained defiant. But his hold on power now turns on his allies, and they have vacillated.

The protests, which started last month and whose main target is a controversial gas-export project, have involved a tightening circle of roadblocks centred on El Alto, a sprawling satellite city on the 4,000 metre (13,000 feet) Altiplano. El Alto bestrides the roads to La Paz, the capital. Fuel, food and hospital supplies in both cities have run short. On October 11th, the capital's international airport, in El Alto, was closed. Dynamite-wielding demonstrators want Mr Sanchez's resignation just 14 months into his five-year term, and the renationalisation of the oil industry, privatised by him during a previous term.

Had it not been for the rioting, Bolivia's politicians might have spent this week celebrating 21 years of its return to democracy. The past two decades have marked a break, not just with the previous two of mainly military rule, but with a century and a half of chronic political instability in a poor and landlocked country. Since 1982, Bolivia had seemed to progress. Not only did power alternate between varying coalitions, but for a decade until 1999, the economy grew at a steady 4% a year.

No longer. Recession in neighbouring ▸▸

countries, and the impact of an American-sponsored drive to wipe out coca-growing and the drug trade, have made Bolivians poorer. Mr Sánchez (or Goni, as Bolivians call him) was an effective liberal reformer in his first term, from 1993-7. Last year, he won the presidency again, but with just 22.5% of the vote, barely ahead of Evo Morales, of the far-left Movement to Socialism. The two men seemed to personify two Bolivias: Goni is a Chicago-educated mining magnate; Mr Morales, of Aymara Indian descent, is the rabble-rousing leader of the coca-workers union.

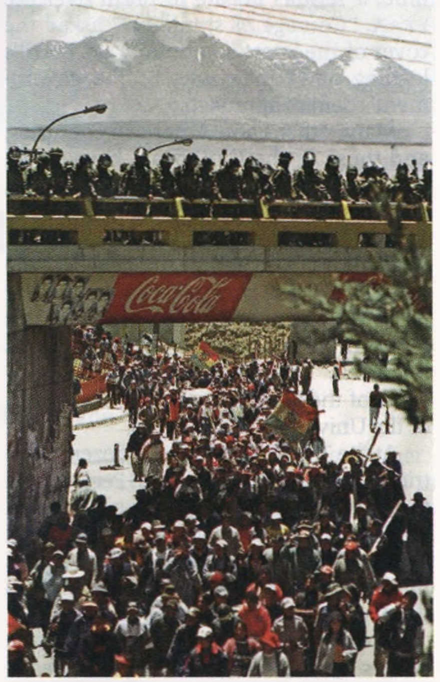
Goni, now aged 73, has seemed out of touch with an angry country. In February, his government was shaken by a police strike; then, too, he turned to the army, and 33 died in gunfire around the presidential palace. More recently, he has shored up his coalition. But a $5 billion project to export natural gas has served as an explosive catalyst for discontents that include grievances over new tax measures and low wages.

The gas project is Bolivia's best hope of economic growth. But opponents claim that foreigners will get most of the benefits. The scheme involves the export of gas to California via a liquefaction plant in a Chilean port. That makes it anathema to many Bolivians, including many army officers, who still resent Chile's seizure of their country's coastline in a war of 1879-83. It has tapped a deep vein of economic xenophobia. "Goni is linked to foreign interests in Chile and the United States, and is against us Bolivians," declared Jaime Solares of the Bolivian Workers Confederation, which has organised the strike.

The protests, which began in September, have involved Andean Indian farmers, students and neighbourhood groups as well as the unions. They have turned increasingly ugly. In El Alto, the army managed to secure power and water facilities. Crowds attacked everything else. Mobs used cutting tools to fell street lamps and wreck vehicles. Amid looting of shuttered businesses, arsonists destroyed a petrol station, killing four people and injuring 14. Others dodged tear gas and army bullets. Five footbridges on main roads were dynamited to rubble, to obstruct the army's tanks. On October 14th, 30,000 protesters marched through La Paz.

If the protests have a leader, it is Mr Morales. Calling Mr Sánchez "the people's assassin", he called for his resignation, and for an "indigenous government" in his place. Mr Morales refused all offers of talks. "I'm not going anywhere," replied a solemn Mr Sánchez, in a televised address to Bolivians. The president first suspended the gas project, pending further talks, until the end of the year. He then offered to hold a referendum on it. Mr Sánchez also warned of "seditious acts financed by undemocratic foreign governments". He did not name names, but added: "One only has to look at the countries he [Evo Morales] has visited recently". These include Libya and Venezuela, whose populist president, Hugo Chávez, has long been accused of funnelling money to Mr Morales (though without firm proof).

But Mr Sánchez has been losing the propaganda battle. Fairly or not, many Bolivians blame him, rather than Mr Morales, for the chaos. Strains have appeared in the president's three-party coalition. Jaime Paz Zamora, his chief ally, surprised many in his party when he backed Goni after one of his own ministers resigned. A recent recruit to the coalition, Manfred Reyes, who leads a conservative populist party, did the opposite. "Maybe the only way to secure



No gas and no Goni for them

Bolivia's democracy is if the president resigns," he said. Mr Sánchez's vice-president, Carlos Mesa, an independent journalist but political lightweight, expressed similar thoughts. But the United States and Latin American governments, alarmed at the events in Bolivia, weighed in behind the president.

Whether or not they survive the protests, Goni and Bolivia's democracy face huge challenges. Without gas, Bolivia will remain poor. But its very poverty, in a resource-rich country, makes many Bolivians suspicious of foreign investment and trade. The protesters may be a minority, but they are making the country ungovernable. Some are almost as hostile to Mr Morales as to the president. Many Bolivians of indigenous descent do not feel represented by the deal-making politicians who have governed for the past two decades. But neither Mr Morales, nor less still the army, offer a plausible alternative. ■

The Caribbean

Grenada, then and now

PORT-OF-SPAIN

Remembering a theatre of the cold war

AS CHAPTERS in the cold war went, Grenada was a small one. In 1979, Maurice Bishop, an engaging radical socialist, and his New Jewel Movement staged a coup that rid the small Caribbean island of an unsavoury dictatorship. Twenty years ago this week, he was himself overthrown and killed by a hardline pro-Moscow "Revolutionary Military Council" as the NJM split apart. After six days in which the island suffered a 24-hour curfew, Ronald Reagan, the American president, sent in 6,000 marines, accompanied by a motley battalion from seven Caribbean democracies.

Although the Caribbeans provided a multilateral fig leaf, the Grenada invasion was condemned worldwide as pre-emptive unilateralism. It was, but it worked—even if Mr Reagan's fears of communism in the Caribbean were exaggerated. In a few hours of fierce fighting, 19 Americans died, and an unknown number of Grenadians and Cubans. Thereafter, the invaders were welcomed by all but a few of the 100,000 islanders. After a year, an election was held, and won by a centrist coalition.

Twenty years on, 16 members of the short-lived revolutionary council are still in jail. But the government, led by Keith Mitchell, includes former Bishop supporters. A Truth and Reconciliation Commission, chaired by an Anglican bishop, is soon to report on the troubled past.

The NJM's implosion killed socialist politics across the English-speaking Caribbean. Michael Manley's democratic socialist government in Jamaica had been defeated in a bloodstained election in 1980. Forbes Burnham's Co-operative Republic of Guyana was a deeply unattractive model. Former student radicals moved on to academia, or into grassroots groups or trade unions. Some, such as Ralph Gonsalves, now the prime minister of St Vincent, have moved to the centre.

Grenada itself has progressed, though debt, links to some dodgy investors, and dubious construction projects have all been worries. Investment from the United States was promised, but has amounted mainly to the expansion of the island's American university. Mr Mitchell has managed to be on good terms with both Cuba's Fidel Castro and with President George Bush. He plans to mark the anniversary with a rally at which he is expected to call (and go on to win) an election. If only, Americans must wish, Iraq was like Grenada. ■

Also in this section

China

Great leap upward

BEIJING

China's jump into space is more about deflecting attention from domestic discontents than impressing the outside world

THE country has a new hero and its ruling Communist Party a renewed sense of pride. For Chinese leaders struggling to strengthen their legitimacy at a time of rapid social and economic change, this week's successful space mission was a propaganda windfall.

Whatever the technological merits of the space programme (see page 81), the country's leaders clearly saw important political gains to be reaped from such a dramatic venture. Even the launch date for *Shenzhou 5* (the name means "divine vessel" and is a homonym of a poetic term for China, "divine land") was chosen with the party in mind.

It neatly followed a meeting of the party's 356-strong Central Committee, which was designed to put some wind into the sails of the divine land's economic and (to a lesser extent) political reforms. The four-day plenum that ended on October 14th was the first since the completion of a sweeping change of the country's leadership in March. As the official press hailed its "victorious conclusion", Hu Jintao, the relatively new president and party chief, was already in place for the countdown at the Jiuquan space centre, 1,000 miles (1,600 km) west of Beijing.

The country's secretive, military-controlled space programme, and the upsurge of nationalistic sentiment that China's leaders have sought to foster in connection with it, may well unnerve people outside China. Dutiful newspapers describe the ability to put people into space as a badge of great-power status, along with the ability to make nuclear bombs. But Mr Hu himself does not seem to want China to swagger on the international stage. His main goal, like that of his predecessor, Jiang Zemin, is to hold the country together and keep the party in power.

China's leaders launched the *Shenzhou* programme in 1992 as they struggled to regain their composure after the collapse of the Soviet Union. After a decade of rapid economic growth, they now feel a bit more confident. But they are still preoccupied with social and political stability. The relaunching of economic reforms has dramatically invigorated China's cities. But it has also hugely exacerbated the inequalities between town and country and between China's prosperous seaboard and its hungry hinterland.

Mr Hu is trying to make his mark by addressing these inequalities. The Central Committee meeting focused not on raising China's status and influence abroad, but on addressing the needs of people left behind on the home front, such as farmers and workers laid off by state-owned enterprises. It is these embittered people whom the party hopes to inspire with the heroism of Lieutenant-Colonel Yang Liwei of the Chinese air force, the first Chinese astronaut (and, of course, a party member).

The Central Committee called for a narrowing of the rural-urban gap, for a better social-security system, and for private firms to be treated as equals of their state-owned counterparts. It also called for "great efforts" to accelerate the growth of cities—essential if the 300m people in the countryside with little or nothing to do are to get a chance to work. As expected, the final resolution was short on specifics. The party's usual practice with such plenums is to issue vague pronouncements. These are then fleshed out by ministries and the national legislature, which convenes for its annual session next March.

But Mr Hu's nervousness about potential instability was evident in the plenum's failure to make more than a passing mention of the need for political reform, at least in its public communiqué. Many party officials say the country's rigid political system urgently needs re-examination, to prevent its being overwhelmed by corruption and incompetence. But Mr Hu has apparently been worried by the boldness of some of the calls for reform voiced by intellectuals since he assumed the party leadership last year, and has sought to dampen expectations of change. The formula adopted by the party in 1992—focusing on market-oriented reforms and putting political change on the back burner—remains unaltered.

The success of the *Shenzhou* mission provides China with another feel-good fillip after the success two years ago of its bids to stage the 2008 Olympic Games in ▸▸

Beijing and to join the World Trade Organisation. Yet even though events have helped to bolster China's aspirations for recognition as a great power, particularly by America, they have not significantly altered China's generally passive approach to international affairs and its pragmatic handling of foreign relations.

Fostering national pride may help China's leaders divert attention from their own failings, but they also know it is dangerous to arouse patriotic hopes which may then be disappointed. They have kept up a barrage of hostile rhetoric against Taiwan's President Chen Shui-bian, most recently over an interview he gave last week in which he said the Taiwanese would "walk our own road". Still, China has avoided explicit threats to invade the insubordinate island. Mr Hu and his colleagues stand a bit taller after the *Shenzhou* success. But when he meets George Bush next week in Bangkok at a summit of Asia-Pacific leaders, apart from mild disagreement over the Chinese currency's exchange rate, expect the usual bonhomie. ■

South Korea

Roh casts the die

SEOUL

The president calls a referendum on his fitness for the job

IS IT a hopeless last gesture or a brilliant political stunt? That was the question on the mind of many South Koreans this week. On October 13th, President Roh Moo-hyun shocked the nation by proposing to hold a national referendum on his rule in mid-December, a first for an incumbent. Although he was inaugurated only eight months ago and still has over four years to go, he said he would step down if he fails at the polls.

The move comes at the peak of a presidential crisis, driven by a series of scandals involving some of Mr Roh's closest aides. First there was the personal secretary who resigned after getting caught being lavishly entertained by a criminal suspect. Then three supporters were hit for allegedly accepting kickbacks from businesses. This week, a life-long confidant of the president, Choi Do-sul, was arrested on suspicion of having received up to 1.1 billion won ($950,000) in bribes from SK Group, a conglomerate struggling to overcome a damaging accounting scandal. "Confidence in ethics is the only source for leading the country. A red light has gone up and I think there is a need to be judged by the public with humility," Mr Roh said in a statement to that very public, apologising for all the distress his administration has caused.


Gambling Roh

Mr Roh made clean politics a big part of his campaign. Many voters, however, had hoped he actually meant it, being an outsider in the cosy world of Korean politics. Instead, Mr Roh's eight months in power have been marred by paralysing indecision on all fronts. A precarious economy and tricky diplomatic relations with America—made worse by the president's lack of direction—further pulled down his popularity, which has plunged from over 80% to below 30%, thanks in large part to the critical local media.

Mr Roh said that if he loses the referendum, he will resign on or around February 15th, so that a fresh presidential vote can be held at the same time as parliamentary elections, already scheduled for April 15th. If, on the other hand, he wins public support, he promises to overhaul the cabinet and the presidential office in order to start anew with a fresh public mandate. He says that he is seeking the referendum to purge the political community of dirty money and to pursue political reforms.

The nation's largest opposition party, the Grand National Party (GNP), says Mr Roh is simply trying to cover up the corruption of his close aides. The party leader, Choe Byung-yul, said on October 14th that, even if the referendum were to take place, the corruption scandal involving Mr Choi and the SK Group ought to be thoroughly investigated first. "It is only proper to let the public reconfirm their confidence after details of the irregularities have been fully revealed," he argued.

The GNP went as far as to suggest impeaching the president to prevent the referendum from being held. The party had initially welcomed the call for a vote but had a change of heart when half a dozen polls conducted in the recent days showed that a majority of voters plan to stand behind the president. Rival political parties have joined forces to block Mr Roh from launching the national referendum, casting doubt on whether the vote will take place in December at all.

There are legal complications as well. Experts disagree over whether the South Korean constitution—which states that the president may call a referendum only over significant matters of national interest, such as diplomacy, security and unification—allows a vote of confidence on the presidency. The president, however, argues that the term significant should be interpreted pretty broadly. Not only does he lack a parliamentary majority, Mr Roh now lacks a party at all, since the one to which he previously belonged has split, prompting his own resignation from it.

Whether the referendum eventually happens or not, the government is getting ready. A fresh electoral roll is being drawn up, and a campaign to encourage citizens to participate is being launched. Until it is all over, though, Mr Roh's presidency is sure to be even more distracted and inconsequential than ever. ■

Afghanistan

Beyond Kabul

KABUL

Peacekeeping finally expands. Sort of

THE diplomats must be pleased with themselves. They have managed to package a small deployment of German soldiers to a safe(ish) bit of Afghanistan as a major new commitment to the country. The UN vote on October 13th finally allowing the International Security Assistance Force (ISAF), under NATO command since August, to move beyond Kabul certainly wasn't bad news. Any support for the transitional government of Hamid Karzai, who had been pleading for such an expansion for months, is welcome. But closer inspection shows it, so far, to be cosmetic.

The Germans will take a few hundred men north to the stable backwater of Kunduz. They will do much the same as the small provincial reconstruction teams (PRT) already being run elsewhere in the country under the American-led coalition banner. The main difference will be the command. American generals are privately annoyed at the Germans messing

up their command structures.

The Bush administration, however, could hardly turn down the offer of help from a fractious ally, especially when the command rests with NATO. The Pentagon voiced cautious support for a German plan for "islands of security" which would send ISAF troops to "stabilise" Afghan cities which are already pretty stable. Kunduz would be first. Next would be Herat—possibly the safest city in Afghanistan—and Kandahar, with its 4,000 American troops. Yet the pressing security concerns in Afghanistan lie out in the countryside.

It would be churlish to damn the German effort. They have been among the biggest contributors to stability in Afghanistan. About 1,500 of the present 5,000-strong ISAF force in Kabul is German, and few other countries are prepared to head for the provinces. Besides, stability in the north is not a given. Recent scrapping between northern warlords, Rashid Dostum and Atta Mohammed, near Mazar-i-Sharif killed dozens—in spite of the presence of a British PRT in town. More deaths are likely, despite a negotiated cease-fire, as the khans and their commanders squabble over land, crime rackets and the division of this year's harvest.

Still, Kunduz looks like a low priority. But the German deployment will allow American troops now based there to head south. According to aid agencies and those organising next year's elections, that is exactly where ISAF should be heading.

Deployments in the south—where coalition special forces are regularly cut down—are a hard sell for any NATO defence minister though. Even Kabul is no easy service: Canada lost two men in the capital on October 2nd when an unarmoured vehicle hit an anti-tank mine investigators think was planted by agents of the renegade warlord Gulbuddin Hikmatyar. An unhealthy confusion between ISAF peacekeepers and coalition forces—who have made few friends in the south by choosing unsavoury local allies and occasionally arresting or shooting the wrong people—would also be hard to avoid. Yet without nurturing disaffected Pushtun areas—particularly the drug-producing provinces like Uruzgan, Helmand and Nangahar—all the international community's efforts to stabilise Afghanistan are likely to be fruitless. ■

Australia

Labor's love's lost

SYDNEY

Opposition is not easy

HISTORY will be made when George Bush addresses the Australian parliament in Canberra on October 23rd, and is followed on to the podium by Hu Jintao, the Chinese leader, the next day. This unprecedented double-act by the leaders of America and China, Australia's chief ally and the biggest country in its backyard, is a feather in the cap of John Howard, the prime minister. But it will be a sore trial for Simon Crean, the embattled leader of the opposition Labor Party.

The week before Mr Bush's arrival, Mr Crean was busy lecturing Labor parliamentarians on the need to show "due respect" after several of them had threatened to turn their backs on the American president, refuse to stand up for him, or boycott the speech altogether in protest against the Iraq war. At a time when he is struggling to survive, the last thing Mr Crean needs is headlines trumpeting Labor disarray and weakness over the American alliance, which a recent opinion poll showed that an overwhelming majority


Crean sinks to the bottom

of Australians still support.

The same cannot be said for Mr Crean. Since he took over as Labor leader after the party's third successive election loss to Mr Howard's conservative coalition in late 2001, his opinion-poll ratings have gone steadily down. One poll last month gave Mr Howard 59% approval against 28% for Mr Crean. The margin of support between the parties themselves is much narrower. Most gallingly for Mr Crean, the poll suggested that Labor could win an election if

The Philippines

Death of a fugitive

MANILA

A mysterious killing follows a mysterious escape

THERE was good news for the Philippines on October 12th. The security forces announced that they had killed their most wanted fugitive, an Indonesian terrorist suspect called Fathur Rohman al-Ghozi, in a gunfight on the southern island of Mindanao. As a close ally of America in its war against terrorism, the government was mightily embarrassed when Mr al-Ghozi escaped from the national police headquarters in July. His death came six days before President Bush was due to visit Manila.

It was all a bit too convenient, said opposition politicians, who conjectured that Mr al-Ghozi had been murdered to prevent him from revealing police corruption, and that his corpse had been produced to impress Mr Bush. Nonsense, said the security forces, maintaining that Mr al-Ghozi was one of two occupants of a vehicle who had shot at policemen or soldiers at a checkpoint. The security men fired back, killing the fugitive.

When Mr al-Ghozi was arrested last year, he was the most important suspect captured in the Philippines since the war against terrorism began. The authorities say he was a senior member of Jemaah Islamiah, a South-East Asian group of militant Muslims.

However, the seeming ease with which he then escaped raised suspicions, even though an official inquiry found no evidence that corrupt policemen had let him go. In the area where, according to the security forces, Mr al-Ghozi was shot, some local officials cast doubt on that claim of a gunfight.

On these facts, the media have built various conspiracy theories. One of the less fanciful is that Mr al-Ghozi had sought refuge with Filipino Muslim rebels, but was turned over to the security forces in return for money. His elimination may have improved the Philippines' tarnished reputation as an ally in the war against terrorism. But, given the mysterious circumstances of his death, its reputation is still less than gleaming.

it dumped him as leader (though without saying who his successor should be). With an election due next year, some Labor parliamentarians reckon this may be their only hope of survival.

Mr Crean's main problem is his clunkiness: on television he almost always looks wooden and unconvincing. Charisma has never been Mr Howard's strong point either, but since 2001 he has clawed back authority by cannily turning the issues of terrorism and national security to his advantage. Australia's robust economy has also helped. Labor is still dogged by voters' memories of punitive interest rates under the Labor government of a decade ago, of which Mr Crean was a member.

The Labor leader has made slight inroads into Mr Howard's dominance by promising to increase spending on health and education, where the government is vulnerable. But this may not be enough to turn opinion round. Kim Beazley—Mr Crean's predecessor as Labor leader, who unsuccessfully tried to topple him last June—is hovering for what some believe may be a second challenge. Since Mr Howard can decide the timing of the next election, the Labor Party may be obliged to stick with its current leader if it does not act soon. It would then have to gamble that voters' disenchantment with the government is stronger than Mr Crean's unhappy ability to make their eyes glaze over. ■

Indonesia

There be dragons

KOMODO AND MANADO

New ways of protecting wildlife

THERE is nowhere else on earth quite like the Komodo archipelago. Its forbidding cliffs and parched savannahs are the only habitat of the Komodo dragon, the world's largest living lizard. The surrounding seas are as fertile as the islands are barren. Individual reefs contain more species of coral than the entire Caribbean—and scientists think there are still many more to be discovered. The reefs also host a kaleidoscope of fish, as well as turtles, dugongs and even passing whales. And Komodo is only one of the many national parks scattered across Indonesia from the jungles of Sumatra to the mountains of New Guinea.

Unfortunately, there are also few places on earth quite as chaotic, cash-strapped and corrupt as Indonesia. The country's parks, never very fiercely protected in the first place, have suffered almost total neglect since the Asian financial crisis of 1997. The government's budget for conservation has plunged by 80%. Underpaid and ill-equipped rangers have little incentive to do their jobs properly. Indeed, they often connive in the practices—illegal logging, poaching and encroachment on land, and dynamite and cyanide fishing—that are fast destroying Indonesia's parks. In desperation, Indonesia's Forestry Department, which is in charge of the parks, has begun experimenting with alternative ways of protecting them.

In Komodo, The Nature Conservancy (TNC), an American NGO, is spearheading one such experiment. Since 1995, it has provided the park management with training, equipment and advice, both to enforce environmental regulations and to provide

a livelihood for the villagers who used to break them. To deter cyanide fishing, for example, the group has set up a farm that will hire locals to raise the species they used to fish for. It has also encouraged locals to turn in outsiders who make forays into the park to fish with dynamite or to poach deer, the dragons' favourite food.

The effort is paying off. Piles of shattered coral, a sure sign of dynamite fishing, are common along the reefs outside the park, but rare inside. TNC says coral cover has increased by 30% since 1997. The same goes for the deer: a stroll across Rinca, one of the islands in the park, reveals dozens of them, along with wild buffalo, pigs and three-metre-long Komodo dragons.

But the scheme has its weaknesses. For one thing, it relies on the support of Indonesia's heavy-handed security services to help catch those who break environmental laws. An over-zealous naval crew killed two suspected poachers in 2002, supposedly in self-defence. Even if crooks are caught red-handed, they can escape punishment. Park officials complain, for example, that prosecutors in the province abutting the park are in the pocket of industrial-scale illegal fishing rackets.

The biggest problem is paying for the programmes. TNC has a plan, approved by the government, to make the park self-financing by getting a private company to promote and manage tourism. It reckons such a venture could draw 35,000 visitors a year, charging them as much as $30 to enter the park, compared with the current 12,000, who pay just $2.50. It has proposed itself, in a joint venture with an Indonesian hotelier, as the concessionaire.

Indonesian NGOs and journalists are denouncing the scheme as the privatisation of Indonesia's natural heritage. But TNC stresses that the company would only be a sort of subcontractor, managing visitors on behalf of the park service, and in an environmentally sound manner to boot. What's more, the company's bylaws would oblige it to plough all profits back into improving the park.

Elsewhere in Indonesia, other parks are moving in the opposite direction, trying to get locals, rather than outside experts, to take a greater role in the management. The authorities in Bunaken, an 89,000-hectare (220,000 acre) diving paradise near Manado on Sulawesi, set up a local advisory board in 2000. It recommended dividing the park into separate zones for conservation, tourism and small-scale, sustainable fishing. The fee foreigners pay to use the park was raised to $18, and the park now retains 80% of that income, instead of sending it all to Jakarta and then receiving smaller sums back from a general conservation fund. Locals now participate in patrols along with police and rangers. They check visitor tags, keep out trespassing fishing boats and stop everyone violating the zoning regulations.

Over the past two years coral regeneration here has been an impressive 11%, fish are abundant, and locals are content because poaching is decreasing and tourism increasing. The fees and taxes on all this activity contribute a healthy $8.2m to the provincial coffers. The central government has declared Bunaken a model of park management—though the critical feature of the model is to reduce its role. ■

The Deerhunter

Also in this section

Air travel

After Concorde

The less beautiful future of international business travel

CONCORDE is due to take off into the sunset from Heathrow airport on October 23rd on its last scheduled flight to New York. Its return to London the next day—touching down alongside two others back from farewell trips—will be broadcast live. The world's last five supersonic passenger jets will then head off to museums in Manchester, New York, Bristol, Barbados and Seattle, never to fly again.

Since British Airways (BA) and Air France announced Concorde's retirement in April, BA has been catering to supersonic virgins wanting a once-in-a-lifetime thrill. The planes have been full of noisy enthusiasts—more like a charter to Ibiza than a sleek business hop for dinner in Manhattan after lunch in London.

The bosses and investment bankers abandoned Concorde long ago. That is why there will be no replacement aircraft, at least in the short term. Airlines are now struggling to survive and focusing on cost reduction. Firms have slashed travel budgets, even for executives. Investment banking is still slow enough that transatlantic speed matters little. Still, one day, demand for fast long-haul flights could return. With only a modicum of technological progress, a quieter, more fuel-efficient supersonic passenger jet could be viable.

