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HOW TO TRAP A SMUGGLER • THE TERRORISM INDEX

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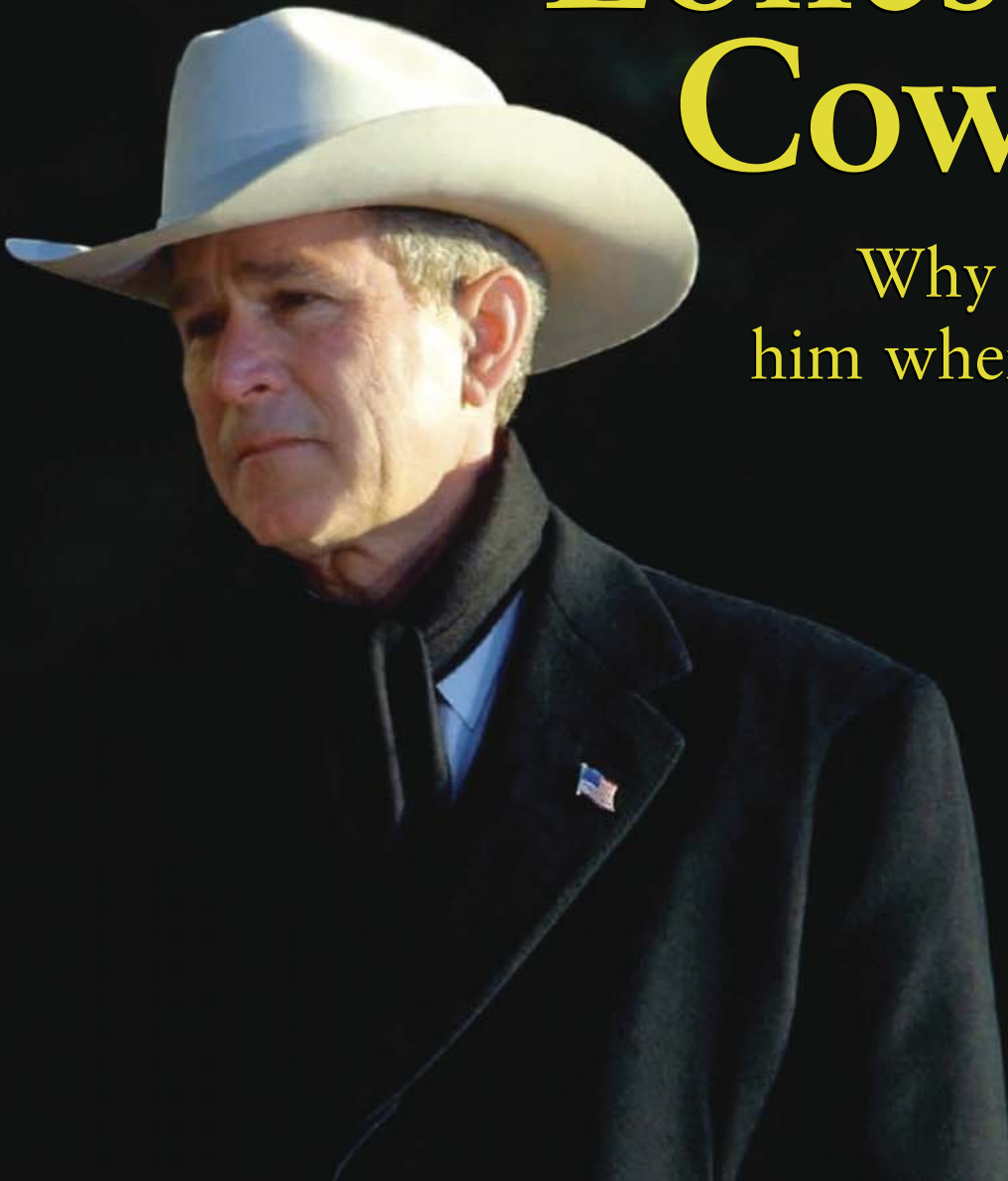
SEPTEMBER/OCTOBER 2008

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EXCLUSIVE:
THE SECRET
HISTORY OF
KIM JONG IL

Lonesome Cowboy

Why you'll miss
him when he's gone



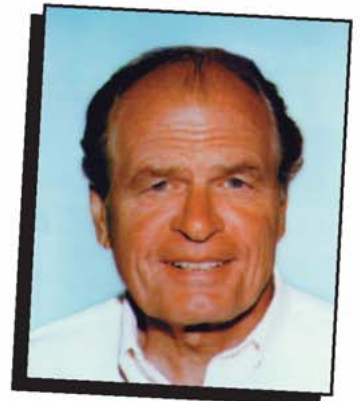


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A Report from Citizen Paul on his Fact-Finding Mission to the Middle East

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Each issue, FOREIGN POLICY brings you the surprises, revelations, and hard-to-find truths about international politics and economics that lurk beneath the surface. Usually this requires a unique combination of research, reporting, and even some luck. But sometimes we can all be blind to the obvious; sometimes the most important ideas or insights are staring us right in the face.

In this issue's cover story, **David Frum**, the White House speechwriter who coined the phrase "axis of evil," argues that the unpopularity of President George W. Bush is blinding many people to what is an otherwise impressive record of foreign-policy successes. Of course, that is not what nearly 80 percent of Americans and millions around the world think. So, it is natural that *FP*, with our well-known penchant for bringing serious but provocative perspectives to bear on the issues of the day, would offer you this "Think Again" on the Bush legacy. Frum will answer readers' questions at ForeignPolicy.com, so we hope you will continue the debate online. Just send your questions to letters@ForeignPolicy.com by September 20, and we will post Frum's replies on October 1.

A far more unpopular leader with a cruel and repressive bent is North Korean leader Kim Jong Il. Even among dictators, no one is more reclusive and secretive. (Even his true birthday remains a state secret.) Most North Koreans have little contact with their Dear Leader, and those few who do remain locked within the communist police state. That makes **Kim Hyun Sik** extremely rare—and lucky to be alive. How does Kim Hyun Sik know the North Korean dictator? He was his teacher. In an *FP* exclusive, Kim, a Russian-language professor who fled North Korea 17 years ago, offers a shocking, first-person account of Kim Jong Il and the repressive, corrupt ways in which he holds his country hostage.

Of course, the crimes of corruption aren't limited to any one country; in fact, we are constantly reminded that corruption is a universal phenomenon. But, for something so common and pernicious, we know very little about the size and scale of the world's shady transactions. As **Raymond Fisman** and **Edward Miguel** explain, that need not be the case. With a solid understanding of economics—and a little creativity—Fisman and Miguel reveal how smugglers, cheats, and corrupt politicians often leave tracks for anyone who knows where to look.