Before the crash of an Air France Concorde in Paris in July 2000, which killed 114 people, BA's top dozen business clients (the big investment banks plus multinationals such as GlaxoSmithKline and BP) each had Concorde flights included in their corporate deals. When Concorde resumed flying in November 2001, none of them wanted it any more. In its heyday Concorde typically flew three-quarters full, earning BA about £20m ($33m) in operating profits from 35,000 passengers a year. When it returned to service, paying over £8,000 to fly supersonic had lost its appeal. BA could attract enough business for only one transatlantic flight a day (instead of the previous two), and even then the aircraft was often carrying only a couple of dozen paying passengers. Extra seats were often filled by upgrading subsonic first-class and business-class customers. Delays and diversions due to bits falling off and engines faltering began to tarnish Concorde's image and emphasise its age.

Who killed Concorde?

A study commissioned by BA of the case for a £17m refit of the supersonic aircraft, which came into service in 1976, showed that its viability had ended with the turn of the century stockmarket boom. At the start of 2003, Airbus—the modern incarnation of the Anglo-French manufacturing partnership that created Concorde—told Air France and BA, the aircraft's only operators, that it could no longer provide technical support for the aircraft at anything like a commercial price. Air France, which never made as much from Concorde as BA, stopped flying it in May, but BA said it would keep Concorde going until October simply to please its fans.

Sir Richard Branson, part-owner of Virgin Atlantic Airways, then bid £1 each for BA's Concordes. BA dismissed this as a mere publicity stunt. In fact, Virgin did want to keep the aircraft flying for a few months, running services to New York, Dubai and Barbados, priced at £1 below BA's first class fare on each route. The idea was to garner a rich PR harvest, before quietly bowing to the inevitable when Airbus called time on the ageing aircraft.

BA dismisses the suggestion that Concorde has been put down prematurely. In the end it was the halving of premium travel (supersonic, first class and business class) thanks to economic slow-down, terrorism and the Iraq war that sealed its fate. Its success with BA was always rather artificial, since five of the 14 aircraft that eventually went into service with it and Air France were handed over for nothing, for lack of other buyers. At one point, there were 74 orders for the aircraft from 16 other airlines, half of them American. These were cancelled when rival supersonic aircraft being developed by Lockheed and Boeing were scrapped in 1971. It became clear that America would no longer favour supersonic flight, so airlines had no need to invest in them. America then fought for years, before relenting, to deny Concorde access to Washington, DC, and New York. Environmentalists attacked its noisy sonic boom and its fuel consumption. It was banned from flying supersonically over land, which made using it less worthwhile. High oil prices also hurt: Concorde requires four times as much fuel per passenger as a 747 to cross the Atlantic.

Developing Concorde had cost the British and French governments £1.1 billion (about £11 billion in today's money) before ▸▸

it even went into service—nearly ten times what was budgeted. In 1976 work ceased on a Concorde B, with quieter, more economical engines and the ability to cross the Pacific. Another secret project to build an improved Concorde was explored by British Aerospace and Aérospatiale, the original makers, in the early 1990s. The idea was to develop a 225-seat aircraft, with three classes, flying at 2.5 times the speed of sound, 25% faster than Concorde, able to go from London to Tokyo, all for the cost-per-seat-mile of a Boeing 747, the most economical big aircraft around. A likely development cost of £9 billion prompted the firms, through their joint venture, to build the Airbus A380 instead.

Concorde leaves a smaller hole in the market than when it was grounded in 2000. But BA, bereft of its standard-bearer, is looking for ways to cosset passengers forced to spend seven hours in the air between New York and London, not three and a half. One option being tested on evening departures from New York is a "sleeper flight" on which first and business-class passengers eat before take-off, then doze on BA's flat-bed seats in a dark cabin undisturbed by any meal service.

BA's rivals smell an opportunity. The quickest way to get from Oxford Circus to Central Park South will now be by executive jet. Using small airports such as London's Northolt and Teterboro in New Jersey it is possible to go from door-to-door in under eight and a half hours—about half an hour longer than by Concorde, but nearly four hours quicker than by BA first class between Heathrow and JFK.

Enter the peddlers of a timeshare at 35,000 feet called "fractional ownership". The market leader is NetJets, owned by Warren Buffett's Berkshire Hathaway holding company. Instead of the hassle and expense of owning a corporate jet, a firm or rich individual can pay around $7m for access to 150 hours of flight a year. The rate of growth of fractional ownership has slowed globally of late, along with premium travel on scheduled services, but NetJets has doubled its sales in Europe in the past year, and hopes without Concorde to double sales again this year. Its service can work out at 25% cheaper than Concorde, if a small group shares a plane.

More speed on the ground may make up for less in the air. Corporate and fractional jets use small airports where check-in takes minutes and take-off times can be altered to suit. So, too, do new business-only airlines, such as PrivatAir, which runs services between Dusseldorf and Chicago and Munich and New York. Together they offer a mixture of control (fly when you want by charter or corporate jet) and privacy (feeling safer by travelling only with members of the same "club"), plus comfort in the air and on the ground.

There is a certain irony in the fact that Concorde, doomed from birth by its sonic boom, will fly for the last time only six months after an experiment by NASA, America's aerospace agency, showed how to quieten the boom by using a fatter wing on a modified fighter plane. No one is currently planning to bring back supersonic travel. But one day they surely will. ■

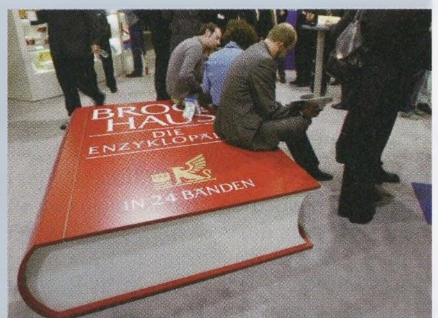
Trade fairs

The big squeeze

CANNES AND FRANKFURT

Trade fairs offer a tremendous opportunity to get ripped off by locals

THE Carlton Hotel in Cannes is the scene of crucial parts of Alfred Hitchcock's "To Catch a Thief". Staying there is a thrill, says a Hollywood executive who came last weekend for MIPCOM, an international television pow-wow. Soaked in film history and glamour, Cannes makes a fortune every year by hosting entertainment-industry events. The city takes so much money from the pockets of its visitors, indeed, that Hollywood studios periodically threaten to move the bash to Barcelona.



Studying the bill

One of the biggest gripes about Cannes concerns hotel bookings. To go to MIPCOM, organised by Reed MIDEM, part of Reed Elsevier, those attending must pay for four nights in a hotel, though the real business gets done in two days. The combined cost of going to the conference—a stand, hotels and entertainment—runs to over $500,000 per studio. Some firms hire big motor boats in the marina instead. Reed MIDEM hates losing control like this, says a MIPCOM veteran. Not long ago the boat owners found themselves threatened with exorbitant marina charges during conference time.

The world of books is even greedier. At Frankfurt's book fair, which also ended this week, a hotel stay must last six days. As Frankfurt gets few tourists during the rest of the year, says Holger Ehling, the fair's spokesman, the hoteliers see their guests as "wallets on legs" and quadruple or even quintuple rates.

Last year there were rumblings about a move to Munich, until the fair organiser locked itself into a seven-year deal to stay put. Yet Frankfurt and Cannes both know that they cannot push things too far. Frankfurt is nervously watching a rival, the London Book Fair, also run by a unit of Reed Elsevier. It circulated a questionnaire this year asking exhibitors to compare it with London and others.

After years of discontent, says Ian Jones, chair of a British television trade body, he has persuaded Reed MIDEM to change its pricing structure in Cannes: now it will charge per person instead of only by company. This will help smaller producers. Reed MIDEM will be aware of the decline of NATPE, an American television conference which used to be important but which is in crisis because people stopped going. Making cities compete for business is the best way to keep costs down. The American Association for the Advancement of Science moves its annual get-together from city to city each year and sticks to the cheap winter months. For media folk, who have a greater need for glamour, that approach is probably too rational.

General Electric

The hard way

NEW YORK

Jeffrey Immelt continues his quixotic search for double-digit growth

IF GENERAL ELECTRIC (GE) hoped to buy itself out of trouble, it may have to think again. On October 8th, the huge conglomerate announced the final terms of its purchase of the American entertainment assets of Vivendi, a French media firm. On October 9th, it completed the purchase of Instrumentarium, a Finnish medical-equipment maker. With the announcement on October 10th of its purchase of Amersham, a British life-sciences and medical-diagnostics company, GE had in three days showcased bold, supposedly business-transforming, deals worth over $25 billion. As investors promptly cut their valuation of GE's shares, however, it was not wholly clear whether Jeffrey Immelt, the firm's boss, was climbing out of a hole, or digging himself deeper in.

Mr Immelt has had a torrid time since taking over from Jack Welch, GE's former boss, in 2001. Waking from the dreamy 1990s, investors discovered that GE was not, after all, a smooth earnings machine that pumped out profit growth of 16-18% a year, but a collection of mature industrial assets bolted to a fast-growing, opaque and highly-leveraged finance business. Worse, thanks to the effect on profits of a bubble in GE's power business and a seemingly overfunded corporate-pension fund, the firm's best days now looked to be behind it. Last year, GE failed to grow its profits at the promised double-digit rate for the first time in ten years. Most likely, it will fail to do so again both this year and next.

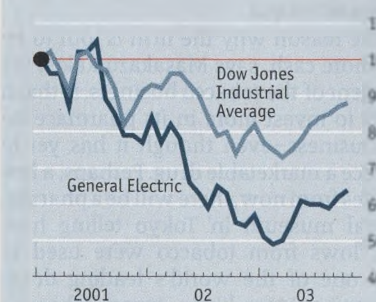
Mr Immelt has embarked on a campaign to persuade shareholders that GE—with nearly 200,000 employees and more than $130 billion in sales—can still perform like a growth company. The aim is to get the share price, which Mr Immelt says is too low, back up again. Mr Immelt's key idea is to buy new "high margin, high growth" businesses. According to his fans, the new purchases all fit the bill.

The magic of Mr Welch's *trompe l'oeil* was to create the appearance of a high-growth firm with low risks: a triple-A rated company which churned out a steady and predictable stream of fast-growing earnings. Now, investors find these vaunted qualities suspicious, forcing Mr Immelt to reverse some of Mr Welch's financial-engineering tricks. GE no longer offers wonderfully precise predictions of what it will earn each year, for instance. Gone, too, is the spin about "long cycle" and "short cycle" businesses which, by offsetting their different ups and downs, were supposed to create all that wonderful smoothness.

Biotechnology and media assets may indeed offer the potential for faster growth than power turbines and aircraft engines. But investors also fear that they will increase GE's risks. Amersham clearly spends more money thinking about risky future markets than GE has traditionally done. Notwithstanding a PR campaign to convince financial scribblers that it is a research powerhouse, poised for growth, GE spends just 2% of its sales each year on R&D; Amersham spends 10%. The Vivendi assets fit well on paper with NBC, GE's existing network broadcaster. As temperamental, creative types, however, Vivendi's media moguls may not succumb happily to an invasion of GE number crunchers: NBC certainly did not.

Not so electric

Price performance, January 1st 2001=100



Source: Thomson Datastream

GE will pay for the Vivendi and Amersham purchases with those same company shares that Mr Immelt declares to be undervalued. That is good for its balance sheet, which has seemed stretched recently, but not, on the face of it, for shareholders. The Vivendi deal is reasonably priced, but Amersham is expensive, prompting worries that pressure to get the share price up is clouding GE's judgment. Because GE is so large, moreover, Mr Immelt will have to make big divestitures, too, if he really wants to change the complexion of his business. Shareholders hope that the firm will shed its lighting, appliances and reinsurance units, among others. Of the 36-odd deals that GE has disclosed so far this year, however, there have been just four small divestitures.

Maybe the firm's shareholders will succumb, again, to GE's relentless self-marketing. As the firm's investor-relations wizards point out, stripping out the power business and the impact of the firm's pension fund from its reported numbers does leave a profit-growth number higher than 10%. (The same calculation would have diminished Mr Welch's figures, however.)

Then again, maybe Mr Immelt has simply got his strategy wrong. If, as GE claims, it manages financial assets better than anyone else, it surely should give its finance businesses every opportunity to grow. Yet, under its present configuration, GE's finance arm (which, thanks to its perceived extra riskiness, is a drag on the firm's share price) finds its growth constrained. Its debt-free, cash-rich industrial businesses are, arguably, paying an even higher price, buying new firms with cheap shares when they should, by rights, borrow to do so. Do these two sides of GE belong together any longer? Breaking the firm up would be tough, but perhaps not as fraught as the expansion Mr Immelt has chosen. ■

Telecoms in India

Something to talk about

Mobile use would grow even faster in India with better regulation

MOBILE telephony is finally taking off in India. Some 5m new users have signed up since March; there are now over 17m subscribers. Add to this around 3.5m subscribers to a "limited" mobile service provided by fixed-line operators that works within a restricted area, usually a large city, and the total is even more impressive. What is driving this spectacular growth? Affordability. Limited mobile providers, authorised to begin operations early this year, cross-subsidise mobile from their fixed-line services. This has led to such fierce price competition that Indian mobile telephony is now the cheapest in the world.

But growth has not come without problems. Mobile companies in India have a much narrower spectrum allocation than their peers elsewhere. The rise in users has meant clogged up airwaves and poor connections. On September 25th, India's telecoms ministry said it would release an additional chunk of spectrum to ease the problem.

Price competition has also hurt profits. According to a report by PricewaterhouseCoopers (PWC) for the Cellular Operators Association of India, mobile operators have made combined losses of 117 billion rupees ($2.6 billion) since the launch of limited mobile. Without this competition, they would have made a profit of 67 billion rupees, says PWC.

Limited mobile operators have also sought permission to expand into full mobile. The mobile firms furiously opposed this. Had the government allowed it—on October 12th, it sensibly decided not to—PWC estimates that the losses of the mobile providers would have grown to a whopping 184 billion rupees.

But this decision seems likely to be followed by a less prudent one. On October 30th, telecoms ministers will meet to discuss the introduction of "unified" licensing. This will put in place a regulatory regime that allows the provision of wireless, fixed-line and possibly even national and international long distance services under a single "unified" licence. Though meant to bring peace between mobile and limited-mobile operators, this would clearly benefit limited-mobile/fixed-line operators, especially large ones such as Reliance and state-owned BSNL, by automatically granting them wireless spectrum—for which the mobile firms had to pay good money.

The government has decided not to compensate the mobile firms for undermining their licences. But it has agreed to allow greater consolidation of mobile operators, and more foreign investment. But with so much regulatory volatility, and other battles under way in court, it would take a particularly brave, or foolish, foreigner to invest in this mess.

The tobacco business

Smelling of lemons

TOKYO

Japan Tobacco still thinks that the tobacco business has a healthy future

TO SEE why Japan Tobacco is expected to bid in an auction in Turkey next week, visit Tokyo's teen-centric Shibuya district. Youngsters happily puff on cigarettes there, but ignore them—they are not the real story. Although nicotine has hooked males in Japan more than in any other rich country, even the Japanese market is shrinking faster than those smoking teens would suggest. Instead, stroll to the nearby Tobacco and Salt Museum. There the story is told of tobacco's globalisation as it spread from the Americas; of how technology has made consuming nicotine more convenient; and of the role that brands have played in marketing the deadly drug. No cigarette firm anywhere is striving harder to make money from the continuation of all three strands of that story than Japan Tobacco.

Its interest in globalisation is easy to understand. Japan Tobacco's domestic market is now shrinking, not least thanks to successive tax hikes on cigarettes. In 1996-2001, the number of smokers in Japan—as a share of people aged 20 or over—fell from 27.1% to 24.4%, says the health ministry. Japan Tobacco's domestic tobacco sales fell by 2.4% by volume in fiscal 2001, and by 3.5% last year. Taizo Demura of Morgan Stanley reckons that they will fall by a hefty 5.5% this year.

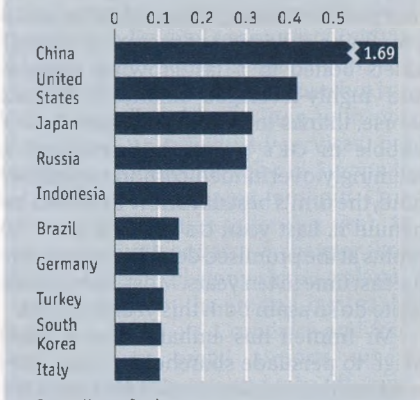
In April 2005, Japan Tobacco will also lose its licence to sell Philip Morris's Marlboro brand domestically, which the company says will knock ¥50 billion ($455m) off its annual operating profits—around one-fifth. Japan's low population growth, moreover, will continue to hold back domestic sales in the future, even if those Shibuya teens keep getting hooked.

To boost tobacco profits, therefore, Japan Tobacco is banking on higher revenue overseas. To this end, it has bought and is now aggressively promoting a portfolio of leading international brands. In 1999 it acquired the international business of America's RJR, giving it the rights to the Winston, Salem and Camel brands outside America. Japan Tobacco hopes that growing such high-margin brands will boost its profits in Europe. But, even though the firm is confident—perhaps overly so—that Europe is unlikely to follow America's courtroom assault on the cigarette business, demographics, health concerns and politics (such as proposed bans on smoking in public) make western European countries, such as Britain and Germany, look potentially as unexciting as Japan. This leaves the big emerging economies to be more thoroughly and profitably addicted.

Alas, some of the biggest emerging markets are not very promising either, at least in the short term. In China, the world's biggest market by volume, Japan Tobacco cannot get past a state-run monopoly. Indonesia, the fifth-biggest market, is dominated by locally made kretek cigarettes (laced with cloves from the country's eastern islands). Japan Tobacco has been especially aggressive, therefore, in Russia, the world's fourth-biggest market, where smokers lit up 300 billion cigarettes in 2002. And then there is Turkey, the world's eighth-biggest market.

On October 24th, Tekel, a Turkish state-run firm that sells tobacco products, salt and alcohol, will put its tobacco business on the auction block. Although they are still looking over the details, Japan Tobacco's executives say they have a strong interest in making a bid. Around half of Turks aged 18 or over smoke, and Tekel has 61% of the market. Better still, Turkish smokers are showing growing interest in higher-priced upmarket brands.

The big smoke
Cigarettes sold, trillion
2002



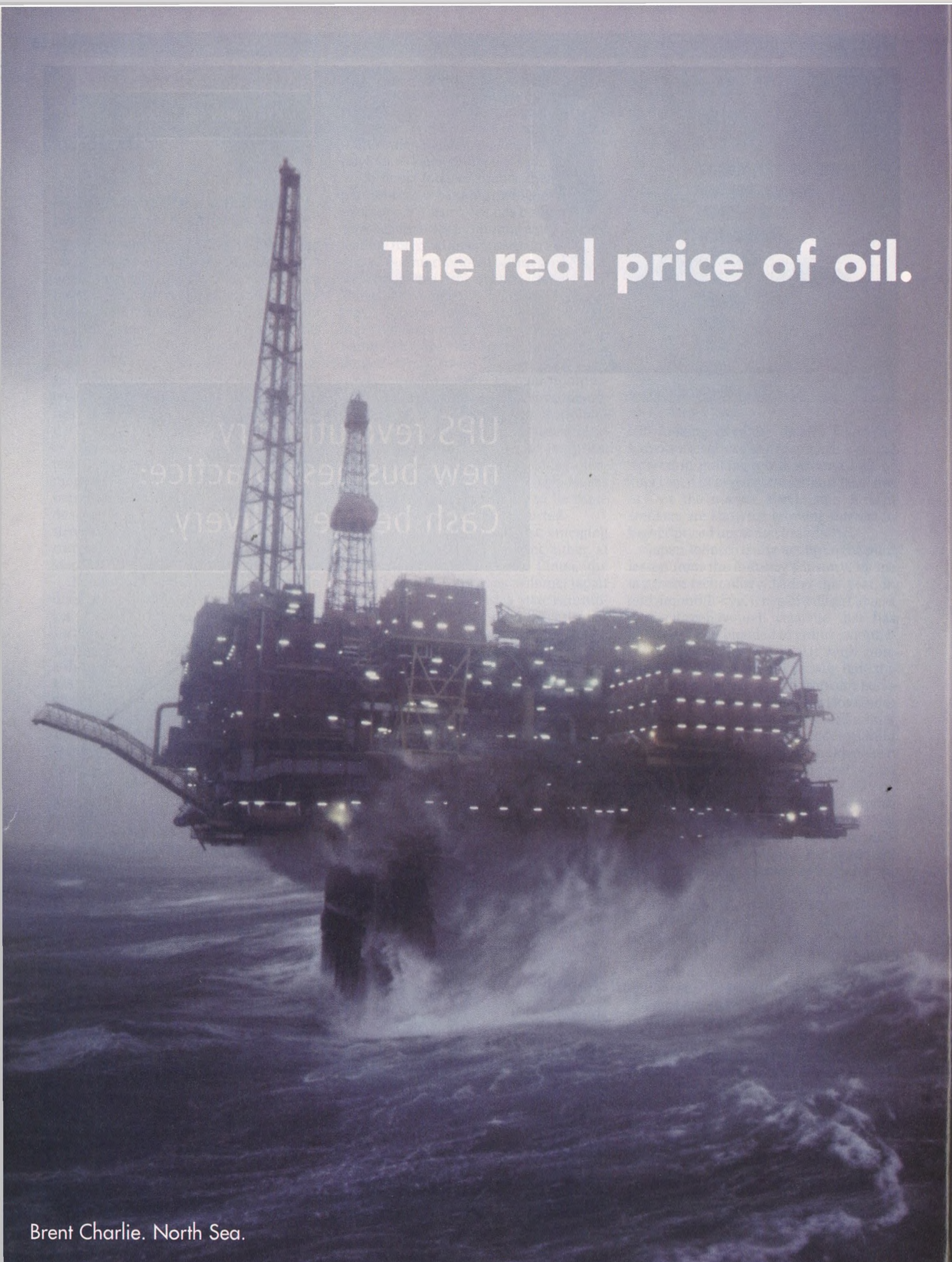
Source: Morgan Stanley

Japan Tobacco is also acting on the third lesson from the industry's history, by using more technology. Earlier this year, in and around Tokyo, it began selling Lucia, a new citrus-flavoured cigarette that has been specially blended to reduce odour. It claims these are as popular with non-smokers, most of whom usually hate the smell of cigarettes, as with smokers. Lucia will be sold nationwide from November 4th. The firm will also begin to sell a similar reduced-odour cigarette under its Mild Seven brand name—which should make it more appealing to male smokers than girlie Lucia—in Tokyo.

Yet even if it keeps up its profit margins, shareholders are not convinced that they will reap the benefits. Unlike the world's biggest tobacco company, Philip Morris, which (through its parents Altria) pays out half of its net income in dividends, Japan Tobacco only returns about 20% of its net income to shareholders. Earlier this month, it announced plans to buy back ¥50 billion of its shares. But so far it has repurchased only about 70% of this total—and most of these were from the government's 66% stake. The firm was partially privatised in 1994.

One reason why the firm is loth to return more cash, says Masakazu Kakei, the president of the tobacco business, is that it wants to invest more in its pharmaceuticals business—even though it has yet to produce a marketable drug. Perhaps, a few decades from now, there will be a pharmaceutical museum in Tokyo telling how cash flows from tobacco were used to build one of the world's leading drugs companies. More likely, Japan Tobacco's profits will instead go up in smoke. ■

Geisha light



We're all involved in the oil business.

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Profits. Principles. Or both?

Mafia businesses

Replacing the Boss

PALERMO

Management change the Sicilian way

RUNNING a business is hard enough, and coping with colleagues' cold shoulders is but one challenge that managers often face. But few bosses find a bloody goat's head on their desk or receive bullets in their mail. These are the kind of threats, says Silvana Saguto, a senior judge, meted out to a particularly doughty sort of boss in Sicily. Ms Saguto runs the section of the court in Palermo, the Italian island's capital, that orders the sequestration of assets owned by Mafia families. As well as money and property, these often include commercial firms. If the court seizes a firm, it appoints an administrator to run it—and it is these administrators who receive Mafia reminders about who is really Boss.

In the past decade, the court in Palermo has sequestered about €6 billion ($6.6 billion) of assets, particularly in the property and construction sectors. Shockingly, Ms Saguto says that the island's economy is still almost wholly under Mafia control. The vast majority of Sicilian businessmen are either victims of extortion or run legitimate businesses on behalf of the Cosa Nostra. Judicial administrators have not been short of work but, as jobs go, there are few riskier in the corporate world. Unlike the investigating magistrates, prosecutors and judges involved in Sicily's Mafia cases, this handful of lawyers and accountants work without armed escorts.

One typical takeover occurred in November 2001, when police in Palermo swooped to enforce a warrant for the arrest of Francesco Zummo, an important local businessman. Soon after the arrest of Mr Zummo, who, said investigating magistrates, had laundered money for 25 years, and just before the offices of Gitex Gruppo Imprenditoriale opened, law enforcement officers arrived. The warrant included the sequestration of the assets that investigators had identified as owned by Mr Zummo and fronts acting on his behalf, including a dozen building and property firms. Gitex was one of them. Elio Collova, an experienced accountant, had been appointed by the court to administer the group and he was with the anti-Mafia team at Gitex that morning when they told staff that Mr Zummo was out.

His first task was to make it clear who was in charge. Show one moment of weakness and you have lost forever, says Mr Collova. So he set about replacing the board and firing executives. Judicial administrators use their powers to call a meeting of shareholders immediately, and vote the shares they control to replace old directors with new ones. Usually they appoint trusted outsiders to key positions. Trust is a crucial part of the relationship linking the judge to the administrator, new directors and new staff who must work alongside existing employees whose loyalty may lie elsewhere. By intrigue or muscle, the Mafia often tries to get back into firms that are taken from it.

As well as being gutsy enough to resist offers that are not supposed to be refused, administrators must accept legal responsibility for the firms they manage. They must keep strictly to the law, observe accounting rules scrupulously and be wholly transparent. This can require quite a profound culture change—not easy in any firm. And they must run the firm at least as well as those from whom they took over. Should subsequent court proceedings fail to turn sequestration into confiscation, the original owners may sue the administrators for breach of care.

Duty of care can be quite a responsibility. The towering, sequestered 300-room San Paolo Palace hotel on Palermo's eastern outskirts, part of the empire of families in the city's notorious Brancaccio district, employed 120 workers. Safeguarding their jobs was crucial, says Ms Saguto. The seven-storey home of Gitex contains around 20,000 square metres (215,000 square feet) of office space, mainly let to technology firms and call centres. The assets of the Piazza group, administered by Gaetano Cappellano Seminara, a Palermo lawyer, include over 50 schools that are let to city and provincial authorities. Palermo is an anomaly in renting many of its schools. What better way for the Mafia to launder revenues from illegal activities than to build schools and rent them to local governments for clean cash from taxpayers? And what better sign of progress in the war on the Mafia than the fearless administrators now in charge of them? ■

Handheld computers

PDA, RIP

The next big thing that wasn't—or was it?

IS IT time to declare the demise of the handheld computer, also known as the personal digital assistant (PDA)? A lot of people suddenly think so, for despite high hopes that the devices—made by such firms as Palm, Sony, HP and Dell—would someday become ubiquitous, annual sales have stayed flat at around 11m units worldwide. This compares poorly with PCs, around 130m of which are sold every year, and mobile phones, with sales of around 460m units. "The PDA market will never be a mass market," says Cindy Wolf, an analyst at In-Stat/MDR, a market-research firm. Almost everyone who wants a PDA, she says, now has one.

In contrast, sales of smartphones, high-powered mobile handsets capable of doing most things PDAs can do, are rising fast. Smartphones can be used to store addresses and phone numbers, download small pieces of software (such as games), browse the internet while on the move, store and play music, and jot down brief messages. And, of course, they are also telephones. Why carry both a phone and a PDA around, when you can carry a single hybrid device? Fewer than 4m smartphones were sold during 2002, but nearly 12m will be sold this year, says Neil Strother of In-Stat/MDR. Although final sales figures are not yet available, it seems very likely that sales of smartphones overtook sales of PDAs in the third quarter of this year.

"The PDA is dead," says David Levin, the boss of Symbian, the leading maker of smartphone software. Anssi Vanjoki of Nokia, the world's biggest mobile-phone maker, agrees. PDAs without wireless connectivity are doomed, he says. Even as Nokia, Sony Ericsson and other handset makers build PDA-like functions into their smartphones, some PDA makers are adding phone capability to their handhelds. The two camps have arrived at the same result—a hybrid PDA-phone—from opposite directions.

David Nagel of PalmSource, the firm that licenses the Palm operating system to makers of phones and PDAs, dismisses the idea that one camp or the other has won. To say that there is a single "killer device" is, he says, an oversimplification, for there is room for a whole range of PDA-like devices in the marketplace—of which smartphones, in his view, are just one kind. PalmSource is, he says, well placed to compete with Symbian and Microsoft to provide the software to power pocket-sized devices.

This much is clear: handheld computers must be phones too, if they are to sell in any quantity. PDAs of the traditional type, which do not double as phones, are condemned to remain a tiny niche. But whether the sudden rise of the smartphone constitutes the death of the PDA, or its triumph by other means, is a matter of opinion. In other words, the PDA is dead—long live the PDA.

Face value | Get naked

Every firm should have a nudity strategy, says Don Tapscott

MANAGEMENT gurus are expected to entertain nowadays, as well as to enlighten. On one occasion, Don Tapscott, a leading business "author and futurist", had Patrick Stewart—aka Jean-Luc Picard, a captain of the *Starship Enterprise*—"materialise" alongside him on stage, seemingly transported there via teleportation. More recently, the organisers of an event in Singapore wanted him to appear on stage in a manner that illustrated the message of his latest book (co-authored with David Ticoll). Given its title, "The Naked Corporation", some risqué possibilities leapt instantly to mind. In the end, says a clearly relieved Mr Tapscott, it was decided merely to hint at what a sexy idea nudity is rather than actually to demonstrate it, by having him imitate James Bond—in a tuxedo, blowing smoke from an imaginary gun, flanked by scantily clad dancing girls.

Despite such gimmicks, Mr Tapscott is deeply serious. A Canadian business school professor, he coined, or at least popularised, such phrases as the "net generation" and the "digital divide" during the 1990s. Today he believes that corporate nakedness—guru-speak for making firms far more transparent to their customers, employees, investors and society at large—is the "big idea" that management thinkers have been desperately seeking since their last ones came a cropper during the dotcom bust. (Remember Gary Hamel's "Leading the Revolution", published, alas, just as the revolution came to an abrupt end?) In fact, Mr Tapscott is not alone in touting a big idea aimed at lifting the market for management books out of its deep post-bubble depression. Tom Peters, a co-author of the seminal 1980s tome, "In Search of Excellence", has just published "Re-imagine!", a "passionate wake-up call for the business world, educators, and society as a whole". Clayton Christensen, a Harvard Business School professor, terrified many bosses with financial death by a thousand internet clicks in his 1997 book "The Innovator's Dilemma". Now he has, at last, come up with "The Innovator's Solution".

Whereas Mr Christensen and his co-author, Michael Raynor, write largely as if the corporate excesses of recent years never really happened, and Mr Peters rants about Enron (and much else) in an entertaining but unfocused way, Mr Tapscott's big idea coherently, and mostly convincingly, combines an analysis of the recent crisis in corporate America with a celebration of the technological revolution that he began in earlier books, such as "Paradigm Shift" and "Growing Up Digital". His message should certainly provide a wake-up call to anybody left in the business world who does not realise that the days are long gone when a great industrialist such as Charles Schwab, boss of US Steel a century ago, could talk but once in his life to a reporter—then break off contact when his words appeared in print.

Greater transparency, Mr Tapscott argues, is an unstoppable force. It is the product of growing demand from everybody with an interest in any corporation—what he calls its "stakeholder web"—and of rapid technological change, above all the spread of the internet, that makes it far easier for firms to supply information, and harder for them to keep secrets. (Firms now know that their internal e-mail may one day become public knowledge, for instance, and many big companies must co-exist with independent websites where employees can meet anonymously to air their grievances.) With greater transparency, says Mr Tapscott, will come greater accountability and better corporate behaviour. Rather than engage in futile resistance to it, firms should actively embrace transparency, and rethink their values and generally get in better shape. "If you're going to be naked, you'd better be buff," is how he sums up his argument, ever aware of the need for a colourful soundbite.

Mr Tapscott believes that more transparency and better behaviour will bear economic fruit—not least by avoiding catastrophic collapses like those at Enron and WorldCom. He cites approvingly the transparent way the head of Microsoft's website shared details of problems occuring on the site, and Prudential Securities, which was so open with staff that their loyalty grew even as it made redundancies. He boldly predicts that, in a transparent world, advertising and spin will be less effective.

What about naked ambition?

Yet perhaps you can have too much of a good thing. For now, greater corporate nudity is certainly desirable. But would capitalism really thrive in a fully transparent world? Mr Tapscott concedes that "as with all good things, transparency has a law of diminishing returns": exposing proprietary trade and competitive secrets, or private employee and customer data, can damage a firm, for instance. Yet surely there are other dangers, not least that capitalism is not a fair fight and, as nobody is perfect, there will always be things happening within a firm that its enemies can seize upon to embarrass it, or worse. Mr Tapscott is particularly naive about the intentions of activist non-governmental organisations (NGOs) that criticise firms; there is growing evidence that they simply become more aggressive toward firms that seek to work with them (as Mr Tapscott urges) rather than giving credit where it is due. Nike now has some of the best factories in the developing world, yet is still unfairly branded as a sweatshop by critical NGOs.

Rather than flaunting their flabbier bits, or deploying the corporate equivalent of an army of personal trainers (probably lawyers) to keep themselves in perfect shape, surely firms will have to develop a "figleaf" strategy alongside their plans for greater nakedness. One obvious area to explore is how to make greater use of unrecorded verbal communication instead of e-mail. Mr Tapscott's big idea is broadly correct, and yet there remains a nagging suspicion: it is that, seen in the raw, the greedy drives and selfish ambitions that help to make capitalism so successful will never look especially "buff". ■

Whose is the fairest of them all?

Housing finance has big economic consequences. Can it be made to work better?

MORTGAGE markets matter. That message is being brought home to governments everywhere. In America, doubts about the underpinning of Freddie Mac (once known as "Steady Freddie") and Fannie Mae, the two props of the country's lively mortgage market (see box on following page), have led to calls that they be regulated directly by the Treasury. In Britain, the chancellor of the exchequer, Gordon Brown, earlier this year bemoaned the fact that his domestic market offers relatively few long-term, fixed-rate mortgages. This, he implied, was a problem to be solved before Britain could give up the pound and join the euro.

The British government asked David Miles, an economist at Imperial College, part of the University of London, to look into the effects of mortgage finance on the British economy, and what can be done about the shortage of fixed-rate loans with a maturity of more than five years. Mr Miles's report is expected in December.

The chancellor wants him to look to America and the rest of Europe, where there is a wide variety of house-lending styles. Britain's high level of home-ownership, higher than in France, Germany or Italy, and its relative sparsity of fixed-rate mortgages make Mr Brown and others fear that the country could bear the brunt of any interest-rate changes if it were to be in the euro area.

The rest of Europe, however, may not have many lessons to offer the British. A recent study, commissioned by the European Mortgage Federation from consultants at Mercer Oliver Wyman, put Britain's market comfortably first (out of eight European mortgage markets) for "completeness"—a measure based on the range of products on offer, the ease of access to the market, the availability of advice, and the type of borrower. Second was the Netherlands. Lagging badly were Germany, Italy and Portugal.

The Council of Mortgage Lenders (CML), a body which represents 98% of the British market, reported to Mr Miles last month that there is little demand from consumers for longer-term loans. Michael Coogan, CML's director-general, says "few are willing to pay large price premiums for long-term certainty."

However few that number may be, it is increasing. Britain's mortgage market is no longer almost entirely based on variable (or floating-rate) mortgages. Cazenove, a British investment bank, says loans that have a floating rate for most of their life now account for roughly 80% of British mortgages (see chart on following page), down significantly from a decade ago. In Britain's hotly contested market, fixed-rate mortgages with terms of five years (and even of ten) are growing in popularity.

Economic fuel

These days, mortgage markets everywhere are in a state of flux. In the EU, there are moves afoot to deregulate them in order to give greater choice to consumers and greater flexibility to lenders. Moves are also in train to try to integrate, albeit slowly, the continent's fragmented markets. At present, each country offers its own set of rules and its institutions discriminate against non-nationals. There is not much competition between them, and regulations often prescribe the exact types of mortgage that can be offered.

Continental European mortgage reform has far to go. France only recently reduced statutory fees on refinancing, and Germany's last significant move was to liberalise interest rates in the 1970s. But there is an interesting market quirk in Denmark, a country that is still outside the euro area. Thanks to the Great Fire of Copenhagen in 1795, long before America's fancy mortgage-backed securities first appeared, private Danish banks began financing mortgages through bond issues. ▸▸

Fannie Mae and Freddie Mac

The Treasury's bonds

Tighter regulation in the wake of recent scandals

WORRIES about America's mortgage markets are unlikely to disappear in a hurry. The Bush administration is concerned that Congress is diluting legislation that it pressed for in the wake of the revelations earlier this summer that Freddie Mac, one of the two government-chartered agencies which support nearly all the country's mortgage lending, had been cooking its books. Three of Freddie Mac's top executives resigned and the agency is now the subject of three separate federal investigations, including one by the Securities and Exchange Commission (SEC), the securities markets' regulator.

That debacle was followed by questions about the accounts of Fannie Mae, the other federally chartered mortgage agency, and a trickle of details about Freddie Mac's heavy involvement in the derivatives markets, which lie at the heart of its accounting irregularities. The details were as complex as anyone had feared and raised the spectre of a disaster at Freddie Mac sending banks and other investors into insolvency.

As if that were not enough, three of America's 12 federal home loan banks recently reported losses. At one of them, the New York bank, the losses were substantial. The banks are part of the government's other big initiative in the mortgage market. The 12 raise money directly on the capital markets—cheaply because of their government charter and implicit backing—and lend it on to commercial banks for them to make mortgage loans.

All this has strengthened the administration's determination to bring the mortgage institutions under tighter control. Fannie and Freddie are currently regulated by the Office of Federal Housing Enterprise Oversight; the federal home loan banks by the Federal Housing Finance Board. Neither regulator is deemed fit to keep an eye on the increasingly sophisticated financial markets in which their charges participate.

The government wants both the home loan banks and Fannie Mae and Freddie Mac to come under the Treasury's beady eye. But as details of its proposals emerge, the institutions are becoming less keen on the idea. Their lobbying in Congress is sure to stall the legislation further.

Today, the Danish market is remarkably efficient, with lenders' operating costs among the lowest in Europe (roughly half the level of France and Italy, according to the Mercer Oliver Wyman study). Loan prices, the profits taken by the lender, are also among the lowest in Europe.

The old idea that there is a distinctly British, American and even continental European model of mortgage markets is breaking down. Every country still has its own housing-finance quirks, but they are looking at each other more and more, trying to see which features work well and which they can adopt for themselves.

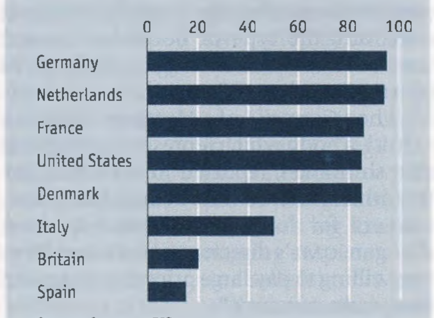
They are looking around because the way that people borrow to pay for their homes has a huge impact on consumer spending (and savings). Moreover, it can affect not only economic growth but also a country's social structure. It has been suggested that the lack of mortgages in Italy has contributed to that country's low birth rate and the high average age at which Italians marry for the first time.

Since the mid-1990s, in America and Britain especially, rising house prices have not just helped make people feel richer. The increasingly buoyant market in home loans has allowed consumers to spend more and more of the equity that is vested in their homes. That is one reason why consumer spending has continued to rise in the face of a flagging stockmarket and the widespread economic slowdown that started in 2001.

But that source of economic growth may now be fading. In America, mortgage rates have been rising over the past two months, choking off the refinancing boom that has propped up consumer spending. With long-term rates rising, despite a monetary policy which is keeping short-term rates at historic lows, the Federal Reserve, America's central bank, might find it hard to persuade home owners to do more of what it wants them to do (go shopping) were the economy to stumble.

Fixed-rate variations

Fixed-rate mortgages as % of total, 2001



Sources: Cazenove; ECB

The European Central Bank (ECB) has also been pondering the role of mortgages in setting its monetary policy. In a recent report, it reviewed the impact of mortgages on the economy. First, it shows how mortgage debt (as a percentage of GDP) has risen between 1995 and 2001. In some countries, such as the Netherlands and Portugal, it has shot up by more than 25%. In Britain, it has risen by around 6%. But the ECB says that so far the mortgage-service ratio (of mortgage payments to incomes) in the euro area as a whole is little different from what it was 20 years ago. Rising incomes and falling rates have helped to keep historic relative measures of house prices more or less unchanged.

But this is not the case in every market in the EU. Mortgage-service ratios in Britain have actually fallen from their highs of the early 1990s, while Belgium and the Netherlands have had a 30% growth in their ratios over the past five years. Spain has what looks like a house-price bubble, and so does Britain and, arguably, Ireland. But house-price bubbles are not something that monetary policy has historically sought to tame. With central bankers' success in recent years in conquering consumer-price inflation has come a reluctance to deal with asset prices, such as those of stocks and houses.

Fixed or floating?

Politicians want to curb the potential that mortgage lending has for creating cycles of boom-and-bust. So far, however, their efforts have not been enough to stop, for example, the deep housing slump in Britain in the early 1990s, nor the one in Hong Kong today. Neither could they do much about the crisis among America's savings-and-loan associations in the 1980s, when a deep depression in commercial property pushed many S&Ls into bankruptcy.

Britain's Mr Brown thinks that the key lies in getting a better balance between fixed- and floating-rate mortgages. But Spain's experience seems to contradict him. The Spanish market, like Britain's, relies mostly on floating rates. (Around 85% of Spanish mortgages are of the variable-rate variety.) But the market there has not experienced wild swings directly as a result of Spain's membership of the euro.

Yet valuations of property in Spain seem at best stretched, leading many to think it is in the midst of a house-price bubble. And the Spaniards themselves seem to be acknowledging that all is not well. The Bank of Spain is tinkering with the mortgage market to encourage more of the fixed-rate variety, evidently worried about what might happen when rates rise.

In other European countries, fixed rates are more common. In France, for example, fixed-rate mortgages are on offer, most frequently for 15 years. Refinancing, which allows borrowers to lock into lower rates as and when they occur, is possible. But there is a penalty of up to six months of interest or 3% of the balance that is being prepaid. That makes refinancing unattractive for all but the biggest declines in rates.

In Germany, rates on mortgages are fixed, typically for ten years, and it is extremely difficult to refinance in order to take advantage of declining rates. Italy's market is a hybrid of fixed and floating regimes. In all, the differences within the euro area are at least as great as those between Britain and the rest of Europe.

The risk floats on

Neither fixed- nor floating-rate mortgages are a panacea: each has its pros and cons. Floating rates are easier for banks to manage because they pay such rates on their deposits. Mismatches between assets and liabilities of the sort that sank America's S&Ls in the 1980s are made far less likely with floating rates.

For central bankers, British- and Spanish-style variable-rate mortgages are a mixed blessing. They make monetary policy more powerful: any change in rates hits consumers faster. That can help pull an economy out of a slump more quickly. But raising rates too sharply can cause mortgage repayments to rocket and send house prices tumbling.

Fixed rates, on the other hand, are not only attractive to finance ministers but also to many borrowers since they remove the risk of interest-rate volatility. But there is a cost, for the risk must be borne by someone. For banks, laying it off elsewhere is tricky. In Germany, subsidies to the state-owned Landesbanks have helped. But those subsidies end in 2005. In America, the risk is transferred with the help of Fannie Mae and Freddie Mac. American fixed-rate mortgages would cost rather less than they do were it not for the government backing that stands behind Fannie and Freddie.

But not all fixed-rate mortgages are equal. Unlike Europe's, America's typically allow borrowers to refinance and prepay their loans at little cost. This makes them especially risky for lenders, and especially ripe for government support.

America's Federal Reserve tweaks interest rates to foster low inflation and full employment. (House prices do not come into its brief.) When it lowers rates, however, it only directly affects short-term interest rates, not the long-term rates which home owners pay. Nevertheless, thanks to the ability of home owners to refinance as rates get lower, falling rates have a stronger impact on the American economy than rising rates do.

In France or Germany, where the typical fixed-rate mortgage cannot be refinanced with anything like the ease of an American one, monetary policy has far less influence. Changes in interest rates only affect new mortgages directly. In other words, the decisions of the ECB do not have anything like the same reverberations as do those of America's Fed. That helps explain why housing markets in France and Germany seem so much less prone to booms and busts. Indeed, Germany's placid market has seen a steady decline in house prices over the past decade.

The envy of the world?

John Snow, America's treasury secretary, recently called his country's system of housing finance "the envy of the world". Envy there may be, of America's high rate of home-ownership and its bounty of long-term fixed-rate mortgages that free the lives of home owners from anxiety about future interest rates; but Mr Snow was pleading against plans in Congress to tighten the regulation of Fannie Mae and Freddie Mac.

Any envy of these government-chartered but shareholder-owned companies has been declining of late as two chief executives at Freddie Mac have departed within the space of three months following an external report by a firm of lawyers which found that Steady Freddie has been fiddling its accounts for some years. Admittedly, in Freddie's case it fiddled them to minimise its profits—in order to even out its gains over time—unlike WorldCom et al, whose aim was to maximise their profits and their share price. Nevertheless, it was not a great advertisement for the American way of housing finance.

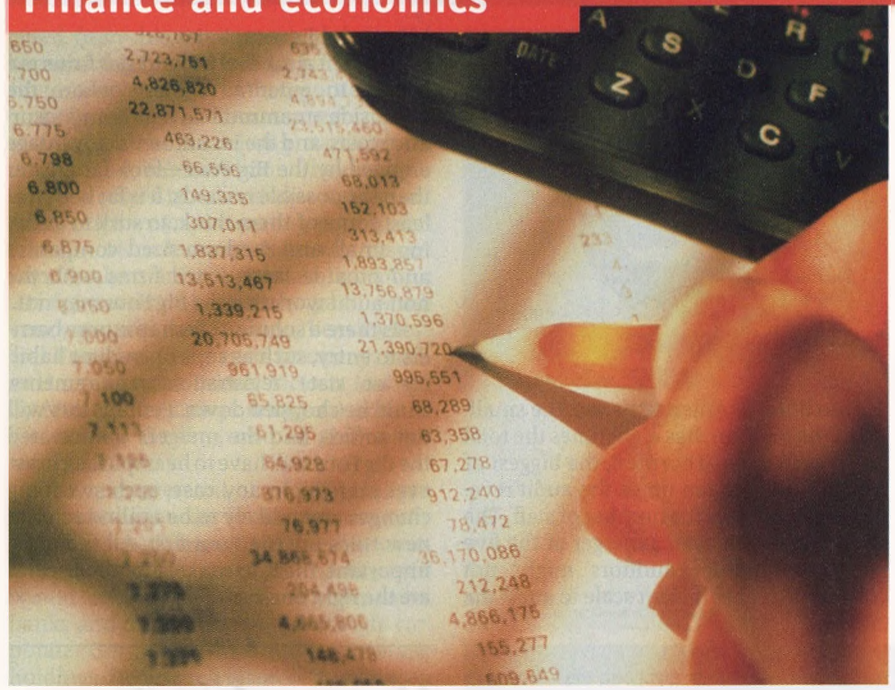
In some respects, America's market is similar to Britain's. The two countries have near identical levels of owner occupation. And the size of the mortgage market relative to GDP is roughly the same in both places (55% in America against 53% in Britain). Yet over four-fifths of American mortgages are of the fixed-rate variety, while roughly the same proportion of British mortgages are on a variable rate.

America's ability to offer borrowers fixed rates on mortgages owes much to the invention of Fannie Mae and Freddie Mac. Nowadays, nearly all mortgages for single-family homes of up to around $320,000 "pass through" these two organisations. Indeed, "passing through" mortgages was their original *raison d'être*. The idea was that a government-chartered firm could help make the market less inefficient by providing capital to the entire market and to under-served regions.

Fannie and Freddie were designed to buy mortgages from high-street banks and to sell them off to sophisticated investors, bundled up in large pools as asset-backed securities. Britain has no asset-backed securities market such as that created by Fannie and Freddie, despite the fact that the pension funds there would dearly love one. America's deeper and more efficient capital market is said to make mortgages there around 25 basis points cheaper than they would otherwise be.

In the past, Fannie and Freddie helped make them even cheaper. But as the market has matured, the cost advantage of the two organisations has declined. Most of it is now due to the preferential rates they get from the Treasury. That dependence on government backing, and the implication that if either of them got into trouble Uncle Sam would bail them out, is what has Congress so worried.

Competing firms, such as America's big commercial banks, think that the two federal giants have an unfair advantage. And Alan Greenspan, the chairman of the Fed, agrees with them. But is it realistic to expect governments to keep their hands off mortgage markets now that they know how much they matter? ■



Also in this section

Auditing

Still counting the cost

The auditing profession has not yet put its problems behind it

THERE is still no end to the scandals tainting corporate America. New troubles are surfacing, such as the investigation into trading practices at the country's mutual funds. The stains of old ones, such as the accounting frauds at Enron, WorldCom and elsewhere, are proving hard to scrub out. Fifteen months after the Sarbanes-Oxley act was swept through Congress, with the aim of restoring investors' trust, the auditing industry is still overshadowed by the effects of those scandals.

Thus Dennis Kozlowski, the former boss of Tyco now on trial for defrauding his old company, is trying to push responsibility on to Tyco's auditor, PricewaterhouseCoopers, one of the Big Four firms that dominate auditing worldwide. Last month, a former partner of Ernst & Young, another Big Four firm, was arrested for shredding documents related to the audit of NextCard, an online credit-card issuer that went bankrupt in late 2002. The Securities and Exchange Commission (SEC) charged a fifth partner of another top firm, KPMG, for his alleged role in Xerox's $3 billion accounting fraud.

All this, of course, relates to events that pre-date post-Enron reforms. Regulators worried that the lure of fat consulting fees had tainted the quality of plain, low-margin audits. They also concluded that long-term relationships between companies and accountants corrupted the standard of book-keeping. Almost all of the biggest accounting scams, including those at Enron, WorldCom, Tyco and HealthSouth, occurred on the watch of auditors who had been on the job for at least a decade.

To right these wrongs, regulators have turned to a combination of new rules and new muscle. The new rules, passed by the SEC in January, ban auditors from providing certain consulting services for audit clients and oblige them to change the senior partner in charge of each audit every five years. The muscle consists of a new supervisory body for America's accountants. Armed with greater powers, regulators have also intensified their scrutiny of auditors they suspect of erring.

However, critics argue that these reforms are not enough. Auditors can still provide juicy extras to clients, such as tax planning and one-off consulting projects. Ernst & Young reported on October 10th that its annual revenues had jumped 30%, due in large part to non-audit services. Others say that only the rotation of auditing firms, not just partners, will keep auditors and their clients from getting too cosy.

The industry disagrees. Providing tax and other consulting services, it says, improves audits by helping auditors understand the intricacies of the companies they monitor. And because auditing is a low-margin business burdened with enormous litigation risk—and hence insurance costs—accounting firms must diversify in order to survive. Rotating auditing firms, say accountants, would lead to higher costs and poorer quality as new auditors grappled with unfamiliar businesses. Moreover, auditors are now appointed by boards, not executives, so the issue is moot. "We don't need reform for reform's sake," says Eugene O'Kelly, head of KPMG.

Even if the reforms so far prove adequate, an equally thorny issue remains: the dominance of the Big Four. This is the product of two decades of mergers and the implosion of the fifth giant, Enron's auditor, Arthur Andersen. In America, the Big Four do almost all public-company audits (see chart on next page); in other countries, too, they are dominant. Within industries, auditing is even more concentrated: the top two firms audit 95% (by assets) of America's petroleum and coal businesses, and 86% of the airline industry.

More is better

The lack of competition poses vexing problems. Chief among these, perhaps, is that the Big Four may all be too big to be allowed to fail. The point is not merely theoretical. In Britain, where auditors' liability is uncapped, a colossal lawsuit hangs over Ernst & Young, in relation to Equitable Life, a mutual insurer. In America Adelphia, a bust cable company whose former bosses are due to stand trial in January, is suing Deloitte & Touche.

Ideally, shoddy auditing should be punished by big lawsuits and lost business and auditors should be keen to earn and protect good reputations. But with so few auditors to choose from, can this work? A Big Five, or even Eight, would help. How- ▸▸

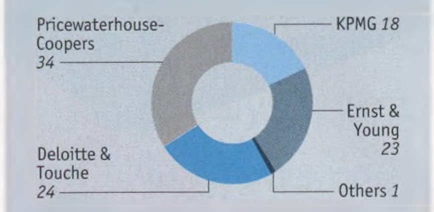
ever, a recent study by America's General Accounting Office (GAO) concludes that the prospects of this are slim. Second-tier accountancy firms lack the international scale and depth of expertise needed to audit big, public companies and thus to rival the Big Four. Especially in America, the huge litigation risks and insurance costs that come with big, public-company audits are another impediment. The Big Four typically rely on self-insurance, given the difficulty of finding outside insurers to shoulder the substantial risks involved. Then there are onerous state licensing requirements. And the partnership structure of second-tier accountancy firms limits their ability to raise funds for expansion.

Nor do mergers—the route by which the industry was reduced, before Andersen's demise, to five big players—look likely to produce new, large auditing firms. Even combined, the second-rank firms are simply too little. In America KPMG, the smallest of the Big Four, has eight times the total revenue of Grant Thornton, the biggest of the minor firms, ten times the audit revenue and five times the number of staff. The GAO found that even a merger of the five largest second-tier auditors might not create a firm of sufficient scale to audit the biggest public companies.

Bean counters' club

US public-company audit market

% of total sales audited, 2002



Source: *Who Audits America*

Nor is it clear that second-tier firms are itching to enter a segment where the downside—mammoth lawsuits and insurance costs, and the incumbents' advantage enjoyed by the Big Four— look far greater than the possible rewards. It is far better, at least some of them think, to stick to auditing small and medium-sized companies and provide large, listed firms with the non-audit work that the Big Four may not.

Is there a solution? Perhaps some barriers to entry, such as caps on auditor liability or state registration requirements, could be chopped down. Perhaps this will not suffice, and the mergers that created the Big Four will have to be unpicked, however messily. In any case, such sweeping changes are unlikely to be embraced until new rules are tried out first. All the more important, then, to make sure those rules are the right ones. ■

American stock exchanges

The other pay packets

NEW YORK

More embarrassing information oozes out of the New York exchanges

STRONG profits, announced this week by the likes of Merrill Lynch and Bank of America, might suggest that all is well on Wall Street. Yet America's main stock exchanges—which, unlike the headquarters of most banks, lie on that thoroughfare—continue to reel.

Under pressure from the Securities and Exchange Commission (SEC), the exchanges are revealing their executives' pay. To no one's surprise, the top people at the New York Stock Exchange (NYSE) have done well—if far less handsomely than their erstwhile boss, Richard Grasso, who resigned last month. The exchange's co-presidents, Robert Britz and Catherine Kinney, were paid \$4m each in both 2001 and 2002, as well as retirement benefits of over \$22m. In 2001, their predecessor, William Johnston was paid \$6m, plus \$7m for his pension. The head of regulation, Edward Kwalwasser, got \$4m over two years and \$8m for his old age. At the time, investors were losing bucketloads, the NYSE's self-regulation proved wanting and its cost advantage withered.

The mood is, if anything, darker across Trinity Cemetery at the American Stock Exchange (AMEX). It has emerged that its chief executive, Sal Sodano, who joined the AMEX in 1999, when it was bought by the technology-oriented NASDAQ stock exchange, received \$2.4m last year, plus a retention bonus of \$2m. He is also owed retirement benefits of \$12m and "under certain scenarios which involve uncertainties", according to the AMEX, another \$10m-20m.

Yet in three years the price of leasing a trading space for a month at the AMEX has tumbled from \$20,000 to \$600-700. "All exchanges have had problems, but none of nearly this magnitude," says a floor trader. The AMEX has suffered the loss of much of its traditional business in equities, as well as its dominance in exchange-traded funds, an increasingly popular product it created. Trading has migrated to electronic markets, primarily Archipelago and Instinet-Island. The AMEX has taken too long to modernise its technology, and transaction costs remain too high. Its regulatory oversight of options trading has recently raised concerns at the SEC.

Meanwhile, the practices of the NYSE continue to come under attack. On October 14th the *Wall Street Journal* reported that Fidelity, America's biggest fund-management company, had criticised the NYSE's floor-based trading system, in which shares are bought and sold through a few firms known as specialists. Fidelity would prefer an electronic market. That might be good for Fidelity, which has a huge internal market for shares and an investment in alternative trading systems, but not for small investors: in the bond market, which is electronic, they are routinely stuffed. This week the NYSE told five specialists that they would be punished for improper trading. Nonetheless, the exchange is keen to defend itself and its trading system. But who, these days, is listening?

German life insurers

Uneven break

Tax relief for Germany's troubled life-insurance companies

THE insolvency in June of Mannheimer Leben, the first German life insurer to go under in 50 years, seems to have rattled Hans Eichel, Germany's finance minister. Fearful that more of the country's 120 life insurers might go bust, Mr Eichel has yielded to the industry's pleas and is proposing a bail-out in all but name.

He plans to allow German life and health insurers to set stockmarket losses against their taxes on operating earnings. There is a price: insurers will have to pay capital-gains tax on share sales, which was abolished in 1999. The necessary legislation is due to be put before parliament alongside a bigger package of tax and labour-market changes on October 17th (see page 27). Analysts think that the tax relief, which will be backdated to January 1st, could save the industry €10 billion (\$11.6 billion) this year.

Welcome as this will be to many insurers, it may not be enough to put them back on their feet. Marco Metzler of Fitch, a credit-rating agency, believes the proposed tax benefit will prevent more companies having to be taken on by Protektor, a firm set up by the industry last year to take over the obligations of troubled life insurers and which so far has the policies of one company, Mannheimer Leben, on its books. But Mr Metzler points out that insurers still have hidden losses of about €16.3 billion that will continue to drag earnings down. And they have hardly benefited from this year's stockmarket rally, because their equity holdings have been cut to, on average, 7% of their portfolios.

Last year German insurers were able to use changes in accounting standards to disguise their true condition. They were no longer required to value shares at the minimum price in an accounting period, but could more or less use their own discretion. Analysts at Fitch estimate that about 20 life insurers do not meet regulatory solvency requirements. Among them are several household names in Germany, such as Hannoversche Leben, Victoria (owned by Munich Re, a huge reinsurer) and the life arm of Gerling, one of Germany's weakest insurers.

The reinstatement of capital-gains tax will make life harder for insurers wanting to sell assets. When Mr Eichel did away with the tax four years ago, he hoped it would encourage insurance companies, banks and other firms to disentangle corporate Germany's intricate cross-shareholdings. He warned insurers then that an abolition of capital-gains tax would also mean an end to tax breaks for investment losses. That seemed to matter little when equity markets were booming. And in any case, he has reversed the change now that some insurers are in trouble.

Not everyone is pleased. Healthier insurers that last year came clean and wrote down the value of their equity portfolios will get little or no benefit from Mr Eichel's tax break, because they have no losses left to realise. However, those who hid the true state of their portfolios and postponed writing down their shares will qualify. Unfair? That's politics. ■

Price differences in Europe

The flaw of one price

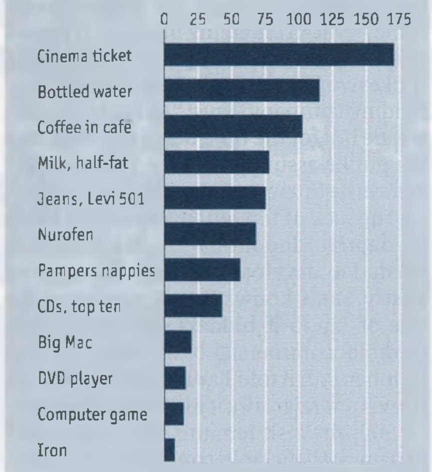
A single currency, but many prices

A BOTTLE of whisky costs almost 80% more in Amsterdam than in Rome. But Italians should pause before celebrating: a packet of Nurofen to soothe a hangover is 70% dearer than in Amsterdam. The creation of the euro in 1999 was supposed to encourage prices to converge, by making it easier to compare prices in different countries. As with the internet, another force for price equalisation (see Economics focus), fact has not always met expectation. Although price gaps narrowed in the euro's first three years, an annual survey by Dresdner Kleinwort Wasserstein (DKW) finds no more convergence in the past two.

The survey, which covers the six biggest euro-area countries, uses branded goods where possible, to allow like-for-like comparisons. Madrid has the cheapest total shopping basket, 10% less than in Paris, the most expensive city. Individual prices differ by much more. Pampers nappies cost 56% more in Brussels than in Frankfurt. A cinema ticket costs 170% more in Brussels than in Madrid. But Brussels is the place for Levi jeans—43% cheaper than in Paris.

Shopping around

Price variations* in euro-area countries, %



*Difference between highest and lowest prices as % of lowest price

Source: Dresdner Kleinwort Wasserstein

The biggest price differences tend to persist in non-tradable services. Electrical goods, such as irons and televisions, are easily shipped across borders, and thus have the smallest price ranges. The euro should spur price convergence not so much because consumers shop across borders, but because greater price transparency encourages wholesalers to take advantage of price discrepancies.

So why do prices still vary by so much? There are at least three reasons: different tax rates, especially on alcohol; national tastes (eg, bottled water is seen as a basic good in some countries, but a luxury in others); and differences in the market structure. One big barrier is that there are still no large pan-European wholesalers or retailers, such as America's Wal-Mart. Leo Doyle, an economist at DKW, estimates that price dispersion within the euro area is still roughly twice as large as in America. That suggests that there is still huge scope for the further convergence of goods prices—which in turn implies different inflation rates in different countries.

DKW also finds that, thanks to the rise in the euro, prices in London are no longer higher, on average, than in the euro area; in 2000 London was almost 20% more expensive than the euro-zone average. Britons pay well over the top for their booze and cigarettes, but their country is cheaper by far for books and deodorants. Perhaps that is why so many of them turn up their nose at the thought of joining the euro. ■

Indonesian banks

Friends and family

JAKARTA

The sale of Indonesia's banks is proceeding apace—to the wrong buyers

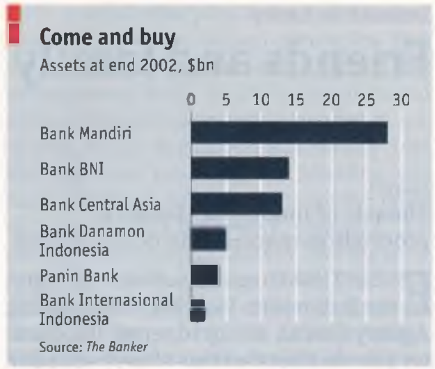
EVERYTHING must go. Next February, the Indonesian Banking Restructuring Agency (IBRA), set up to repair the country's banks after the crisis of 1997-98, is due to close, and it is eagerly selling the institutions still in its care. In the past two years IBRA has sold Bank Central Asia (BCA) and Bank Danamon, the third- and fourth-biggest banks by assets, and Bank Niaga. Last month it said that three bidders were vying for a 51% stake in Bank Internasional Indonesia (BII). Three other consortia are after 52% of Bank Lippo, while a sale of Bank Permata, also on IBRA's books, is planned next year. The government may float 30% of Bank Rakyat Indonesia this autumn and another 10% of Bank Mandiri, the country's largest bank, next year.

A job well done? Not really. For taxpayers, the aftermath of the Asian crisis has been a disaster. The recapitalisation of the banking system in the past six years has cost them around 650 trillion rupiahs (\$77 billion). IBRA's divestment programme will recoup \$2 billion, thinks Sigit Prasetya of Morgan Stanley, who calls this "the most expensive bail-out in world history".

Another serious concern is the quality of investors in the privatised banks. In theory, Indonesia should be enticing for top foreign banks. The country's 220m people have a growing appetite for car loans and credit cards. Around 100 banks out of 250 have been closed and the rest restructured. Capital-adequacy ratios, at 24%, are far above the 8% minimum laid down in the Basel international-banking treaty. Lending spreads are high. Non-performing loans have been cut from 12% of assets a year ago to 8.2%. The likely price of a bank, little more than book value, looks low.

Yet few foreign names are bidding. Deutsche Bank was part of the consortium that grabbed 51% of Bank Danamon in June. Kookmin, South Korea's largest lender, has made a joint offer for BII. That apart, the only foreign bids have come from Singapore, perhaps because the city-state has an interest in the financial health of its giant neighbour. Temasek, Singapore's state holding company, is bidding for BII with Kookmin and bought Danamon with Deutsche. UOB, another Singaporean institution, is also keen on BII.

The explanation is fear of cronyism. Foreigners are worried that well-connected local consortia, often controlled by the same families that rode the banks into insolvency in the first place, can outflank ▸▸



them in any contest. Standard Chartered, a British bank, bid for BCA, but lost to a group backed by Djarum, a big domestic cigarette company. Djarum is said by those familiar with the deal to have been working on behalf of the Salim family, owners of Indofood, a giant noodlemaker, and formerly of BCA. At least one bid for Lippo Bank is associated with the bank's original owners, the Riady family. One banker asks: "Why would any foreigner bid for Lippo? We already know who will win."

It is also rumoured by bankers in Jakarta that behind Temasek's bid for BII lie the bank's former owners, the Widjaja family. The Widjajas also ran Asia Pulp & Paper, which suffered the biggest bankruptcy ever in emerging markets. Temasek will not comment. Ibu Joice Budisusanto, spokeswoman for Sinar Mas, the Widjajas' holding company, says: "As far as I know, we are not for the time being involved. But the public assumes that the Widjajas will always be interested in taking back BII."

The lack of foreign investment is likely to deprive Indonesia of the expertise needed to develop a modern financial industry. IBRA knows this. It may scrap the sale of Lippo if bidders do not find big, credible commercial-bank partners. On October 13th it told Bank Panin that unless it finds a foreign ally it may not bid for BII.

Still, the risk remains that banks will end up with their old controllers and again become channels for the ambitions of the owning families. "We must watch who the privatised banks are being sold to and whether they are lending directly to their affiliated companies," says Mr Prasetya. "The question is whether Indonesia wants to repeat the mistakes of the past." ■

Holocaust insurance

Bad policies

NEW YORK

More trouble for the body created to settle Holocaust insurance claims

FIVE years ago the International Commission on Holocaust Era Insurance Claims (ICHEIC) was formed to resolve claims on unpaid insurance policies issued in Germany and eastern Europe before the second world war. It has lurched from one problem to another, and its critics' patience is running out. In recent weeks America's Congress has conducted hearings on its slow progress; it has been sued for blocking payment of valid claims; a former executive has been disbarred; and a member of its board has called on its chairman, Lawrence Eagleburger, a former American secretary of state, to resign.

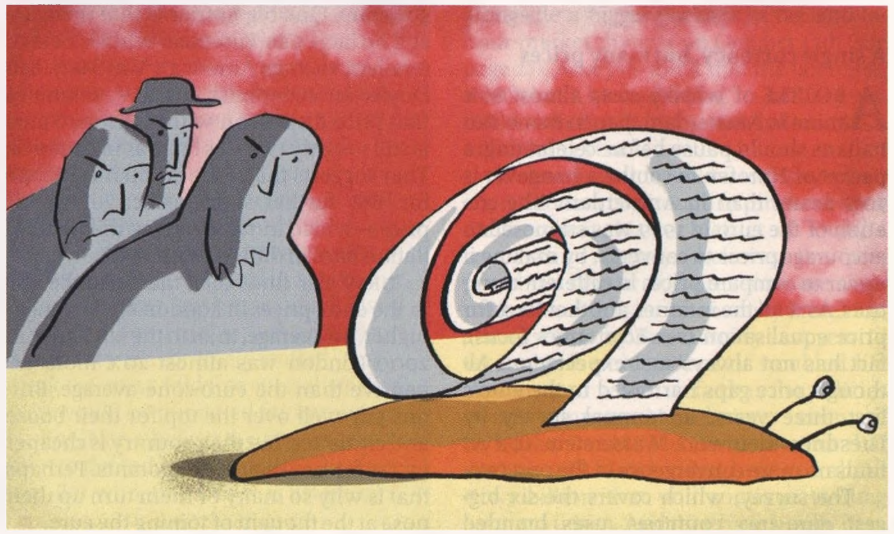
The board member, John Garamendi, California's insurance commissioner, says: "The fundamental fact is that ICHEIC has failed miserably at its task. It has become a sinkhole for administrative costs with very few claims being paid." A presentation by Mr Eagleburger to state insurance commissioners in August, says Mr Garamendi, was "abominable", with poor excuses for ICHEIC's performance and an unwillingness to hear complaints. Last month dozens of members of California's legislature wrote to Mr Eagleburger asserting that he "must be held accountable" for ICHEIC's "failure". Mr Eagleburger, who has long argued that the commission has accomplished much despite formidable obstacles, says that he has no intention of resigning.

Nonetheless, according to data released when Mr Eagleburger testified to Congress last month, by mid-September ICHEIC had spent $56m on expenses since its inception but had offered less than $40m in settlements. Mr Eagleburger told congressmen that his commission did not know what proportion of these offers had been accepted. He also indicated that formidable problems remain in getting information from several countries, including Hungary, Romania and Poland. These delays matter because the potential beneficiaries are quite old and ICHEIC says that claims must be filed by the end of this year.

A week after this testimony, a suit was filed in a Californian court accusing ICHEIC of unfair business practices for helping one of its members, Generali, a big Italian insurer active in pre-war eastern Europe, to evade or minimise claims. The suit claims that ICHEIC has not forced the complete disclosure of pre-war policyholders; allowed Generali to deny or minimise claims where records have disappeared; and, finally, allowed the company to treat the deletion of a name from policyholder lists as evidence of voluntary non-payment. The last, argues the suit, could have been the result of being sent to a camp or of expropriation.

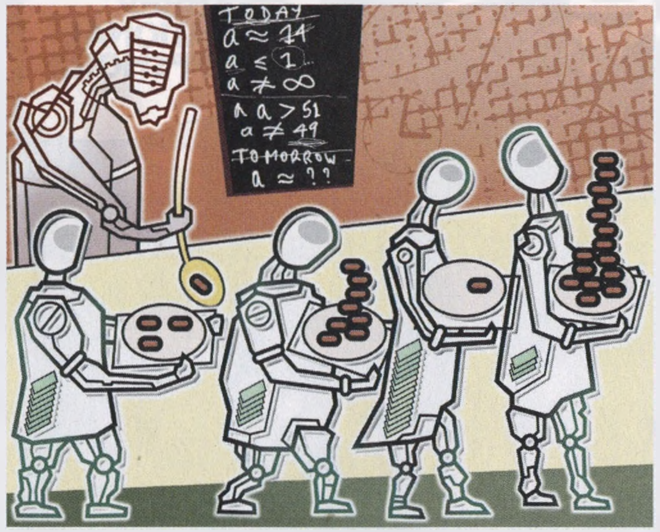
Generali says the suit is baseless and misleading. It says that it has paid substantial claims, provided the names of all likely policyholders and used the elimination of names as a criterion only for years before the rise of concentration camps and pernicious Nazi laws. ICHEIC had no comment.

Meanwhile, not all has been well within ICHEIC itself. In late August, the licence to practise law of Neal Sher, Mr Eagleburger's former chief of staff in the commission's office in Washington, DC, was revoked by the District of Columbia Court of Appeals. In 2002, ICHEIC says, Mr Sher had "informed ICHEIC that he had been involved in certain unauthorised reimbursements of ICHEIC for travel expenses." After an investigation, he resigned. Whatever idealism led to ICHEIC's creation is looking badly frayed. ■



Economics focus | They're watching you

The internet is eroding privacy. It also allows unprecedented price discrimination. Are the two related?



"ON THE internet, nobody knows you're a dog," ran the caption of a cartoon in the *New Yorker* in 1993, showing one grinning pooch at the keyboard and another looking on. In fact, plenty of people know not only that you're a dog, but lots of other things about you, including your favourite brand of dog-food. The internet and associated technologies have had a devastating impact on privacy. The effect, argues Andrew Odlyzko of the University of Minnesota in a new paper*, will be to usher in an unprecedented level of price discrimination.

That is not what most people expect. Because the internet makes it easier to compare prices, the consensus has been that sellers' ability to charge different amounts to different buyers will be eroded. Not so, argues Mr Odlyzko. Thanks to the internet, lots more opportunities for price discrimination are emerging. The most obvious example is airlines. Airline websites now discriminate in extraordinarily refined ways, setting fares that may vary not just by class but by the date of booking and the time of the flight. Some manufacturers are starting to do the same: Dell Computer, Mr Odlyzko notices, charges different prices for the same computer on its web pages, depending on whether the buyer is a state or local government, or a small business. And such discrimination is being extended to other parts of the economy. JSTOR, a non-profit organisation that makes available online back numbers of scholarly journals, analyses the electronic data it thus accumulates to charge libraries and academic institutions different fees, depending on their use and circumstances.

Of course, not all products and services can be priced in such ways. Price discrimination will be undermined if secondary markets develop in which people who can buy at low prices resell to those who would otherwise have to pay higher prices. In the case of airlines, that cannot happen: government security requires that a passenger's name must match the one on the ticket. The result is that the ticket cannot be sold to somebody who might otherwise have to pay more for it. It is harder to discriminate in sophisticated ways among train passengers, say, because there are fewer identity checks to prevent tickets being resold.

Generally speaking, goods are easier to sell on than services. That is why American private universities are extremely good at charging students who can afford high fees and giving rebates to those who can't; and also why drug companies have been so unwilling to set prices for AIDS drugs that discriminate in favour of poor countries. The electronic collection of data, which is the consequence (and cause) of the erosion of privacy online, provides new ways to see who is likely to pay what and to monitor whether secondary markets are developing.

Play fair

Price discrimination, points out Mr Odlyzko, makes economic sense. Customers are willing to pay different amounts for the same product or service, depending on how well off they are and how much they need it. A company will maximise its revenues if it can extract from each customer the maximum amount that person is willing to pay. In primitive street markets, plenty of price discrimination goes on, through a mix of haggling and local knowledge. But in supermarkets and restaurants, the goods generally have a single, published price tag.

And that is how customers prefer it. People generally resent the idea that somebody else should pay less than they have had to do. In the 19th century, railways charged more for some freight routes than others. But customers bitterly resented that. In America, they eventually won government intervention, in the form of the Interstate Commerce Act of 1887—"the first serious federal regulation of private business," Mr Odlyzko observes.

Today's customers will also hate the trend towards price discrimination on and through internet-associated technology, even if some of them enjoy lower prices and are better off as a result. Companies will therefore have to find increasingly clever ways of hiding it. They already discriminate in the non-electronic world: petrol stations, for example, charge more in some parts of town than in others. But two techniques look likely to flourish: loyalty clubs, which extract additional information from members and give them discounts; and "bundling", or the offering of packages of services, partly in order to make it harder for consumers to compare the prices of individual components.

The world of electronic communications is full of examples of bundling, such as the charging arrangements offered by telecoms companies and by internet-service providers. Curiously, individual customers turn out greatly to prefer paying a single fee for, say, unlimited text-messaging or 90 hours of telephone talk-time, rather than paying for each item, one at a time—even though that might be a cheaper option. Many bundling arrangements take the form of site-licensing agreements, under which companies or other organisations pay a single fee for unlimited online access to a database, say, or a software package. A company may feel it has a bargain if it pays a single fee that gives all its employees access—even though it might cost less to charge only the employees who are likely to make use of the package. Mr Odlyzko's explanation is that at least with such "bundles" both individuals and companies can be sure of the total bill. With charging by item, they cannot.

Such devices offer the best way to square the circle. As electronic media elicit more personal information, discrimination will increase. Most consumers are likely to resent it. Only by disguising what is happening can sellers discriminate, yet keep buyers happy. ■

* "Privacy, Economics and Price Discrimination on the Internet". Available online at http://www.dtc.umn.edu/~odlyzko/doc/privacy.economics.pdf

Also in this section

China in space

Ground control to Colonel Yang

Why has China launched a man into space, and what will it do next?

AMID an outpouring of national pride, and some mutterings about cost, China this week achieved its long-standing ambition of launching a man into space and returning him successfully to Earth. The country's government hopes that Yang Liwei, the astronaut aboard *Shenzhou 5*, will inspire a generation of Chinese in much the same way that Yuri Gagarin inspired Russians and Alan Shepard inspired Americans.

Shenzhou 5 was launched without incident on October 15th. It took off from the Jiuquan satellite-launch pad in the Gobi desert, spent 21 hours in space, went round the Earth 14 times and left an unmanned module behind in orbit before landing in the grasslands of Inner Mongolia. In the aftermath of this success the questions are, can the Chinese run a successful manned space programme at less-than-exorbitant cost, when Russia and America failed? And if they can, why should they bother?

Heavenly pursuits

China's desire to put people in space goes back to the 1960s, when the country was developing its intercontinental ballistic missiles and nuclear warheads, then regarded as necessary accoutrements of superpowerdom. Manned space programmes carried a similar caché, so plans were hatched for a Chinese version of these as well. The problem was that China had neither the money nor the technological skill to run such a programme. And Mao Zedong's Cultural Revolution did not help matters, either. Indeed, political upheavals saw space-flight ambitions revived, then cancelled, twice during the 1970s. Only in 1992 did Jiang Zemin, then general secretary of the Communist Party, approve "Project 921" as it was known. This ultimately built the *Shenzhou* series of spacecraft and put them on top of a booster modified from one of China's unmanned Long March satellite-launching rockets.

The *Shenzhou* themselves are based on Russia's *Soyuz* craft but, according to Phillip Clark, a British-based consultant and expert on the Chinese space programme, they are not a straight knock-off. Instead, the Chinese have taken the "philosophy" of *Soyuz* and designed their own innards using home-grown technology. This includes a completely different propulsion system, larger solar panels, and also the orbital module (which is designed to function on its own, as a sort of space station, for six to eight months). The Long March launch vehicle, too, has been upgraded. It has an improved guidance system, better engines and a new computer system. All this is important to the argument that space programmes have technological spin-offs on Earth—though experience in the West suggests that it is often cheaper to acquire such technology directly, rather than in such a roundabout way.

That said, official figures suggest Project 921 has been pretty cheap. It is reported to have cost around \$2 billion. What is not clear, as Mr Clark observes, is whether this figure refers to the whole programme—including the new launch pad and assembly building at Jiuquan—or simply to the cost of the spacecraft and the launch vehicle.

Another reason for Project 921 is military. Like the original manned space efforts of America and Russia, China's has a military component (though America's and Russia's military activities in space are now almost exclusively unmanned). According to Mr Clark, earlier, unmanned *Shenzhou* missions have carried photo-reconnaissance equipment and probes that could spy on military-radar transmissions. *Shenzhou 5* probably left a military experiment on the orbiting module.

In the wake of *Shenzhou 5*'s successful mission, the Chinese say they have grand plans for the future. Space flight is an area of technology that the government feels must be developed and exploited. Some of its plans, such as follow-up piloted missions on further *Shenzhou* craft over the next year, look likely to materialise. In addition, it is probable that the orbiting module will be followed up in the next few years by something that is more recognisably a space station, though this station is unlikely to be manned full-time. Other plans, however, such as a manned mission to the moon, remain firmly in the realms of speculation—though an unmanned moon rover is not out of the question.

China's possession of its own manned space programme will also increase pressure on the Americans to allow China to participate in the allegedly "International" Space Station. This is something the Chinese have long coveted but have not, so far, been allowed to do.

Ultimately, though, *Shenzhou 5* is just a way of showing off. The Chinese, too, re- ▸▸

cognise that the uses of space do not, for the most part, require people to be up there. The country has plans for better satellite communications, broadcasting facilities, weather forecasting and Earth observation missions—all of which will have a dual civilian and military role, but none of which need be manned. It also wants to build its own satellite-driven global-positioning system to rival America's, which everyone now uses. Such a system would, of course, have a military, as well as a civilian function. In September, China became involved in European plans for a new positioning system independent of America's. Nor is pure science forgotten. China also wants to build a space telescope like America's *Hubble*.

And there is one other thing—the sobering fact that, as an international status symbol, manned space flight can also sometimes be something of a liability, especially for a normally secretive country such as China. *Shenzhou 5*'s launch certainly caught the world's attention. But as America and Russia have learned, when something goes wrong and men and women die as a result, that attention is then focused not on a national technological triumph, but on a symbol of humiliating failure. Perhaps the Chinese should quit while they are ahead. ■

Reproductive technology

Not cloning

New embryo research has sparked controversy

CHINA may be late joining the space race, but it is leaping rapidly forward in the technology of reproduction. At the recent annual meeting of the American Society for Reproductive Medicine, in San Antonio, Texas, researchers from Sun Yat-Sen University of Medical Science in Guangzhou, led by Zhuang Guanglun, announced that they had made a woman pregnant with fetuses created using a process called nuclear transfer. Because this process is commonly associated with cloning, an uproar ensued.

The woman in question had tried *in vitro* fertilisation (IVF) twice, unsuccessfully. Dr Zhuang and his colleagues guessed this might reflect a problem in her egg cells. Eggs are rich in mitochondria. These are energy-producing structures which have their own DNA separate from that in the nucleus. Mitochondrial defects cause infertility in a small number of women, and if these defects are passed on to children they can result in lethal diseases.

In the light of all this, Dr Zhuang decided to give his patient an egg transplant. That way, the egg would probably have healthy mitochondria. Egg transplants are currently done with whole donor eggs, nuclear DNA and all, but this time the researchers opted to try a new approach. They took eggs from both the patient and a fertile donor, and injected them with sperm, using a routine technique called ICSI. Both sets of eggs turned into zygotes (the technical name for a fertilised egg). In a new twist, however, the team discarded the nuclei from the fertile woman's zygotes and then transplanted the nuclei from the patient's zygotes. The resulting zygotes contained the patient's nuclear genes (and also those of the father), without her putative egg defects.

All this may sound suspiciously like cloning. But as Alan Trounson, an animal-cloning expert at Monash University in Melbourne, points out, there is a crucial difference. Cloning, at least in the way that Dolly, a famous cloned sheep, was created, involves transferring the nucleus from an adult cell into an egg. This causes all sorts of difficulties, since adult nuclei are set in their ways. Putting them into eggs means they have to be "reprogrammed" to give them the versatility of embryonic nuclei. That turns out to be tough, and is why cloned animals have such problems. In Dr Zhuang's experiment, by contrast, the transplanted nuclei were embryonic. That avoided the problems of reprogramming.

Indeed, the technique Dr Zhuang and his colleagues used has been employed for years to produce healthy offspring in mice, a record that reproductive cloning does not share. Nor is the embryo produced genetically identical to an existing individual (the definition of a clone). Like an embryo produced by more traditional methods, it is the result of a sperm fertilising an egg.

Unfortunately, the Chinese research did not have a happy ending. The technique was actually tried on five women, only one of whom became pregnant. And in the end, all five of the zygotes implanted into her womb died. One, however, lasted for 29 weeks, so the technique has promise. According to James Grifo, an IVF specialist at New York University who advised the Chinese team, the researchers are uncertain exactly why the pregnancy failed. But there is, he says, no evidence to suggest that it was due to the nuclear-transfer process itself, because extensive analysis of the zygotes before implantation showed them to be normal.

Further research to answer this question will be tricky. Experiments such as this are already banned in many countries (Britain among them), and earlier this month the Chinese government moved to tighten its regulations on reproductive experiments in ways that will hamper this work. Nor are things much easier in America. Dr Grifo chose to pursue these studies with collaborators in China, rather on his own, in order to avoid what he feels is the heavy hand of regulation by America's Food and Drug Administration.

Perhaps, if a healthy child had been born, the reaction would have been different. But the brouhaha that followed the announcement, much of it fuelled by false comparisons with cloning, has prompted Dr Grifo to say he is moving out of the field and will instead concentrate his efforts on improving egg-freezing techniques. Sadly for women with mitochondrial defects in their eggs, it looks as though this technology may be stillborn. ■

Neuroscience

Monkey see, monkey do

Monkeys can be made to move robot arms with their thoughts

THE ability to control a mechanical arm with nothing more than a passing thought may seem like a fancy of science fiction. But that is precisely what two monkeys have done in a study conducted by Miguel Nicolelis and his colleagues at Duke University in North Carolina. Moreover, according to Dr Nicolelis, people may be able to do the same within the next five years. That would allow amputees, and those who are paralysed, to be fitted with artificial limbs they could control.

The study is described in a paper in this month's *Public Library of Science: Biology*. Initially, the monkeys used a joystick to manipulate a robotic arm. The arm was actually kept in an adjacent room, as its presence tended to make the monkeys uneasy. Instead, they saw and manipulated a cursor on a computer screen. This cursor's movements matched those of the arm.

But I don't need any artificial limbs

Each monkey was given two sorts of task, and rewarded with fruit juice for performing them. The first type of task, moving the cursor to a specific point on the screen by moving the joystick, resulted in a parallel movement of the arm. The second type, changing the size of the cursor by squeezing the joystick, resulted in the arm's "hand" closing and gripping. Once a monkey could perform these tasks routinely, the researchers disconnected the joystick and switched control of the cursor (and the arm) to a computer that was processing signals from wire electrodes implanted in the monkey's brain. After a short time, the monkey realised that she could let her hand relax—mere thought was enough to manipulate the cursor and earn a sip of juice.

The role of the electrodes was to detect how often particular nerve cells fired electrical jolts known as action potentials. These are the basis of communication in nervous systems. While a monkey was using the joystick, the researchers noted how often different cells fired action potentials when she moved the cursor in a particular way. Computing how to move the robot arm was then a matter of recognising and reacting to these signals once the joystick was de-activated.

Despite the "yuck" factor involved in inserting the electrodes (96 in one monkey; 320 in the other) Dr Nicolelis reckons the procedure is probably safe enough for use in people. He says that his group has worked with monkeys that have had such wires in their heads for more than three years without any sign of adverse effects. What is more, he says that because the brain grows around the wires, the electrical signals actually get clearer with time. Nevertheless, any puncture in the skin is a possible site of infection, so the team is working on a wireless system that connects the electrodes to a small radio transmitter and a microprocessor lodged in a cavity dug out of the skull. Processing the signal inside the head in this way means that the radio can transmit actual instructions on how to move the arm, rather than a wireless version of the action potentials from the nerve cells. Dr Nicolelis hopes to have such a prototype working (on monkeys) within the next few months.

Ground-breaking stuff. But it is also worth noting that the journal in which the results have been published is, itself, a ground-breaking idea. This is its first edition and, unlike most scientific journals, it is available free on the world wide web (www.publiclibraryofscience.org).

The Public Library of Science is a rebellion against the rising cost of scientific journals, and also against the long period that most scientific papers languish on publishers' desks before seeing the printed page. The rebels are a bunch of eminent academics led by Harold Varmus, a former head of America's National Institutes of Health. The cost of publication is defrayed by charging those whose papers are published for the privilege, and the organisers claim that they can publish papers within six weeks of submission, while still putting them through the rigorous process of peer review that reputable journals use to maintain the integrity of their output.

The buzz this idea has generated is certainly palpable—the Public Library's website was overwhelmed by the volume of interest when it was launched. Whether it will be able to persuade enough researchers to pay for a service they have previously had for nothing, and to goad its reviewers into turning manuscripts round rapidly, remains to be seen. ■

Social dominance

Stress city

For wolves, being top dog is costly

"UNEASY lies the head that wears a crown," Shakespeare's Henry IV groaned as his kingdom roiled with the blood lust of rivals plotting beneath him. Yet subsequent research has disagreed. Two studies of British civil servants, for example, suggest that those at the top of the heap are less stressed than those near the bottom. Work on other species, too, indicates that when it comes to pecking orders, the peckees are more stressed than the peckers.

Such observations, though, have either measured stress indirectly (in the case of the civil servants, blood pressure was seen as a good indicator), or were the result of staged conflict in a laboratory, rather than the natural sort in the wild. A study by Jennifer Sands and Scott Creel of Montana State University looked at stress in wild animals directly, by measuring their stress hormones. In a forthcoming issue of *Animal Behaviour*, Dr Sands and Dr Creel suggest the king's complaint is indeed, true—at least if you are a wolf.

When stressed, mammals (wolves included) have higher levels of a hormone known as glucocorticoid. In the wild, this is difficult to measure. Capturing an animal and taking a blood sample from it is a pretty stressful experience, so any result obtained that way would be meaningless. Instead, Dr Sands and Dr Creel turned to their wolves' faeces.

They diligently followed three wolf packs around Yellowstone national park, in the western United States. When the wolves defecated, they brought their pooper-scoopers into action, and collected the result for analysis. Top wolves of both sexes, they discovered, had significantly higher glucocorticoid levels in their faeces than their subordinates did.

One possible explanation for these elevated hormone levels is that they are the result of physical activity needed to maintain dominance. That, though, seems unlikely, since even during ostensibly peaceful periods top wolves had higher levels of glucocorticoid than those lower down.

I wonder if he'll write a play about us

For wolves, therefore, there appear to be subtle, continuous costs associated with maintaining high rank. What these costs are is not yet clear. They could, though, have significant consequences. If prolonged for more than a few days, high levels of stress hormones can suppress the immune system, opening individuals to infection. Top wolves may thus pay for their rank with shorter lives.

That, in turn, could create a positive advantage of being a subordinate. Instead of being a badge of failure, it could be a subtle strategy in its own right if the cost of maintaining rank resulted in a system in which "political" turnover was frequent enough to reward patience.

In a wolfish context, such turnover is likely to be lethal for the former boss, just as it was for Henry IV's predecessor, Richard II, whom Henry had murdered. By contrast modern politicians (and certainly civil servants), at least in democracies, rarely face worse than a comfortable retirement when they are toppled. Perhaps that accounts for the different stress levels then and now.

Also in this section

Art history

Brush with an inky soul

A richly detailed new book about Goya (1746-1828) paints a balanced portrait of an artist much misunderstood

Goya. By Robert Hughes. *Knopf; 429 pages; $40. The Harvill Press; £20*

FRANCISCO GOYA is an artist we identify less with a style or a body of work than with a mood. We shudder at his fascination with cruelty, but cannot resist a second look. However well we know Goya's pictures of the Spanish Bourbons, his happy Madrid picnickers or his saucy "Maja Clothed" and "Maja Naked", it is his brooding satires and nightmares that stick strongest in our minds. Which do we remember more: the ravishing portraits of his friend, the Duchess of Alba, or the bats, witches, rapes, maimings and other persecutions that Goya so patiently etched in his "Caprichos" and "Disasters of War"?

The bias probably says more about us than about him. But why ever Goya's darkness appeals, it can too easily blind writers to the brighter moods of a many-sided (and poorly documented) artist. Robert Hughes keeps his eyes open and shows us Goya in the round. His new life places Goya in his time, tracing artistic and popular sources for his violent imagery, some of which was to make us laugh, not cringe. Mr Hughes portrays Goya in all his originality, but does not make him odder than he was. He leads us through the ups and downs of his career, as well as the ins and outs of the Spanish court. He mentions the Enlightenment ideas of Goya's friends without turning the artist himself into an intellectual.

Goya had a halting start in provincial Saragossa. A painter friend, whose sister he married, won him a job in the capital, designing tapestries. Gradually, noble commissions, wider fame and the post of first royal painter followed. In 1792 an unexplained illness left him deaf. Some writers blame this for the black inwardness in Goya's later work. Mr Hughes flirts with this literal-mindedness but hesitates to accept it. The truth is, we do not know.

Mr Hughes loves Goya, not Goya myths. No, he tells us, the deaf painter in his 50s was not the Duchess of Alba's lover. Nor do the two famous Majas depict her—she was already mortally ill when he began them. No, he was not a radical martyr. In 1803, he sold the plates and 240 sets of the supposedly subversive "Caprichos" to the Spanish crown. An enfeebled Inquisition did use one of its last teeth to investigate him for obscenity but dropped the case as being devoid of merit. During the anti-French resistance, Goya portrayed willy-nilly Napoleon's officials, the victorious Wellington and restored Bourbons. A liberal exile in Bordeaux after 1824, he nevertheless won a pension for his long service to the Spanish court.

Mr Hughes is not out to debunk Goya but to locate his genius. He was not a natural painter. The faults were many: uneven handling, difficulties with the weight of human form, a tarriness in the dark tones. Next to Velazquez's unmistakably carnal "Venus at a Mirror", Goya's Majas look too airy and doll-like to rumple the cushions. Might Mr Hughes have confronted these weaknesses more?

What Goya had in abundance was image-making power. He knew how to focus the emotion in a scene and to reinforce it with detail. A prime example is his patriotic cry of outrage, "The Third of May, 1808" (painted after Napoleon's soldiers were safely gone). Arranging a scene for maximum punch takes a particular dramatic gift. Is it absurd to think, had he lived today, that Goya would have made films?

Among Goya's most famous images are his so-called Black Paintings, now in the Prado. Painted on the walls of the ample farmhouse he bought outside Madrid in 1819, they include some of Goya's strangest imaginings. If any works say Goya, these do. One reason these and other phantasmagorias of his may have disturbed people over the years is that they seem to draw on violence and irrationalism in the Christian art tradition without the soothing promise of redemption. The paintings remain controversial in other ways. Mr Hughes is happy to tell whoever asks that the recent claim by a Spanish writer, Juan José Junquera, that these were not by Goya but by a wastrel son, is "batshit".

On the page, some of Mr Hughes's old flash and fire have gone. For three decades, as the art critic for *Time*, he shared with a wide readership a passionate knowledge of art, gruffly expressed. Four years ago he almost died in a car crash on a home visit to Australia. A lesser, more conceited talent might have written "Goya and Me". In ▸▸

the acknowledgments, Mr Hughes remarks with self-marketing wind that a writer who has not known "extreme pain, fear and despair" cannot know Goya. Can someone who writes so well about imaginative creation really believe that? In the book itself, Mr Hughes keeps himself and his travails out of the frame.

One regret is that with so much to pack in about the "what" of the painted image, the "how" of the palette is often lost. By contrast, in the marvellous chapters on the prints, with their mixture of nervous etching line and sombre, grainy aquatint, Mr Hughes reminds us how exciting his feel for materials can be. Mr Hughes does not claim to answer every puzzle about this enigmatic genius, but his "Goya" is an abundant and consistently rewarding place to start. ■

American agribusiness

Cottonocracy

The King of California: J.G. Boswell and the Making of a Secret American Empire. By Mark Arax and Rick Wartzman. *PublicAffairs; 560 pages; $30*

THE temptation to do a hatchet job on the other king of California must have been enormous. Jim Boswell, the world's largest grower of cotton, and possibly also of wheat, alfalfa and safflower, presents a grossly fat target. He has grown so big harvesting government agricultural subsidies that when Mark Arax and Rick Wartzman, two journalists from the *Los Angeles Times*, drove across Boswell farms in southern California they travelled the distance between Washington, DC, and Philadelphia without ever leaving the family's land.

Fortunately, the authors have opted instead to tell a more complex, ironical story about refugees from the old Confederacy who prospered in California by heeding a family saying: "Don't try to outsmart people. Just out dumb 'em." For like the farmers fleeing the dustbowl during the Great Depression, whom John Steinbeck celebrated in "The Grapes of Wrath", Jim Boswell's forebears were driven westwards by natural catastrophe. For them the blow had come a decade earlier, when they were pushed out of the cotton business in Georgia by the boll weevil. In the early 1920s, this quarter-inch long, hard-shelled, hump-backed insect reduced the annual cotton crop in Greene County, Georgia, where Boswells farmed and traded the stuff, from a peak of 25,000 bales to 300.

The Boswells, descendants of slave-owners, arrived in California posing as southern gentlemen down on their luck. Their pretensions to military distinction, and their mildly racist jokes, helped complete the disguise. In fact, they have all along been as cunning as the sharpest investment banker. In one famous incident, the family was jeered for paying a fancy price for waterlogged land only to flabbergast its mockers by selling off the excess water for irrigation at a price that more than covered the land purchase.

Politicians and bureaucrats endeavouring to help small farmers rather than agribusinesses have also lost round after round to the Boswells. The family, according to this book, has benefited mightily from federal aid to farmers in all its myriad forms: crop-insurance programmes, set asides, payments-in-kind, marketing loans, export subsidies, flood-control benefits and, valuable above all in the Californian cotton fields, where it takes 257 gallons of water to grow a T-shirt, cheap irrigation water.

Their greatest triumphs have come on federal programmes to put a stop to floods and droughts in the area. These schemes have been specifically intended to help small farmers by getting the Army Corps of Engineers to drain Lake Tulare, once the largest body of fresh water west of the Mississippi, and to tame and divert waters from the four rivers that used to run into the lake. Instead, as Mr Arax and Mr Wartzman tell it, lawyers and politicians backed by the big landowners, led by Jim Boswell, have distorted the scheme to make rich farmers even richer.

It seems an open and shut case for the prosecution, but the authors strive instead to be intelligently fair-minded. In the reclamation of the plains of the San Joaquin Valley, draining swamps and controlling rivers required large-scale government investment and it was probably unrealistic ever to expect the benefits to flow to the small man. Land that was flat and endless was easy to work by the massive machines that only the big man could afford.

Cotton blessings

The political idealists' dream of a San Joaquin Valley filled by 160-acre family farms never had a chance of being realised. But those people remaining gainfully employed by the Boswells have been comparatively well off, at least since the 1960s when Jim Boswell "pissed off a lot of the neighbours" by increasing his employees' wages and backing their home loans to frustrate an organisation drive by Cesar Chavez's United Farm Workers union. These farm workers may not be whistling a happy tune. Were it not for the Boswells, though, they would probably not have a job at all. ■

Indian history

A traveller, limping

Nehru: A Political Life. By Judith M. Brown. *Yale University Press; 432 pages; $35 and £25*

OF THE long-serving leaders of the world's two most populous countries in the middle of the last century, there is no doubt whose reputation has fared better. Outside China, Mao Zedong is seen as a monster. But Jawaharlal Nehru, too, has suffered a posthumous battering. His economic policies have been disowned as a socialist false start; his vision of India as a secular, "composite" state of different creeds is under attack from Hindu nationalists; even his erudition and elegant prose are seen as symptoms of elitism.

The Nehru that emerges from Judith Brown's sympathetic and rounded account is an almost tragic figure: a lonely outsider consumed by a noble ambition but constantly thwarted by his and others' shortcomings. He saw himself, as he wrote to his wife from one of his stints in a colonial jail, as "a traveller, limping along in the dark night". Even in Nehru's most famous speech, marking the "tryst with destiny", of India's independence from Britain in 1947, triumph is tempered with an almost pedantic disappointment: "We shall redeem our pledge, not wholly or in full measure, but very substantially." By then partition had begun to tarnish freedom with appalling loss of life. Within months, the assassination of Mahatma Gandhi delivered another terrible blow to the ideals of the independence movement.

Ms Brown's book helps illuminate the puzzling but enduring friendship between Nehru and Gandhi, who were so different in outlook and belief. Though both were British-trained lawyers, Gandhi became a holy man, intent on the moral as well as political regeneration of India. Nehru retained the cosmopolitan outlook of one of the empire's favoured sons. Yet Gandhi wanted Nehru to lead India. He must have seen his faults: the arrogance of an Indian upper-caste Brahmin schooled, at Harrow, in British public-school snobbery; an impatience with the messy business of practical politics; a notoriously short fuse and a refusal to delegate. But those failings were also by-products of a deep integrity that helped ensure that India's political set-up would prove inhospitable to dictators, even him.

By his death, in 1964, much that Nehru had fought for had proved illusory. His grand economic plans were being strangled by the red tape of the "licence-permit raj", yet India could not feed itself. Many cherished reforms, to India's land-ownership structure, to the cruelties of the caste system and the status of women, had in many parts of India been stalled, vitiated or ignored. His non-aligned foreign policy had met with disaster—a humiliating Chinese invasion, almost wilfully unforeseen by Nehru. His party, Congress, had become a vehicle for personal advancement and was already in decline.

He could not foresee that Congress would become the dynastic bequest of his daughter and grandson, or that both would meet violent ends. But he could have predicted that his party would lose power, and that it would do so through the ballot box. Not many of his contemporaries in newly independent poor countries could have done the same. Official China gives Mao seven out of ten; too generous for the Chairman. But Ms Brown's book suggests Nehru deserves a better mark. ■

Security

A tax on the honest

Beyond Fear: Thinking Sensibly About Security in an Uncertain World. By Bruce Schneier. *Copernicus Books; 295 pages; $25. Springer-Verlag; £16.95*

HOW useful are ID checks in large office buildings? Is it safe to use a credit card online? Can face-scanning systems make airports safer? Not very, yes, and no, says Bruce Schneier in "Beyond Fear", the latest of several books on security to have appeared since September 11th 2001.

Mr Schneier, however, comes at these questions from an unusual and informative perspective. He is one of the world's leading experts on computer security, and arguably the most articulate. For years, he has explained the ins and outs of his field by drawing analogies with real-world security. In his new book, he turns this approach on its head, using his analytical skills, honed in the field of computer security, to evaluate the other security measures that are now so common.

Mr Schneier boils down his knowledge into a five-step process for determining whether the benefits of a particular security measure outweigh the drawbacks. He then applies this process to a range of examples, starting with the mundane—whether you should wear a money-belt while on holiday, or install a burglar alarm in your home—and eventually culminating with an analysis of the security measures introduced in the name of fighting terrorism. Security, he observes, is a tax on the honest. With America's security budget estimated at $34 billion this year, he notes, "we're being asked to pay a lot for security, and not just in dollars. I'd like to see us get our money's worth."

Many of the measures introduced and proposed in the past two years fail Mr Schneier's tests. Checking IDs in large office buildings means little, because fake IDs can easily be obtained by under-aged drinkers, let alone by evil-doers. Moreover, the need to check IDs may prevent security guards from noticing other activities, and the whole process may lead to a false sense of security, thus making things worse, not better. National ID cards would cost a lot and provide only minimal benefit. Face-recognition systems in airports are hopeless for spotting suspects, for even if they are 99.9% accurate and clear pictures of suspects are readily available, the scarcity of suspects relative to honest travellers means such systems would be swamped by false alarms. And the Department of Homeland Security's colour-coded threat alerts, in their current form at least, are a waste of time.

But Mr Schneier's book is no anti-authoritarian tract. He is simply calling for sensible security. (He approves of reinforcement of aircraft doors, for example, though not of routinely arming pilots.) Nor, despite its subject matter, is this a gloomy book. It is often surprisingly entertaining, with its many examples of security systems, both good and bad, drawn from the natural world, military history and other fields.

Many examples and the themes they illustrate will be familiar to readers of Mr Schneier's previous computer-security books, who may find this work somewhat repetitive, but they are not its intended audience. Mr Schneier's aim is to demystify security for a general readership and provide the tools to evaluate and challenge badly designed and pointless security measures. With security an increasingly obtrusive part of everyday life, "Beyond Fear" deserves to be widely read. ■

New thrillers

Balkan surprises

What to pack in your suitcase

IMAGINE you are stuck in the departure lounge of a Balkans airport in winter, swirling snow blocking the runway, all flights suspended. Around you there are poor refugees on a last-chance flight to the west, flashily-dressed Serb and Albanian criminal warlords, a lanky basketball team playing an away fixture, testy frontier policemen, and the dozens of political consultants, aid workers, UN apparatchiks, NATO soldiers and freelance spies all belonging to that multinational hotchpotch of good intentions known as the international community.

The air is full of cigarette smoke. The lounge reeks of impatience, damp Kalashnikovs, and boiled poverty. To while away the next eight hours you can choose one of these three novels all set in and around the Balkans. Which of these fictional representations is most accurate?

In Frederick Forsyth's latest, a young

Avenger. By Frederick Forsyth. *Thomas Dunne Books; 352 pages; $26.95. Bantam Press; £17.99*

Empire State. By Henry Porter. *Orion; 402 pages; £12.99*

Gemini. By Mark Burnell. *HarperCollins; 488 pages; £6.99*

American aid-worker, Ricky Colenso, is murdered by a Serb paramilitary gang in Bosnia; his billionaire grandfather enlists the help of a Special Forces Vietnam veteran, Cal Dexter, to bring the killer to justice. Dexter, a freelance bounty-hunter and assassin, travels from the Balkans to Surinam to track down the murderer, along the way assisting, impeding and obfuscating a vast CIA operation, whose target is, surprise, surprise, Osama bin Laden. Mr Forsyth will never write anything nearly as good as his first three novels, but "Avenger" is workmanlike in its writing and plot, a meat-and-two-veg job compared with "The Dogs of War".

The world of post-September 11th is the setting for Henry Porter's third novel, in which his MI6 operative heroine, Isis Herrick, seemingly single-handed, and triumphing where her male colleagues fail, foils a very dastardly Islamic fundamentalist plot to blow up the UN headquarters in New York, and unleash chemical and bomb attacks in Europe. Part of Mr Porter's immaculately paced and refreshingly well-written book is set in Albania and Macedonia, part in New York and London, and much of it in Egypt; all of it involves the shenanigans of the international intelligence and humanitarian community.

Mark Burnell goes one step further: his protagonist is a female bespoke assassin, with several identities, two parallel lives, and a job working for Magenta House, a fictional British intelligence body which specialises in culling the rotten apples of international gangster society. By day Stephanie Patrick is Stephanie Schneider, a journalist, with a considerate, caring chiropractor boyfriend and all the trappings of affluent dinner-party London society. She is also, however, Petra Reuter, assassin par excellence, who shoots, kicks, stabs, punches and explodes her way through a trail of international terrorist targets like some real-life Lara Croft, all the while complicating and threatening to destroy her three fragile and separate identities. Mr Burnell's book centres around a Serb paramilitary unit that terrorises its way across the Balkans, and then lives to fight another day in Hong Kong and Germany. Until Petra arrives.

Through a combination of research, imagination and ambitious plot, Mr Burnell's novel wins the day: his female protagonist is nearly plausible, his Serb paramilitary Milan Savic utterly accurate and convincing, his story adventurous, yet imbued with enough humour and irony—huge Balkan traits somewhat absent from the two other books—to make the world he describes and the real world of the Balkans sometimes very close. If you worry about finding yourself stuck in a snowstorm in that curious part of the world, buy this book before you leave. ■

New cinema

Vengeance is Clint's

While "Kill Bill" is being heavily hyped, the real winner is "Mystic River"

VENGEANCE has been the basis for many great films, but none by Clint Eastwood, with the possible exception of "Pale Rider". Though critics like to describe the characters he has played as avenging angels, even the retired gunfighter hired by a group of frontier prostitutes to vindicate them in the Oscar-winning "Unforgiven" is just a man doing a job.

In his new film, "Mystic River", Mr Eastwood finally offers us a character driven by revenge, but he turns the part over to another actor. Sean Penn plays Jimmy Markum, a store owner in an Irish neighbourhood of Boston whose daughter is viciously murdered. Because Jimmy is both a respected figure in the city and an ex-con with thugs for friends, he has the wherewithal to take the law into his own hands if his childhood friend Sean Devine (Kevin Bacon), a homicide detective, doesn't solve the case fast.

Complicating their situation is a terrible thing that happened when both men were children: their best friend Dave Boyle was kidnapped in front of their eyes by two men who imprisoned him and repeatedly abused him sexually before he escaped four days later. Today, Dave (Tim Robbins) is a mess, emotionally withdrawn, seemingly a bit slow. On the night that Jimmy's daughter is murdered, Dave comes home covered with blood and tells his wife Celeste (Marcia Gay Harden) that he thinks he killed a mugger who attacked him, but he tells everyone who asks about his injuries a different story, and Celeste begins to wonder if the man Jimmy and Sean are looking for could be Dave.

When love is not enough anymore

Brian Helgeland's screenplay, based on a bestselling novel by Dennis Lehane, follows the lives of the three childhood friends during the days after the murder. The police procedural story follows Sean and his partner, Whitey Powers, (Laurence Fishburne) as they try to crack the case before Jimmy explodes, and this part of the film is an effective whodunnit, deftly counterpointed by the investigation being conducted by the neighbourhood's para-police led by the grieving Jimmy. The structure recalls Fritz Lang's "M", where the police and gangsters of Berlin become mirror images of one another as each pursues an insane child murderer. This social dimension raises the novel above the level of a simple mystery, and Mr Helgeland has done a fine job of transposing Mr Lehane's portrait of a working-class community and an unusually poetic way of speaking. "Everyone meets death alone," says Jimmy, remembering that he was in prison when his first wife died. "But I could have helped her with the dying."

Jimmy is as haunted by the past as Dave; particularly by the fact that he could easily have been the one who got into the car, and guilty that he put Dave up to the innocent misdemeanour that led to such an irreversible consequence. "Sometimes I think we all three got into that car," says Sean at one point.

At the beginning of the film we attend a first communion, and at the end, when the mystery is solved, Mr Eastwood offers us another scene of the neighbourhood united in celebration. It is the grimmest vision he has ever painted of an American community, darker even than the filthy mudhole of a town where "Unforgiven" reaches its bloody climax.

Less flashy in style than "Unforgiven", "Mystic River" lingers in the mind because of its characters, played by one of the best casts in recent memory. Mr Penn makes Jimmy as affecting as he is scary, and Laura Linney as his wife, Annabeth, turns out to be even scarier than he is. But the film's real surprises are a metamorphosed Mr Robbins as Dave, the child-man wandering in the labyrinth of his own inner ruins, and Ms Harden as his wife.

In the movie's key scene, a vampire film plays on television as Celeste listens to Dave's ramblings. Almost speechless at each new shocking thing he tells her, she realises that her husband is losing his mind. One thing emerges from the closeness of these two people who have lived together for years without really knowing each other: Celeste's escalating terror that she may be finding all this out too late. ■

Felicitas Corrigan

Felicitas Corrigan, nun and writer, died on October 7th, aged 95

AT THE age of 25 Kathleen Corrigan decided to be a nun. It was a mature age to experience a calling, and for a time, it seems, Miss Corrigan was not at all sure she wanted to be called. She was staying at Stanbrook Abbey, a rather grim-looking pile in the English Midlands that houses a Benedictine convent. She was studying Gregorian chant, for which the abbey was noted. She spent three days in a cell, decided that was enough and on her departure returned to the earthly life of sin by buying a packet of cigarettes and the *News of the World*, then as now the most scurrilous of Britain's Sunday papers.

At least that was her story, possibly exaggerated: she had a sense of humour. What was uncontested was that the abbess of the convent, Laurentia McLachlan, eventually persuaded her to join the community, and she took the name of Felicitas Corrigan, with the title of "dame", the female equivalent of "dom" for a monk. The abbess had a gift for friendship, Dame Felicitas recalled, and perhaps that helped to change her mind and accept the privations of convent life.

Laurentia was no ordinary abbess. Although the convent was "enclosed" and a nun had to speak to a visitor through a double iron-grille, the abbess had formed friendships with many people in the outside world, among them George Bernard Shaw, who described her as "a woman without frontiers". In a letter the dramatist wrote, "Though you are an enclosed nun you do not have an enclosed mind." That also exactly describes Dame Felicitas. After her mentor Laurentia died in 1955, she continued the practice of offering the values of the convent to the outside world. Perhaps the best known of her friends were Siegfried Sassoon, some of whose poems she had printed on the press at the abbey, Rumer Godden, whose novel "In This House of Brede" is set in a convent like Stanbrook's, and Alec Guinness. While writing his recent biography about the actor, Piers Paul Read had access to 832 letters in the abbey archives written by Guinness to Dame Felicitas about his problems.

Family life

Her father was Irish, but like many from poverty-stricken Ireland at that time he found work in England. He got a job as a taxi driver in Liverpool. Her parents had eight children to bring up. But they were careful with money and Kathleen was clever. She said that she had thought about being a nun as a child, although this used to be a common fancy of children steeped in Catholicism. She took her mother's advice and decided that, whatever lay ahead in her life, she should first get an education. She gained a degree in English at Liverpool University, a remarkable achievement: this was a time when women in Britain still did not have the vote. She trained as a teacher. She had a talent as an organist and won a scholarship to study the instrument. So music was the discipline that first brought her to Stanbrook Abbey.

She wrote 15 books, among them affectionate accounts of Laurentia McLachlan, and most of them providing an insight into a normally hidden world. She wrote a book about saints and their more human characteristics, entertainingly picking out what journalists call "the busy bits". In another book she describes a novice's reception into the centuries-old order of St Benedict. The novice exchanged her "silks and ornaments" for a plain tunic. Then "the great enclosure door swung open in answer to the novice's importunate knocking, and presently closed slowly again behind her, shutting out the world and its vanities for ever."

Not everyone who came to the abbey accepted its faith. Brother Bernard, as the abbey called him, came close. The author of "St Joan" was fascinated by the power of prayer. Tired of being a celebrity, Shaw said he envied the "freedom" behind the iron bars. But in the end he kept his distance. Sassoon became a Catholic at the age of 70, seemingly finding peace after being haunted by memories of the first world war. Dame Felicitas saw him as "a 20th-century portent", a summing up of "the war-tortured, spiritually bewildered, forsaken and blindly seeking men of our times". The dame could write.

Although the Benedictines are not a missionary order, for Dame Felicitas such encounters were special experiences in a mostly routine life, regulated, as she put it, by bells. "The daily life of a strictly enclosed nun, however romantic to the imagination of a casual observer, offers little that is exciting or dramatic: six hours a day in her stall at choir, two or more hours of manual work in field or house, reading, study, the companionship of the same familiar circle. It is a life spent in hammering out within the silent factory of the cloister benefits that are imponderable but priceless." After reforms by the Vatican, life at the abbey changed marginally. The iron grilles came down. A visitor these days can talk to a nun in the comfort of a parlour.

Dame Felicitas, the nun who could tolerate the *News of the World*, could also rebel against the discipline of goodness, of, as she put it, being "ordered by another from morning to night". She was tempted by the idea of having tea made in a china pot and served with buttered toast. But there was no time for that at the abbey. That indulgence, she said, would have to be put off until she got to heaven. ■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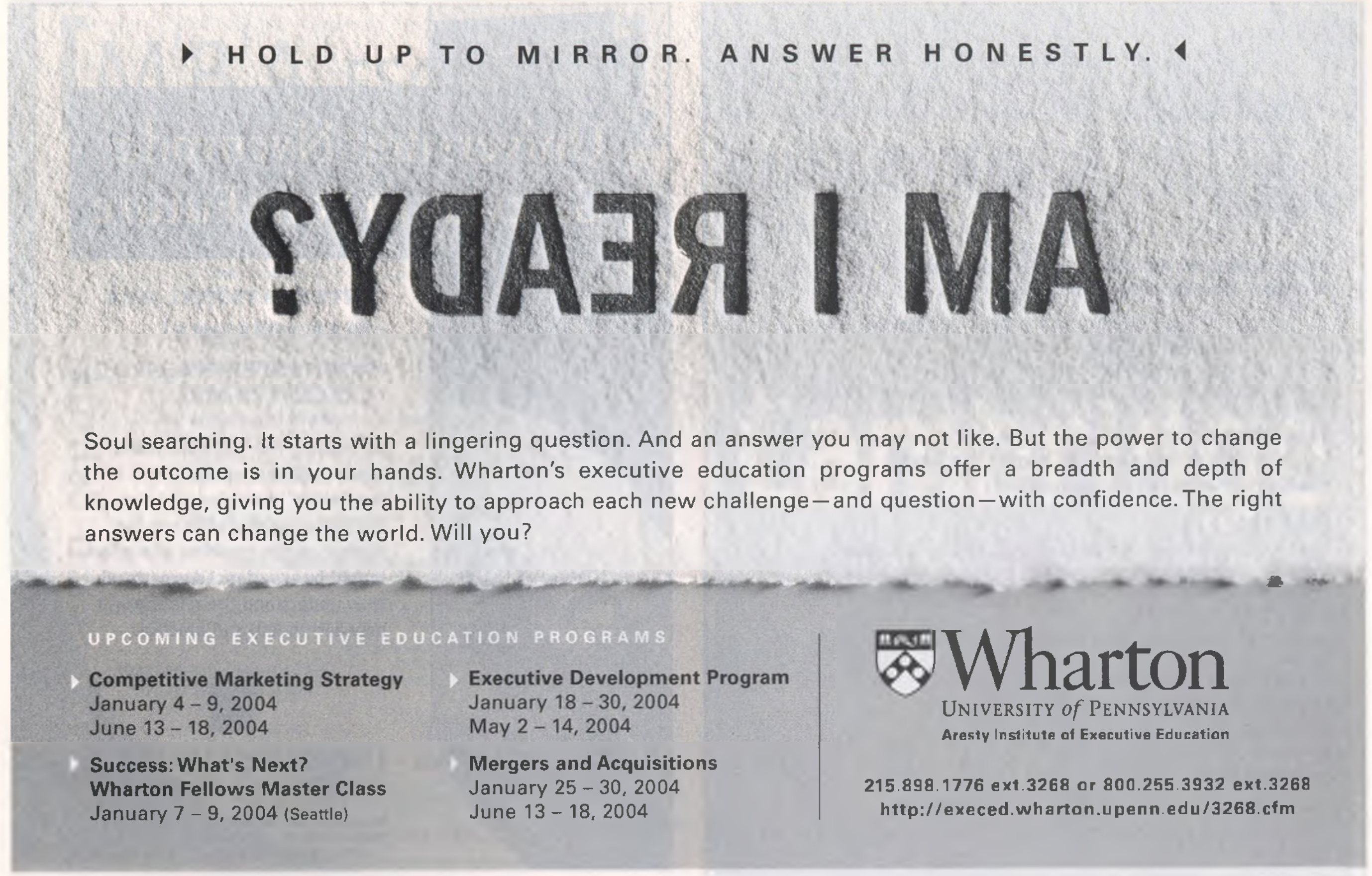
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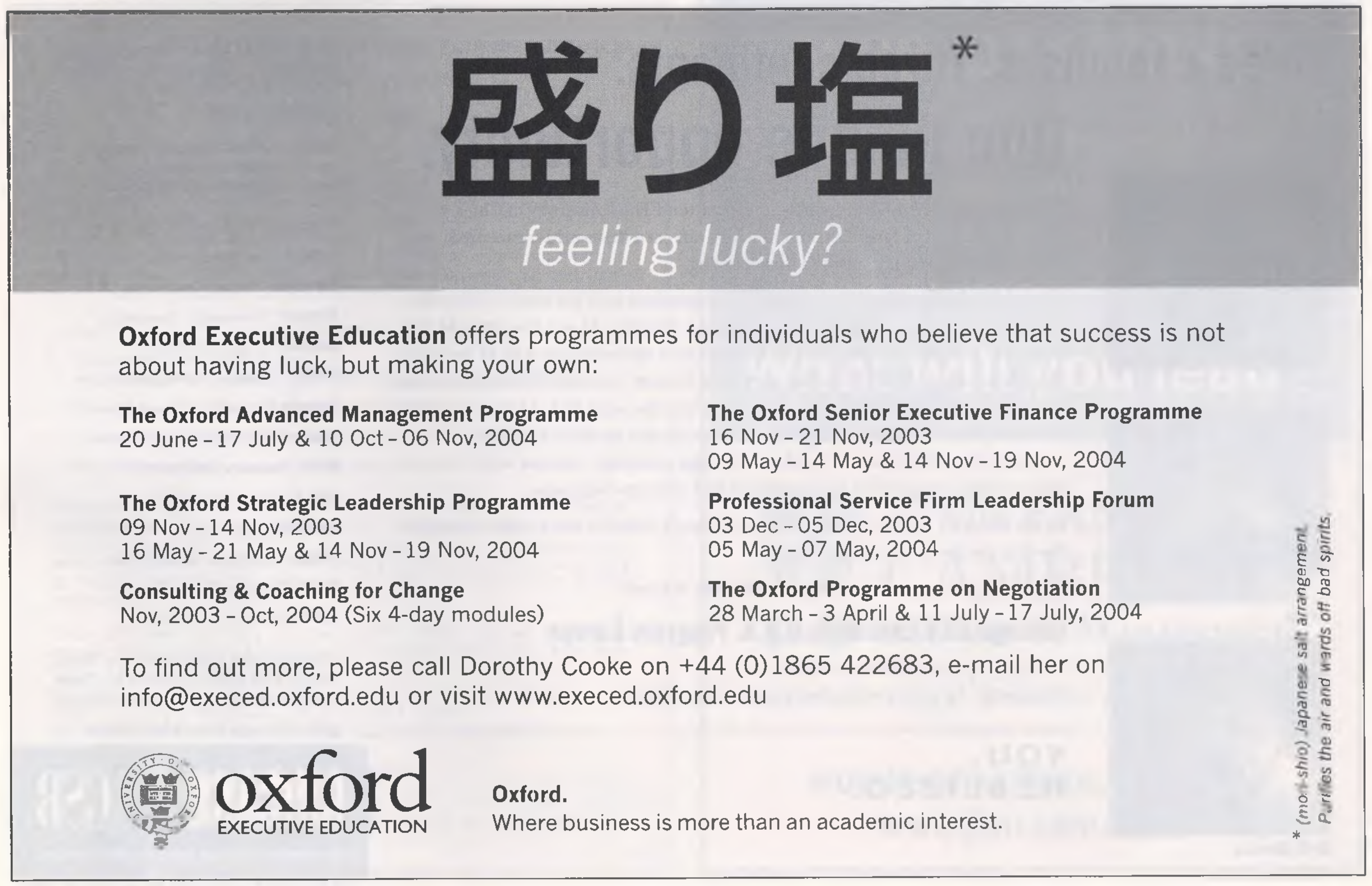
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Since 1991, over 70 Daiwa Scholars from a wide range of backgrounds and skills – including science, engineering, architecture, law, music, theatre, medicine and art – have completed the programme.

Information: **www.dajf.org.uk/scholarships** Closing date: **11 December 2003**

The Daiwa Anglo-Japanese Foundation
Daiwa Foundation Japan House, 13/14 Cornwall Terrace, London NW1 4QP
(Charity No. 299955)

Appointments

JOB HUNTING INTERNATIONALLY?

Executive $75K-500K+. Career searching into, within or out of Asia / Europe / M.East / U.S.? Contact for **Free** Info & Critique

www.careerpath.co.uk

	Fax:	Email:
USA/Canada	+1 202 4781698	cpamerica@careerpath.co.uk
Europe	+44 20 75048280	cpeurope@careerpath.co.uk
Asia / M. East / Aus	+66 2 6308120	cpasia@bkk.loxinfo.co.th

ECONOMIST

As one of the UK's foremost representative organisations, the National Farmers' Union promotes the interests of farmers, growers and the rural economy throughout England and Wales. We currently have the following vacancy within our Economics Department:

Starting salary £30,119 pa plus benefits

The role will involve providing both micro and macroeconomic analysis of issues affecting the agricultural industry, including reform of the CAP, WTO negotiations, expansion of the EU and other international and domestic policy developments. The ideal applicant will have at least one degree in Economics, be computer literate, confident and a team worker. A post-graduate degree in the social sciences, particularly International Affairs would be an advantage. Experience in public policy analysis and excellent communication and public presentation skills would also be an advantage.

The post will be based in central London initially, relocating to Warwickshire in 2005.

For an application form and job description please ring our 24-hour recruitment line on 020 7331 7436 or e-mail jane.joyce@nfu.org.uk. The closing date for receipt of completed application forms is Friday 31 October 2003.

NFU

The European Police Office is currently seeking candidates (m/f) for the post of

EUROPOL

Director

A full description of the post, the required qualifications, an application form and instructions on how to apply can be found on the following website: **www.europol.eu.int**

Closing date for applications: December 11th, 2003.

As the European union law-enforcement organisation, the European Police Office (Europol) supports the Member States in preventing and combating terrorism, unlawful drug trafficking and other forms of serious International organised crime.

The mission of Europol is to make a significant contribution to law-enforcement actions against organised crime in the European Union.

MsM
MAASTRICHT SCHOOL OF MANAGEMENT

More information on MsM can be found on our Website www.msm.nl

The Maastricht School of Management (MsM) is an international business school providing state-of-the-art business education. MsM is a school of global reach and has an extensive international academic and corporate network.

Located in Maastricht, the capital of the most southern province of The Netherlands, MsM has more than 50 years experience in management education and consultancy across the globe. MsM offers its faculty an exceptional quality of life as well as a unique management education experience in a multi-cultural environment.

To meet the growing demand, we are looking for

ASSISTANT/ASSOCIATE/FULL PROFESSORS (m/f)
(full-time and part-time)

in the following fields

International Marketing/Marketing of Services
Strategic Management
Accounting and Finance
Organizational Behaviour/Cross Cultural Management
Entrepreneurship

Candidates must be market oriented and innovative. They must hold a PhD/DBA in the relevant area, have an innovative teaching ability, an excellent track record in research and publications, consultancy experience, an excellent proficiency of the English language and be willing to travel on a regular basis. Duties include teaching, research and consultancy as well as the supervision of DBA/PhD candidates.

For more information on these positions please contact:
Prof. Dr. R.S.J. Tuninga, Director-Dean, Tuninga@msm.nl or
Prof. Dr. R. Samson, Associate Dean Masters Programs, Samson@msm.nl.

Applications can be mailed to
Mrs. Marion A.G. Rutten-Klerckx, MA (Law)
Director HRM and Legal Counsel
E-mail: Personnel@msm.nl

Maastricht School of Management (MSM)
P.O. Box 1203, 6201 BE Maastricht
The Netherlands
Tel.: + 31 43 3870808

Principal Financial Specialist

Progress Energy is seeking a Principal Financial Specialist to conduct studies and analyses of company's financial matters, using corporate finance approaches, statistical methods, derivative pricing, risk analytics and computer applications based. The candidate will develop and apply methodology, and assist management in evaluation of investment opportunities, asset acquisitions and divestitures and capital allocation consistent with strategy. The position is based in Raleigh, North Carolina and requires an MBA in Business, Finance or Accounting plus three years in the position offered or three years as a Financial Accountant, Banker or Auditor (experience may be gained pre or post MBA). This experience must include experience preparing complex quantitative financial models.

IMPORTANT: For immediate consideration, please contact us at corprecruiting@pgnmail.com and include PGN14526-001 in your email. It is not necessary to forward your resume in this message. We will then forward a fast link to apply for this job. EOE.

Progress Energy **www.progress-energy.com**

VACANCY ANNOUNCEMENT

The Cameroon Mountains Conservation Foundation (CAMCOF), is a Cameroonian locally based civil society grant making institution whose main purpose is to ensure long-term biodiversity conservation in the Cameroon Mountains Range. CAMCOF is non-profit making and apolitical, and has been recognized by the Government of Cameroon as a public utility.

CAMCOF works within the framework of regional and international conventions and treaties on Biodiversity Conservation and poverty alleviation. Drawing from lessons learned from the implementation of project-driven conservation initiatives within Cameroon Mountains, CAMCOF has set out to disseminate, advocate and improve on forest and wildlife policies and regulations, and to compliment efforts of the Government of Cameroon in implementation of Component Three (03) of its Forest and Environment Sector Programme.

CAMCOF advertises for the position of a Foundation Director. This is a new post in a new organization. The early months are likely to be spent largely in establishing operating systems, building staff capacity and publicizing the work of the Foundation. Grant giving operations will be built up gradually, over a period of time.

The Foundation Director is the executive head of the Cameroon Mountains conservation Foundation. S/he will work closely with the Board of Trustees, Donors, the Government of Cameroon and local populations

Functional Relationships

The Foundation Director shall:

- Develop and implement the strategic plan of the Foundation.
- Supervise the running of the Foundation.
- Instruct and maintain regular contact with all Staff of the Foundation as well as Assert manager(s).
- Report to the Board of Trustees and Donors on the achievements of the purpose, outputs and impacts of the Foundation.
- Maintain regular contact with the Board of Trustees, Donors, Regional Advisory Committees and the Government of Cameroon.
- Develop and implement a fundraising strategy for the Foundation.

Qualifications

The Foundation Director shall be:

- Educated to post-graduate level in an appropriate discipline in a field such as development studies or conservation management. A strong social science background is preferred;
- A minimum of ten (10) years of Senior management experience in developing countries, preferably in Africa, related to Trust Fund Management, grant-giving operations or small scale finance and credit operations.
- Proven record of good financial management;
- Proven experience of working with donors and government at high levels;
- Fluency in written and spoken English and French.

Availability of Candidate and Duration of Position

This is a fixed term post, of two years' duration. It is proposed to indigenise the post after this period. The post shall be filled by 1st December 2003.

Salary and Benefits

Depending on experience and qualification, the Foundation Director will be placed on an annual gross income ranging from FCFA 30,000,000 to 36,000,000 (GBP 33,333 to 40,000) Other benefits will include allowances for housing, insurance, healthcare and travel.

Duty Station: Limbe, Cameroon

Applicants are being invited to send applications with detailed C.V.s to the address below, no later than the 31st October 2003.

The Chairperson
Cameroon Mountains Conservation Foundation (CAMCOF)
P.O. Box 779, Limbe
SWP, Cameroon
Email: camcof@yahoo.co.uk

N/b The salary of the applicant will be covered by a DFID UK grant to the Cameroon Mountains Conservation Foundation (CAMCOF).

EXECUTIVE DIRECTOR
SOUTH ASIA WOMEN'S FUND

Application Deadline: November 4th 2003

The South Asia Women's Fund is a newly created fund with start-up support from the Ford Foundation's New Delhi office. Based in Colombo, Sri Lanka, it aims to support women's rights and development in South Asia through raising funds and awarding grants to non-governmental organizations in the region. The fund is governed by a seven member regional board of activists, academics, business women, and civil society representatives.

The Executive Director would help initiate the activities of the fund, work with the board to shape grant priorities, raise funds from a range of regional and international sources, hire and supervise staff, and coordinate administrative and programmatic activities.

The ideal candidate would have significant experience in women's rights and development work in South Asia, with five to seven years' management experience; a well grounded knowledge of gender and development from a Southern perspective and an ability to operationalise this in a grant-making institution; a track record in fundraising; advocacy; the ability to work with a wide range of institutions (government, donors, grassroots groups); and experience in skilfully managing staff and organisation budgets. Grant-making experience preferred.

Send cv or resume with writing sample (5 pages), salary history, and list of three references to sawf@vsnl.net by November 4th, 2003.

The **Aga Khan Foundation (AKF)** is a private international development agency committed to supporting disadvantaged communities irrespective of gender, ethnicity or religion. Working in partnership with local organisations and communities, the Foundation promotes creative and effective solutions for social development in Central Asia, South Asia and East Africa. The Aga Khan Foundation is part of the Aga Khan Development Network (AKDN). Find out more at www.akdn.org

Executive Officer/Assistant, Aga Khan Foundation (UK)

Initial salary up to £30,000 including a highly competitive benefits package, depending on experience and competencies.

The incumbent, Masters-level educated and with a minimum of 6 years professional experience in a blue-chip corporate or complex organization environment, will work directly with the CEO to support, maintain and raise the profile of AKDN's work in the donor environments in which it operates. London-based, the job may also involve some European travel especially in Brussels and the donor capitals.

The role includes:

- Providing senior management and research support to the CEO in the conduct of external relations and in fostering relationships with governments, international organisations, research, policy, private sector and academic institutions and AKDN agencies;
- Driving an enhanced business and stakeholder mindset and practices;
- Overseeing daily operations of the unit including human resources personnel management;
- Acting as a knowledge bank and filter, synthesising information, prioritising and directing data, articles and research materials and conducting analysis thereof;
- Organising annual strategic reviews.

The position requires a strongly driven, committed and flexible individual with proven competencies particularly in strategic management support and with an analytical and results-oriented background. Proven ability to adapt to a very complex multicultural environment is essential. Also necessary are strong communications skills and proven experience to operate within a diverse European context including fluency in languages, particularly French and German.

Applications, including CV (max 3 pages) and a supporting cover letter drawing attention to the relevant competencies and experience of the applicant, should be sent to louise.james@akf.org.uk or by mail to **AKF (UK), 3 Cromwell Gardens, London SW7 2HB**. Please quote reference **AKFEXE**.

Deadline for submission C.O.B. **27 Oct 2003**. Preferred start date **1 Nov 2003.** *Note:* Only short-listed applicants and those meeting EU residency requirements will be contacted.

SCHOOL OF ECONOMICS STOCKHOLM

The Stockholm School of Economics (SSE)

is accepting applications for

The Bo Rydin and SCA Professorship in Business Administration, with a specific focus on Strategic Management

The application should be received at the Stockholm School of Economics no later than *December 15, 2003.*

For further information concerning the chair, see **www.sse.edu**,

or contact Professor Guje Sevón on +46 (0)8 736 9000 (*switchboard*) or +46 (0)8 736 9572 (*direct*).

Consolidation of Municipal Transformation Programme South Africa

The Consolidation of Municipal Transformation Programme (CMTP) is a five year programme of support by the Department for International Development (DFID) for accountable local government and pro-poor service delivery in South Africa. The main Programme Partners are: the Department of Provincial and Local Government (DPLG), the South African Local Government Association (SALGA) and the National Treasury.

The programme consists of four outputs: accountable and ethical governance, integrated municipal service delivery, improved municipal financial management, and more effective intergovernmental relations. Assistance will be provided at a municipal, provincial (Eastern Cape, KwaZulu Natal and Limpopo Provinces) and national level.

Deloitte & Touche South Africa has been contracted as the Managing Consultant for the Programme and invites interested applications for the following positions:

Programme Management Coordinator

The Programme Management Coordinator will be based in DPLG in Pretoria, South Africa and will be accountable through the Managing Consultant to the CMTP Policy Committee. The responsibilities of the position include the overall coordination of the programme, workplanning and reporting, knowledge management and lesson learning, capacity building, donor coordination, conflict resolution, monitoring and evaluation.

The position is for a five-year, full time period, commencing in February 2004. It requires experience in design, management and implementation of programmes; experience with local government transformation; the ability to lead multi-cultural and multi-disciplinary teams; excellent communication and facilitation skills; and a tertiary qualification in a management, public administration or related field.

Integrated Service Facilitators

Up to twelve integrated service facilitators will be based in selected municipalities in the three provinces and will report to the Municipal Manager. They will assist in policy formulation related to service delivery; the integration of infrastructure and community service provision; planning and budgeting; and coordination with CMTP-funded and other donor-funded inputs at the municipal level.

The positions are for up to three and a half years full-time commencing in February 2004. They require a strong development orientation, leadership and inter-personal skills. Candidates must be able to interact and negotiate on all levels of management and with communities, the private sector, labour unions, and other levels of government. They must have good strategic planning, analytical ability and report writing skills and understand the municipal planning and budgeting system. A tertiary degree or diploma in development, town and regional planning, civil engineering, public management, policy analysis or similar relevant qualification may be suitable for this type of position.

Interested applicants can obtain further information from:

Pearl Perman
Deloitte & Touche South Africa
Tel: +27 12 482 0297
Fax: +27 12 482 0194
Email: pperman@deloitte.co.za

Applications should be submitted in the required format by **7 November 2003** to the above address.

ADAS INTERNATIONAL OPPORTUNITIES

ADAS International has built an international reputation as a leading provider of programme management for donor agencies and governments in developing countries. We work with regional and national governments, building capacity to improve performance and the delivery of services, guiding and supporting them in their drive to become more accountable. Our services encompass economic and social regeneration, natural resource management, enterprise development and governance with a focus on improving the livelihoods of the poor.

ADAS has two exciting and challenging, full time vacancies in it's International Team.

1) Senior International Business Manager

This post requires an experienced person with an established track record in winning and managing international contracts.

2) International Business Consultant

This post is a rare opportunity for a recently qualified graduate/postgraduate seeking to build a career in International Consultancy.

For details of these and other vacancies and how to apply, please visit:

www.adas.co.uk
www.economist.com

ADAS

GLOBALINSIGHT

Prestigious Economic Consultancy founded in 1963 by Nobel Prize Winner

Senior Electricity Analyst and Energy Analyst - London

Competitive packages offered

Global Insight is a dynamic organisation with over 400 staff operating predominantly in North America and Europe. Formerly DRI-WEFA, the consultancy was created from merging DRI and WEFA, the two leading international economic and financial information companies. **Global Insight's** European Energy practice consults with most major energy companies and governments. It has an outstanding reputation for a strong quantitative orientation, focused on its multi-fuel capability, analysis and forecasts of prices along the full energy chain, and analysis of industry structure and regulatory issues.

Our London based team of consultants offers a unique pan-European perspective on the utility markets and provides an outstanding opportunity to develop a personal reputation as an expert in this dynamic market sector. We now seek to fill the above-mentioned roles, which will be based in our Wimbledon office:

The roles include the following elements, while the Senior Analyst will also take a leading role in Business Development initiatives;

- Research, analysis and preparation of the forecasts and accompanying text for our regular energy reports.
- Responsibility for one or more areas of our modelling and forecasting work
- Contributing to multi –client or client specific studies and consultancy

The successful candidates will be energetic and creative with very strong modelling skills. They will also have good interpersonal, writing and presentation skills. The Senior Analyst will have experience in European power markets with an emphasis on power generation, load forecasting, pricing, and market structures. Three or more years industry and consulting experience is highly desirable, although experience in government and academia is also relevant. The Energy Analyst would ideally also have some practical energy experience, but should at the very least demonstrate a strong commitment to the energy field. A degree 2-i or higher (MSc/PhD preferred) in a quantitative subject from a leading university is required for both positions.

Interested candidates meeting the above criteria should e-mail a CV and short letter specifying which position they are applying for and explaining their interest in the role(s) to;

london.recruitment@globalinsight.com by 24th October 2003.

The International Institute for Environment and Development (IIED) is a leader in the field of sustainable development. With some 70 staff based in London and associates and partners around the world, IIED has been in the forefront of policy making in development for over 30 years.

iied

Two Economist vacancies at IIED

Senior Research Associate

£31,009 - £38,726

or Research Associate

£25,451 - £31,785

Environmental Economics Programme

London

We are looking for an experienced Economist, either at Senior Research Associate Level or at Research Associate Level, depending on experience.

The role will involve developing and undertaking policy - oriented research projects on the economics of environment and development, focusing on the links between trade, natural resources and poverty. In addition, you will assist the programme in developing other research and capacity-strengthening activities on topics related to environmental and developmental policy and practice in both developing and industrialised countries.

Senior Research Associate

Forestry and Land Use Programme

£31,009 - £38,726

Edinburgh or London

This new position involves the co-ordination of a three-year initiative to shape markets for watershed services, promote good watershed management and improve the lives of poor people. In addition, you will develop and pursue a programme of research and capacity strengthening, involving economic issues in improving forestry and land use.

When requesting further details please state which job you are interested in.

Application forms and detailed job descriptions can be downloaded from www.iied.org or can be obtained by writing to the Human Resources Department, 3 Endsleigh Street, London WC1H ODD. Alternatively, email: hr@iied.org

Closing date for all applications: Friday 14th November 2003.

Interviews: w/c 1st December 2003.

CVs on their own will not be accepted.

The Economist

TO ADVERTISE WITHIN THE CLASSIFIED SECTION, CONTACT:

Nathalie Henault,	Mona Von Rahden,
Paris	Frankfurt
Tel: (331) 5393 6604	Tel: (4969) 975 87212
Fax: (331) 5393 6605	Fax: (4969) 975 87221
Email:	Email:
nathaliehenault@economist.com	monavonrahden@economist.com

AIDS FONDS

international HIV/AIDS Alliance

Supporting Community Action on AIDS in Developing Countries

European Policy Advisor (Ref: PTS/154)

Stop Aids Alliance

48,678 - 56,678 Euros

Aids Fonds NL and the International HIV/AIDS Alliance UK, in partnership as the Stop AIDS Alliance, are recruiting for a senior European Policy Advisor to co-ordinate their European policy and advocacy work.

Based in Brussels, you will have experience of working with the three EU Institutions, a thorough knowledge of EU policy processes and a proven track record in policy and advocacy work. Experience of working on HIV/AIDS issues as they relate to developing countries is essential. The successful candidate will be fluent in spoken and written English with excellent networking and communication skills.

Closing date: Noon, 24 October 2003 **Interviews:** 12 November 2003

Qualified people living with HIV/AIDS are particularly encouraged to apply.

For further details and how to apply see our 'What's New!' section on the Alliance website www.aidsalliance.org

Tenders

Kombinat Aluminijuma Podgorica (KAP) Montenegro

Announces

INTERNATIONAL TENDER & CALLS FOR BIDS TO SUPPLY THE FOLLOWING MATERIALS IN 2004 (approximate annual quantities)

1. **Heavy Fuel Oil "3,5" – 91,000 MT**
2. **Caustic Soda – 30,000 DMT**
3. **Sodium Sulphide – 2,500 MT**
4. **Aluminium Fluoride – 3,000 MT**
5. **Cathode Sets - 80**

All detailed and technical information related to this tender can be obtained from our web site **www.kapcg.com**
tel: +381 81 644317

Deadline for bid submissions is 20 days from date of this tender publication

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Vice President	Managing Principal
(312) 245-4970	(312) 245-4920
mike.hoadley@staubach.com	rob.schmidt@staubach.com

Offered By:

STAUBACH

on behalf of the U.S. Department of Veterans Affairs

Tenders

CALL FOR TENDERS

HUNGEXPO Co. Ltd., a Hungarian joint-stock company engaged in exhibitions and publicity, seeks a professional investor to develop its wholly-owned Budapest Fair Centre who is capable of

- putting forward additional capital sufficient to provide financial conditions of necessary developments,
- undertaking to maintain and develop existing exhibitions,
- significantly expanding HUNGEXPO's portfolio of exhibitions and events through its own existing wide-ranging international exhibition industry contacts and thus upgrading utilisation of the company's property assets and improving earning potential,
- managing, on the basis of its industry experience, operational expertise and position in the world market, technical operations of the exhibitions and events and significantly reducing the company's over heads-to-sales ratio.

The present Call for Tenders serves the objective to facilitate to select a professional investor from the largest possible pool of candidates with whom HUNGEXPO Co. Ltd. can turn its business concept into reality. The detailed terms of the Tender Invitation can be found in the folder published simultaneously with the present Call for Tenders, the Hungarian- and English-language Information Memoranda, presenting the state of the current company and the company to be established, as well as the draft of the lease contract, all of which documents can be jointly purchased from Monday, 20 October 2003 for HUF 300,000 (exclusive of VAT) through the Secretariat of the General Manager, HUNGEXPO Co. Ltd. (Bldg. 1, Rm. 203, 1101 Budapest, Albertirsai út 10. Tel.: +36.1.263.6378 or +36.1.263.6880) on condition that a statement of confidentiality is signed by the purchaser. The tender documents must be purchased directly from the Invitor (HUNGEXPO) by the applicant (or by a member in the case of a consortium) either in person or through an authorized representative, upon which the Invitor shall certify the purchase by issuing a receipt. The authorized representative must demonstrate his/her right of representation, or its scope and extent, by presenting either an official public document or a private deed of probative value to this effect. The document of authorization must contain a statement that the authorized representative has the right to sign, on behalf of the applicant, the statement of confidentiality, which will thus be binding on the applicant. The Invitor will verify whether such authorization exists. When submitting his/her tender bid, the applicant must attach a copy of the receipt certifying purchase of the detailed tender documentation. Any company registered in Hungary or abroad may submit a tender provided it can certify that it meets the eligibility requirements below:

- It possesses capital investment power to carry out developments of no less than HUF 2.5 billion as described in the folder in order to meet the development objectives of HUNGEXPO Co. Ltd.
- It has a proven track record of competence and references in organising exhibitions and events as well as managing exhibition and event facilities and infrastructure.
- It agrees to adhere to the strategic objectives for developing HUNGEXPO Co. Ltd. specified in the tender documents.
- It undertakes to purchase shares, by means of a capital increase, to reach 51 per cent of shares in the exhibitions, fairs and events management company of which HUNGEXPO Co. Ltd. has a 98 per cent holding of shares. It also agrees to the financing and facility management terms put forward in the annex to the tender documents.

A consortium of companies may also submit a tender provided it declares in a statement that consortium members will be held jointly and severally liable. Furthermore, the members of the consortium will, in case of winning the tender, undertake to form a company in which each member's ownership will be proportionate to its participation in the consortium. The consortium must nominate an authorised representative who is entitled to make legal statements on behalf of the consortium. At least one member of the consortium must satisfy the requirements for capitalisation and at least one member must meet the professional requirements. Prior to the submission of a binding tender, interested parties must forward their Letters of Intent to be received by 4.00 p.m., 17 November 2003. Letters of Intent will be considered only from those who have purchased the detailed tender documents contained in the tender invitation folder. Written Letters of Intent must reach the Secretariat of the General Manager, HUNGEXPO Co. Ltd. by post or personal dispatch or courier by the deadline indicated above. Tenders must be submitted in person or through an authorized representative to the Secretariat of the General Manager, HUNGEXPO Co. Ltd., between 2.00 and 4.00 p.m., 15 January 2004. A notary document will be made on the receipt and opening of all tenders.

The modality and conditions for submitting tenders are outlined in the tender invitation folder.

HUNGEXPO

DWP Research Framework Advert

Expressions of interest are invited from organisations that wish to be considered for inclusion in a Research Framework Agreement with the Department for Work and Pensions (DWP).

The Framework Agreement will consist of organisations or individuals with social and economic research experience and expertise in some or all of the Department's key policy areas. These are:

- Work and Welfare Strategy (Working Age);
- Families, Children, Poverty and Social Exclusion, and Housing Support;
- Pensions;
- Disability and Carers;
- European Social Fund and International Labour Markets;
- Performance, Business Delivery and Modernisation.

The Framework Agreements will be for a period of three to five years beginning mid 2004. We envisage that there will be a significant number of organisations contracted under the Framework Agreement. Social and economic research contracts will in the majority of cases be awarded through the framework, possibly with a degree of competition depending on the size and nature of the contract.

If you wish to express an interest in being invited to tender for inclusion in the Framework Agreement, please write to John Gordon at the address below. No other documentation is required at this stage. It is envisaged that a Pre Qualification Questionnaire (PQQ) will be issued to obtain further information from Suppliers. The information provided will then be used to enable DWP to select those organisations or individuals who have the most relevant experience and expertise in the required areas to be invited to tender. The closing date for expressions of interest is noon, Monday 17th November 2003.

Address:

John Gordon, Procurement Manager
Commercial and Estates Directorate, Goods and Services
Room M1202, Durham House
The Galleries
Washington
Tyne and Wear
NE38 7SD

Tel: 0191 2252161

Appointments

Imperial College London

The Business School

10 Chairs, Readerships or Lectureships

Marketing, Accounting, HR Management, Strategy, Finance, Entrepreneurship, Innovation, Health Management, Economics

Imperial College London, one of Europe's leading universities for Science, Technology and Medicine, is soon to open its new £25m Business School building. Imperial is making substantial investments into creating an institution of international prestige and has created 10 new vacancies for staff of international repute.

These may be in any subject, and at any level. Successful candidates will have a proven record of international research excellence, and are expected to be, or to become, excellent teachers. Competitive salaries will be offered.

Informal enquiries may be made by email to the School Administrator, Afrey Edes, at a.edes@imperial.ac.uk

Closing date: 31 October 2003.

Valuing diversity and committed to equality of opportunity

REPUBLIC OF MONTENEGRO

AGENCY FOR ECONOMIC RESTRUCTURING AND FOREIGN INVESTMENT

The Agency of Montenegro for Economic Restructuring and Foreign Investment ("Agency") makes the following announcement pursuant to the Law on Privatisation of Economy ("Official Gazette of the RoM", issue no. 23/96, 6/99 and 59/00), the Regulation on the Sale of Shares and Assets by Public Tender ("Official Gazette of the RoM", issue no. 8/99, 31/00 and 14/03), and the Decision on Privatisation Plan for 2003 ("Official Gazette of the RoM", issue No. 12/03):

Invitation to Participate in the Privatisation of the tobacco plant - Duvanski Kombinat a.d., Podgorica, the Sale of Shares by Public Tender

1. The Agency is inviting interested parties to submit their bids for participation in the international public tender in respect of the proposed sale of 51,1074% of the share capital of Duvanski Kombinat, a.d., Podgorica, the state-owned tobacco plant (**"DKP"**).
2. Company information. DKP was established in 1903. The company has manufacturing and trade facilities in a number of locations throughout Serbia and Montenegro. Main activities of the Company are tobacco primary processing, manufacture of cigarettes and wholesale and retail distribution of final products. The installed manufacturing capacity in DKP enables the processing of 400 tons of cigarettes per month (4,800 tons per annum)
3. Interested parties, who wish to qualify alone or as a consortium, will be given the opportunity to perform the due diligence of relevant documentation associated to the DKP operations, to make discussions with DKP Management and visit the manufacturing facilities, after which they should submit a binding bid comprising as follows:
   - Financial proposal for purchase of 51,1074% share capital of DKP, in compliance with Tender Rules;
   - Relevant verifiable evidence of previous experience in tobacco industry
   - Business Plan for the period of 5 years,
   - Investment programme supported by required guarantees,
   - Social Plan.
4. Potential Bidders shall send a separate written request for purchase of the Tender Documents to the Advisor at the coordinates below. Upon receipt of such request, the Advisor will forward to the bidder a Confidentiality Agreement for signature by the bidder, to be returned to the Advisor at the address stated below.
   A Tender Package will be made available for those Bidders who have signed and returned a Confidentiality Agreement and paid a fee of EUR 5.000. The Tender Package consists of Tender Rules and Specifications with bid evaluating criteria, an Information Memorandum on DKP, Due Diligence Rules and Procedures, and Draft Transaction Documents.
5. As a prerequisite for submitting a Bid, payment of a deposit, or a bank guarantee, in the amount of EUR 50.000 (fifty thousand Euros), is required.
6. The deadline for submission of final bids by the Bidders is December 12 2003, at 3.00 p.m. (Podgorica time), to the Agency at the following address.

   Mr Branko Vujovic, Director, Agency of Montenegro for Economic Restructuring and Foreign Investment, Jovana Tomasevica bb, Podgorica, Montenegro
   Tel: +381 81 242 640, 246 411 Fax: +381 81 245 756 e-mail: t.borozan@mn.yu
   contact person: Tanja Borozan
7. Further information, communication and inquires relating to this Tender Announcement will be provided on request to the contact persons identified below

   Deloitte & Touche, Financial Advisory Services, Jola Piletica 5, 81000 Podgorica, Montenegro
   Tel: +381 11 361 3408, 3468, 3457, 3459 Fax: +381 11 361 3563
   e-mail: vpoznanic@deloittece.com, amirovic@deloittece.com
   contact persons: Vladimir Poznanic, Aleksandar Mirovic

The Presidency
National Council on Privatisation
Bureau of Public Enterprises
Federal Republic of Nigeria

Privatisation of Crude Oil Refineries

Invitation for Expression of Interest

Introduction

As part of its on-going privatisation programme, the Federal Government of Nigeria (FGN), through the National Council on Privatisation (NCP) and its Secretariat, the Bureau of Public Enterprises (BPE), invites expressions of interest from prospective strategic investors in the state-owned crude oil refineries.

Overview of Nigeria's Oil & Gas Sector

The Federal Republic of Nigeria is one of the world's major oil & gas producers. Currently, the country's oil & gas reserves are conservatively estimated at 26 billion barrels and 157 trillion cubic feet, respectively. Four giant deepwater fields, Bonga, Erha, Agbami and Akpo representing six billion barrels of additional oil reserves, will come onstream in early 2004, bringing Nigeria's total oil reserves to 32 billion barrels. Nigeria's crude oil production capacity currently stands at 2.6 million barrels per day, and is expected to reach 3.3 million barrels per day (mmbpd) by 2004, excluding condensates. Oil accounts for 35% of Gross Domestic Product, 80% of Government revenue and 95% of foreign exchange earnings.

Despite these considerable hydrocarbon resource endowments and the substantial current role of the sector in the economy, the oil & gas sector is widely regarded as having not reached its full potential. Privatisation of the refineries and enhanced private sector participation are therefore considered by the FGN as essential in realizing the potential, particularly of the downstream petroleum sector.

Overview of Crude Oil Refineries

The FGN has therefore decided to proceed with the sale of 51% or more of its shares (including management control) in each of the refineries described below (the **Transaction**):

Kaduna Refinery & Petrochemical Complex

The Kaduna Refinery in northern Nigeria is a complex conversion refinery with a nameplate distillation capacity of 5,500,000 MTA (110,000 bpd). Since coming on-stream in 1980, the refinery has undergone a series of expansion projects. The refinery is supplied through a 700 km pipeline that extends from the Escravos Terminal in Delta State near Warri. The refinery is jointly managed with a petrochemicals complex, which was commissioned in 1988 and has a production capacity of 30,000 MTA of linear alkyl benzene, 15,000 MTA of benzene and 30,000 MTA of kerosene solvent. The refinery supplies domestic markets in the north and north-east regions of Nigeria.

Port Harcourt Refinery Complex

There are two refineries at Alesa-Eleme near Port Harcourt in Rivers State in Nigeria. Port Harcourt I is a topping and reforming refinery with a name-plate distillation capacity of 3,000,000 MTA (60,000 bpd). It began operations in 1965, was largely destroyed by fire in 1989 and then rebuilt using current technology. Port Harcourt II is a complex, conversion refinery with a nameplate distillation capacity of 7,500,000 MTA (150,000 bpd). It came on stream in 1988 and was originally intended to serve as an export refinery. It has been subsequently dedicated to domestic market service given frequent interruptions in supply from the other three refineries in Nigeria. Port Harcourt II has considerable clean fuel capability, including lead-free gasoline.

Warri Refinery & Petrochemical Complex

This refinery is located at Warri in Nigeria's Delta State and was commissioned in 1978. Warri is a complex conversion refinery with a nameplate distillation capacity of 6,250,000 MTA (125,000 bpd). The refinery complex includes a petro-chemicals plant commissioned in 1988 with production capacities of 13,000 MTA of polypropylene and 18,000 MTA of carbon black. The refinery supplies markets in the south and south-west regions of Nigeria.

Procedure & Contacts

Interested applicants are expected to be international oil & gas companies with a proven track record in the successful ownership, management and operation of crude oil refineries.

In order to be pre-qualified, prospective investors must provide verifiable evidence of their ability to own, manage and operate a refinery of similar capacity. In this regard, the following information will be required:

- Evidence of successful investment(s) in and management of refineries plus verifiable evidence of strong investment capabilities
- Evidence of ample financial resources to improve the refinery; thus enhancing its value
- Evidence of proven technical ability to manage and operate refineries.

Interested investors should indicate their interest by providing the following documentation and information:

- Detailed profile of the company indicating:
  - Full name of the company and the contact person, postal address, telephone number, fax number, and e-mail address
  - Ownership structure including brief profile of significant shareholders and percentage shareholding (5% and above)
  - Capabilities (technical and operational) in refinery operations indicating number of years in the industry including international experience, list of plants owned, managed and operated by the company
- Audited Financial Statements for the last five (5) years

The BPE and its privatisation adviser, Credit Suisse First Boston LLC (**CSFB**) have been designated as the exclusive contacts for parties who wish to express an interest in pursuing a Transaction. All communications or inquiries regarding the Expression of Interest should be directed to the individual listed below. *No personnel of NNPC or its subsidiaries or any of the aforementioned refineries should be contacted directly under any circumstances.*

Expressions of Interest must be submitted in three (3) copies in sealed packages clearly marked **"Expression of Interest for ________ Refinery"** and delivered to the address below **no later than 1600 hours GMT on Friday, 14th November, 2003.**

Attn: Gagan Bakshi, Investment Banking
Credit Suisse First Boston
One Cabot Square, London E14 4QJ, England
Tel: +44 20 7883 6558
Email: gagan.bakshi@csfb.com

This invitation for expressions of interest in relation to the Transaction is not an offer to sell any shares or a commitment on the part of FGN to proceed with a Transaction. In any jurisdiction in which this invitation for expressions of interest may only be made by a licensed or regulated entity in that jurisdiction, the invitation shall be deemed to be made on behalf of the BPE by the CSFB affiliated entity licensed or regulated in that jurisdiction. CSFB is acting for BPE and no one else in connection with the Transaction and will not be responsible to any other person for providing the protections afforded to clients of CSFB or for providing advice in relation to the Transaction.

CREDIT SUISSE FIRST BOSTON

Overview

Stockmarkets continue to claw back some of the ground lost to the three-year bear market. America's Dow Jones Industrial Average rose to a 16-month high and Britain's FTSE index climbed to a 13-month high. **Bond markets** have been beating a new retreat: yields in America and Europe rose to highs not seen since the bond-market sell-off this summer.

In a worrying sign for the euro area's biggest economy, **Germany's** ZEW investor confidence indicator fell in October for the first time since December. Although forecasters were expecting it to rise, the index declined by 0.6 to 60.3. The fall was blamed in part on worries over the rising euro.

European factories continue to struggle. **French** industrial production fell slightly during August, after falling by 1.8% in the previous 12 months. **German** industrial production also declined in the year to August, by 1.9%. **Italy's** figures were more encouraging: although forecasts called for industrial output to fall, it actually rose in August by 0.1%, following a rise of 1.7% in the previous 12 months.

Austria's economy grew by 0.7% in the year to the second quarter, compared with 0.8% in the year to the first quarter.

In the year to August, retail sales in **Switzerland** fell by 3.2%, while retail sales in **Denmark** rose by the same rate. Industrial production in Sweden rose by 3.0% in the year to August.

In **Britain**, the number of people claiming unemployment benefit fell in September to its lowest level since the mid-1970s, at 929,800 claimants. However, both the claimant count and ILO measures of unemployment held steady at 3.1% and 5.0%, respectively. Wage growth rose to 3.4% in the 12 months to August; that was thanks mostly to higher public sector wages, which grew by 5.6%.

Australian consumer confidence rose in October to a level not seen since 1994. Australia's dollar has risen by 22% against the American dollar since the beginning of 2003.

Fewer **Japanese** companies are going bust. Corporate bankruptcies fell by 18.2% in the year to September, reflecting slightly improved economic conditions.

Economist.com/markets

Data on more countries, as well as currency tools

Output, demand and jobs

% change on year ago

	GDP				The Economist poll GDP forecasts		Industrial production		Retail sales (volume)		Unemployment % rate		
	latest		qtr*		2003	2004	latest		latest		latest		year ago
Australia	+ 2.0	Q2	+ 0.5		+ 2.8	+ 3.6	+ 1.3	Q2	+ 3.6	Q2	5.8	Sep	6.2
Austria	+ 0.7	Q2	+ 1.1		+ 0.6	+ 1.7	+ 6.7	Jan	- 0.3	Jul	4.5	Aug	4.3
Belgium	+ 0.8	Q2	- 0.4		+ 0.8	+ 1.8	- 4.0	Aug	+ 0.9	Jul	13.2	Sep†	12.0
Britain	+ 2.0	Q2	+ 2.4		+ 1.7	+ 2.5	- 0.8	Aug	+ 3.8	Aug	5.0	Aug††	5.2
Canada	+ 1.6	Q2	- 0.3		+ 2.0	+ 3.0	+ 1.5	Jul	+ 3.6	Jul	8.0	Sep	7.7
Denmark	- 1.0	Q2	- 2.2		+ 1.0	+ 2.1	+ 1.0	Aug	+ 3.2	Aug	6.1	Aug	5.1
France	- 0.3	Q2	- 1.3		+ 0.4	+ 1.8	- 1.8	Aug	- 2.2	May	9.6	Aug	9.1
Germany	- 0.2	Q2	- 0.2		nil	+ 1.5	- 1.9	Aug	- 2.4	Aug‡	10.5	Sep§	9.8
Italy	+ 0.3	Q2	- 0.3		+ 0.4	+ 1.6	+ 1.7	Aug	- 0.4	Jul	8.7	Jul	9.0
Japan	+ 3.0	Q2	+ 3.9		+ 2.5	+ 1.9	- 1.3	Aug	- 2.6	Jul	5.1	Aug	5.5
Netherlands	- 1.2	Q2	- 2.4		- 0.5	+ 1.3	- 1.0	Aug	- 7.7	Jun	5.3	Aug**	4.2
Spain	+ 2.3	Q2	+ 2.7		+ 2.1	+ 2.8	- 1.7	Aug	+ 3.3	Jul	11.4	Aug	11.4
Sweden	+ 1.1	Q2	+ 1.1		+ 1.5	+ 2.3	+ 3.0	Aug	+ 6.4	Aug	5.4	Aug†	4.1
Switzerland	- 1.0	Q2	- 1.2		- 0.4	+ 1.3	- 2.8	Q2	- 3.2	Aug	3.7	Sep†	2.6
United States	+ 2.5	Q2	+ 3.3		+ 2.6	+ 3.7	- 1.0	Aug	+ 6.5	Aug	6.1	Sep	5.7
Euro area	+ 0.2	Q2	- 0.3		+ 0.5	+ 1.8	- 0.3	Jul	nil	Jul	8.8	Aug	8.4

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Jun-Aug; claimant count rate 3.1% in Sep. §EU harmonised rate 9.4% in Sep. **Jun-Aug.

Prices and wages

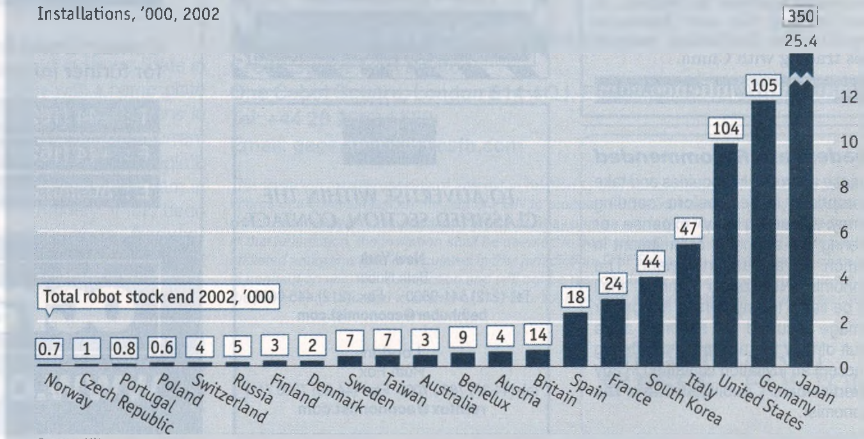
% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2003	2004	latest		year ago	latest		year ago
Australia	+ 2.7	Q2	+ 2.8	+ 2.8	+ 2.4	+ 0.2	Q2	- 1.1	+ 5.5	Q2	+ 3.7
Austria	+ 1.4	Sep	+ 1.6	+ 1.3	+ 1.2	+ 1.3	Sep	- 0.1	+ 2.3	Aug	+ 2.3
Belgium	+ 1.8	Sep	+ 1.3	+ 1.4	+ 1.3	- 1.4	Aug	+ 0.8	+ 1.9	Q3	+ 2.1
Britain	+ 2.8	Sep	+ 1.7	+ 2.7	+ 2.3	+ 1.5	Sep	+ 0.2	+ 3.4	Aug	+ 3.8
Canada	+ 2.0	Aug	+ 2.6	+ 2.7	+ 1.9	- 2.0	Aug	+ 0.6	+ 4.6	Jul	+ 2.9
Denmark	+ 1.9	Sep	+ 2.4	+ 2.2	+ 1.8	- 0.5	Sep	- 0.3	+ 3.8	Q2	+ 3.7
France	+ 2.2	Sep	+ 1.8	+ 2.0	+ 1.4	+ 0.5	Aug	- 0.1	+ 2.7	Q2	+ 3.9
Germany	+ 1.1	Sep	+ 1.1	+ 1.0	+ 0.7	+ 0.6	Sep	+ 0.3	+ 2.2	Jul	+ 2.3
Italy	+ 2.8	Sep	+ 2.6	+ 2.7	+ 2.0	+ 1.3	Aug	+ 0.6	+ 2.6	Aug	+ 2.3
Japan	- 0.3	Aug	- 0.9	- 0.3	- 0.2	- 0.5	Sep	- 2.0	- 0.2	Aug	- 2.7
Netherlands	+ 2.1	Aug	+ 3.3	+ 2.3	+ 1.7	+ 2.6	Aug	+ 0.4	+ 2.6	Sep	+ 3.4
Spain	+ 2.9	Sep	+ 3.5	+ 3.0	+ 2.5	+ 1.1	Aug	+ 0.7	+ 4.2	Q2	+ 4.0
Sweden	+ 1.7	Sep	+ 1.9	+ 2.2	+ 1.7	- 1.7	Aug	- 0.3	+ 3.2	Jul	+ 2.7
Switzerland	+ 0.5	Sep	+ 0.5	+ 0.6	+ 0.6	- 0.4	Sep	- 1.2	+ 1.8	2002	+ 2.5
United States	+ 2.2	Aug	+ 1.8	+ 2.2	+ 1.4	+ 3.5	Sep	- 1.8	+ 2.7	Sep	+ 2.9
Euro area	+ 2.1	Sep	+ 2.1	+ 2.0	+ 1.5	+ 1.4	Aug	- 0.1	+ 2.9	Q2	+ 3.0

Robots

Economic stagnation has culled Japan's stock of robots, although the country remains the world's robotics leader. The number of newly installed robots in Japan fell again in 2002 to 25,400 and the total stock of robots dropped to 350,000. Yet a turnaround for global robotics may be at hand, according to the United Nations World Robotics Report, which shows new orders in the first half of 2003 posting their fastest growth ever.

Installations, '000, 2002



Source: UN

Money and interest rates

	Money supply* % change on year ago			Interest rates % p.a. (Oct 15th 2003)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 7.4	+12.2	Aug	5.00	4.91	5.20	5.66	5.80	6.25
Britain	+ 7.9	+ 6.6	Aug	3.63	3.91	4.39	4.90	4.68	5.83
Canada	+ 9.3	+ 5.9	Aug	2.65	2.83	3.20	4.96	5.21	6.37
Denmark	+ 7.3	+ 8.9	Aug	2.19	3.55	2.85	4.46	4.77	5.56
Japan	+ 5.8	+ 1.8	Sep	0.02	0.02	0.09	1.42	1.06	1.53
Sweden	+ 3.8	+ 5.5	Aug	2.71	4.04	3.21	4.85	5.11	3.90
Switzerland	+24.8	+ 9.9	Aug	0.25	0.81	-0.91	2.70	2.71	2.77
United States	+ 8.6	+ 8.0	Aug	1.06	1.70	1.76	4.40	4.03	6.04
Euro area†	+11.8	+ 8.2	Aug	2.14	3.30	2.61	4.28	4.56	4.23

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.29%, Japan No.254 1.42%. Central bank rates: US fed funds 1.00%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 3.5%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsborsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

The Economist commodity price index

1995=100

	Oct 7th*	Oct 14th*	% change on one month	% change on one year
Dollar index				
All items	81.5	83.7	+ 4.8	+10.5
Food	81.0	82.9	+ 4.8	+ 2.6
Industrials				
All	82.3	84.7	+ 4.9	+23.1
Nfa†	86.4	88.3	+ 1.3	+21.9
Metals	78.8	81.6	+ 8.4	+24.2
Sterling index				
All items	77.1	79.2	- 0.1	+ 3.1
Euro index				
All items	91.1	94.1	+ 0.3	- 7.2
Yen index				
All items	95.1	97.4	- 1.5	- 3.0
Gold				
$ per oz	376.45	376.00	+ 0.9	+19.2
West Texas Intermediate				
$ per barrel	30.39	31.73	+15.0	+ 6.6

* Provisional. † Non-food agriculturals.

Stockmarkets

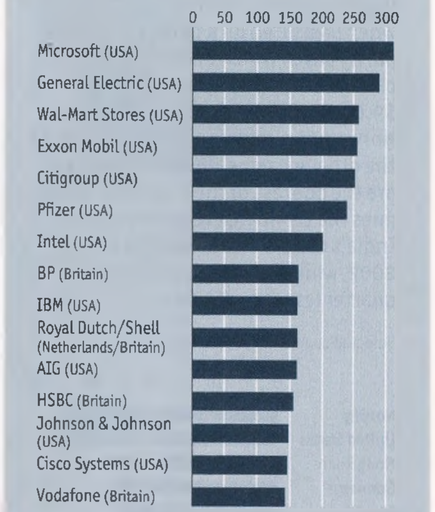
Market indices

	Oct 15th	2003 high	2003 low	% change on one week	% change on record high	% change on Dec 31st 2002 in local currency	% change on Dec 31st 2002 in $ terms
Australia (All Ordinaries)	3,291.9	3,291.9	2,673.3	+ 1.4	- 4.3	+10.6	+35.5
Austria (ATX)	1,401.8	1,401.8	1,120.2	+ 2.0	-19.3	+21.9	+35.1
Belgium (Bel 20)	2,150.7	2,150.7	1,426.6	+ 2.4	-41.6	+ 6.2	+17.8
Britain (FTSE 100)	4,368.8	4,368.8	3,287.0	+ 2.3	-37.0	+10.9	+14.9
Canada (Toronto Composite)	7,783.2	7,783.2	6,228.6	+ 2.8	-31.7	+17.7	+40.1
Denmark (KBX)	218.4	218.4	145.0	+ 3.0	-27.6	+31.3	+45.6
France (SBF 250)	2,300.0	2,318.0	1,630.1	+ 3.5	-47.6	+12.0	+24.2
(CAC 40)	3,375.0	3,422.8	2,403.0	+ 3.9	-51.2	+10.2	+22.1
Germany (DAX)	3,570.6	3,668.7	2,203.0	+ 5.2	-55.7	+23.4	+36.9
Italy (BCI)	1,215.6	1,218.8	959.4	+ 2.5	-44.3	+11.3	+23.4
Japan (Nikkei 225)	10,900.0	11,033.3	7,607.9	+ 3.4	-72.0	+27.1	+37.3
(Topix)	1,080.3	1,087.3	770.6	+ 2.4	-62.6	+28.1	+38.4
Netherlands (AEX)	331.4	342.2	218.4	+ 4.5	-52.8	+ 2.7	+13.9
Spain (Madrid SE)	747.2	768.6	576.8	+ 1.7	-34.8	+17.9	+30.7
Sweden (Affarsvarlden Gen)	180.4	180.4	127.8	+ 3.5	-54.9	+24.2	+40.6
Switzerland (Swiss Market)	5,262.5	5,422.6	3,675.4	+ 2.3	-37.4	+13.6	+18.1
United States (DJIA)	9,803.1	9,813.0	7,524.1	+ 1.8	-16.4	+17.5	+17.5
(S&P 500)	1,046.8	1,049.5	800.7	+ 1.3	-31.5	+19.0	+19.0
(NASDAQ Comp)	1,939.1	1,943.2	1,271.5	+ 2.4	-61.6	+45.2	+45.2
Europe (FTSE Eurotop 300)*	922.8	926.5	682.7	+ 3.9	-45.9	+ 7.7	+19.4
Euro area (FTSE Ebloc 100)*	783.9	800.8	565.7	+ 3.9	-49.4	+ 9.1	+21.0
World (MSCI)†	963.2	964.3	710.8	+ 1.7	-33.5	+21.6	+21.6
World bond market (Citigroup)‡	569.7	583.9	518.6	- 1.2	- 2.4	+ 8.5	+ 8.5

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Citigroup World Government Bond Index, total return, in $ terms.

Top companies by market capitalisation

October 13th 2003, $bn



Source: Thomson Datastream

Trade, exchange rates and budgets

	Trade balance*, $bn latest 12 months		Current account $bn latest 12 mths		Current account, The Economist poll % of GDP, forecast 2003	2004	Exchange rate trade-weighted† 1990=100 Oct 15th	year ago	Currency units per $ Oct 15th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2003‡
Australia	- 12.3	Aug	- 24.4	Q2	- 5.6	- 5.0	83.8	74.0	1.45	1.82	2.42	1.69	1.32	0.2
Austria	- 0.4	Jul	+ 1.0	Jul	+ 0.2	nil	103.1§	100.8	0.86	1.02	1.43	-	0.78	-1.3
Belgium	+ 19.6	Jul	+ 11.2	Jun	+ 4.6	+ 4.6	103.3§	100.0	0.86	1.02	1.43	-	0.78	nil
Britain	- 72.2	Aug	- 28.6	Q2	- 1.1	- 1.5	99.7	106.4	0.60	0.64	-	0.70	0.55	-1.9
Canada	+ 40.7	Aug	+ 14.7	Q2	+ 1.7	+ 1.6	87.5	75.2	1.33	1.58	2.21	1.54	1.21	1.1
Denmark	+ 9.4	Aug	+ 5.9	Aug	+ 2.8	+ 2.6	106.1	103.0	6.38	7.57	10.6	7.43	5.81	1.6
France	+ 5.5	Aug	+ 22.0	Jul	+ 1.5	+ 1.5	106.8§	102.9	0.86	1.02	1.43	-	0.78	-3.6
Germany	+136.4	Aug	+ 53.0	Aug	+ 2.0	+ 1.9	104.5§	99.8	0.86	1.02	1.43	-	0.78	-3.7
Italy	+ 2.4	Jul	- 17.4	Jul	- 0.8	- 0.6	76.1§	73.3	0.86	1.02	1.43	-	0.78	-2.4
Japan	+ 96.2	Aug	+119.0	Aug	+ 2.8	+ 2.9	137.2	130.3	110	124	183	128	-	-7.7
Netherlands	+ 30.4	Aug	+ 15.1	Q2	+ 2.2	+ 2.7	102.8§	99.0	0.86	1.02	1.43	-	0.78	-1.6
Spain	- 46.7	Jun	- 20.9	Jun	- 2.4	- 2.2	77.3§	75.0	0.86	1.02	1.43	-	0.78	-0.4
Sweden	+ 16.4	Aug	+ 11.1	Q2	+ 4.1	+ 3.9	82.4	78.1	7.70	9.24	12.8	8.96	7.01	0.7
Switzerland	+ 5.7	Aug	+ 32.7	Q1	+10.6	+10.8	111.4	114.3	1.33	1.49	2.22	1.55	1.21	na
United States	-537.8	Aug	-528.7	Q2	- 5.3	- 5.5	99.3	115.1	-	-	1.67	1.16	0.91	-4.6
Euro area	+ 83.0	Jul	+ 39.0	Jul	+ 0.4	+ 0.5	89.6	82.0	0.86	1.02	1.43	-	0.78	-2.5

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast.

Overview

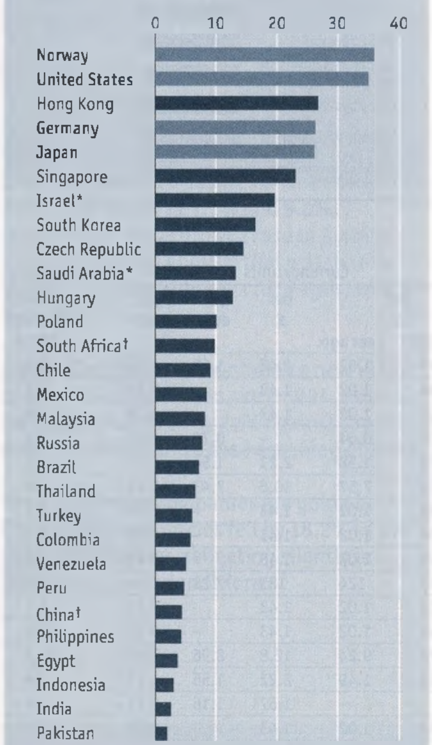
China's exports rose by 31% in the year to September. But imports grew even faster, by nearly 40%, so its overall trade surplus narrowed to $290m. However, China still runs a huge surplus with America, so its policy of pegging the yuan against the dollar remains a hot issue in Washington. George Bush plans to raise this subject with Chinese leaders at the APEC meeting in Bangkok, which starts on October 20th.

Mexico also claims that it is a victim of China's exchange-rate policy. Its industrial production fell by 2.9% in the year to August. In contrast, China's output rose by 16.3% in the year to September.

GDP per person

Hong Kong is the richest of the emerging economies regularly tracked by *The Economist*. According to the most recent estimates by the World Bank, its income per head in 2002 was $26,810 when measured on a purchasing-power parity basis, which takes account of exchange-rate fluctuations. That is about $9,000 less than per-head income in Norway, the world's richest country. At the other extreme, India and Pakistan are the poorest of the emerging economies *The Economist* regularly tracks: India's GDP per head was $2,570 in 2002, while Pakistan's was around a quarter less: only $1,940.

Selected countries, PPP$ '000, 2002



Source: World Bank *2001 †Estimate

Economy

	% change on year ago			Latest 12 months, $bn		Foreign reserves*
	GDP	Industrial production	Consumer prices	Trade balance	Current account	$bn, latest
China	+ 6.7 Q2	+16.3 Sep	+ 0.9 Aug	+19.6 Sep	+35.4 2002	383.9 Sep
Hong Kong	− 0.5 Q2	−12.5 Q2	− 3.8 Aug	− 6.7 Aug	+18.4 Q2	112.1 Sep
India	+ 5.7 Q2	+ 5.2 Aug	+ 3.1 Aug	−12.6 Aug	+ 2.8 Q2	85.6 Sep
Indonesia	+ 4.1 Q3	+ 4.7 Jul	+ 6.2 Sep	+26.1 Aug	+ 6.7 Q1	32.3 Aug
Malaysia	+ 4.4 Q2	+ 6.7 Aug	+ 1.1 Sep	+17.5 Aug	+10.1 Q2	37.6 Aug
Philippines	+ 3.2 Q2	+ 4.4 Jul	+ 2.9 Sep	− 1.1 Jul	+ 3.0 Jun	12.8 Sep
Singapore	+ 1.0 Q3	+10.3 Aug	+ 0.5 Aug	+14.0 Aug	+23.8 Q2	91.1 Sep
South Korea	+ 1.9 Q2	+ 1.5 Aug	+ 3.3 Sep	+11.6 Sep	+ 5.1 Aug	136.1 Aug
Taiwan	− 0.4 Q2	+ 5.3 Aug	− 0.2 Sep	+18.1 Sep	+26.9 Q2	190.6 Sep
Thailand	+ 5.8 Q2	+ 5.5 Aug	+ 1.7 Sep	+ 4.8 Aug	+ 8.7 Aug	37.4 Aug
Argentina	+ 7.6 Q2	+11.7 Aug	+ 3.5 Sep	+17.0 Aug	+10.2 Q2	13.4 Sep
Brazil	− 1.3 Q2	− 1.8 Aug	+15.1 Sep	+23.1 Sep	+ 3.5 Aug	47.8 Aug
Chile	+ 2.7 Q2	+ 2.1 Aug	+ 2.2 Sep	+ 2.8 Sep	− 0.8 Q2	15.3 Aug
Colombia	+ 2.0 Q2	+ 5.2 Jul	+ 7.1 Sep	− 0.3 Jun	− 2.1 Q1	10.7 Sep
Mexico	+ 0.2 Q2	− 2.9 Aug	+ 4.0 Sep	− 6.4 Aug	−11.5 Q2	51.5 Aug
Peru	+ 3.1 Aug	+ 1.4 Aug	+ 2.0 Sep	+ 0.4 Aug	− 1.2 Q2	9.8 Sep
Venezuela	− 9.4 Q2	−11.5 Jul	+26.6 Sep	+14.6 Q2	+ 9.3 Q2	12.8 Jun
Egypt	+ 3.1 2002†	+ 4.2 2002†	+ 4.4 Jul	− 7.1 Mar	+ 1.9 Q2	13.6 Jun
Israel	− 0.3 Q2	+ 0.4 Jul	− 1.9 Sep	− 6.3 Aug	nil Q2	25.2 Sep
South Africa	+ 1.8 Q2	− 4.9 Aug	+ 5.1 Aug	+ 3.1 Aug	− 0.9 Q2	6.5 Aug
Turkey	+ 3.9 Q2	+11.9 Jul	+23.0 Sep	−18.7 Jul	− 4.7 Jul	29.8 Aug
Czech Republic	+ 2.1 Q2	+ 2.7 Aug	nil Sep	− 2.4 Aug	− 5.0 Q2	25.6 Sep
Hungary	+ 2.4 Q2	+ 9.4 Aug	+ 4.7 Sep	− 3.8 Aug	− 5.0 Aug	12.8 Sep
Poland	+ 3.8 Q2	+ 5.8 Aug	+ 0.7 Aug	−10.4 Aug	− 5.5 Aug	31.6 Sep
Russia	+ 7.2 Q2	+ 8.0 Sep	+13.2 Sep	+55.7 Aug	+36.4 Q2	62.4 Sep

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Financial markets

	Currency units			Interest rates	Stockmarkets	% change on Dec 31st 2002		
	per $		per £	short-term	Oct 15th			
	Oct 15th	year ago	Oct 15th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	13.8	na	1,448.1	+0.8	+ 2.0	+ 2.0
Hong Kong	7.74	7.80	12.9	0.42	12,056.2	+2.9	+ 29.3	+ 30.2
India	45.7	48.4	76.1	4.45	4,855.3	+4.8	+ 43.8	+ 51.0
Indonesia	8,425	9,194	14,053	8.94	650.4	+4.2	+ 53.1	+ 62.6
Malaysia	3.80	3.80	6.34	3.05	783.2	+3.1	+ 21.2	+ 21.2
Philippines	54.6	52.9	91.1	7.75	1,356.2	+4.4	+ 33.2	+ 30.1
Singapore	1.74	1.79	2.91	0.81	1,749.0	+0.9	+ 30.4	+ 29.9
South Korea	1,170	1,242	1,952	3.91	764.2	+5.7	+ 21.8	+ 23.4
Taiwan	33.8	34.9	56.4	1.05	5,924.4	+1.8	+ 33.1	+ 36.9
Thailand	39.8	43.8	66.4	1.29	576.1	+2.7	+ 61.6	+ 74.9
Argentina	2.84	3.61	4.73	5.06	869.6	+2.8	+ 65.6	+ 96.4
Brazil	2.83	3.87	4.72	19.84	17,942.0	+0.8	+ 59.2	+ 99.4
Chile	649	747	1,083	2.88	7,515.1	+4.6	+ 49.7	+ 66.1
Colombia	2,877	2,858	4,799	7.68	2,127.2	−1.4	+ 32.2	+ 31.8
Mexico	11.2	10.1	18.6	5.42	7,843.7	+0.4	+ 28.0	+ 19.9
Peru	3.48	3.63	5.80	2.77	2,092.6	+2.1	+ 50.3	+ 51.9
Venezuela	1,598	1,412	2,665	20.09	18,507.4	+7.7	+130.9	+100.4
Egypt	6.16	4.63	10.27	6.86	10,958.6	+1.4	+104.0	+ 53.4
Israel	4.42	4.82	7.37	3.19	453.1	+4.0	+ 36.3	+ 46.5
South Africa	7.00	10.4	11.7	8.85	9,623.8	+4.1	+ 3.7	+ 27.2
Turkey	1,409,000	1,647,650	2,350,212	25.00	15,382.2	+1.5	+ 48.3	+ 74.8
Czech Republic	27.5	31.6	45.9	2.06	642.5	+4.6	+ 39.5	+ 52.4
Hungary	220	250	367	9.39	9,817.5	+0.7	+ 25.9	+ 28.5
Poland	3.90	4.15	6.51	5.30	21,818.8	+4.3	+ 51.9	+ 49.2
Russia	30.1	31.7	50.3	16.00	629.9‡	+0.1	+ 75.4	+ 65.4
EMF (MSCI)*	1.00	1.00	1.67	na	407.8	+2.3	+ 39.6	+ 39.6
EMBI+†	1.00	1.00	1.67	na	283.9	+0.3	+ 24.1	+ 24.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank.

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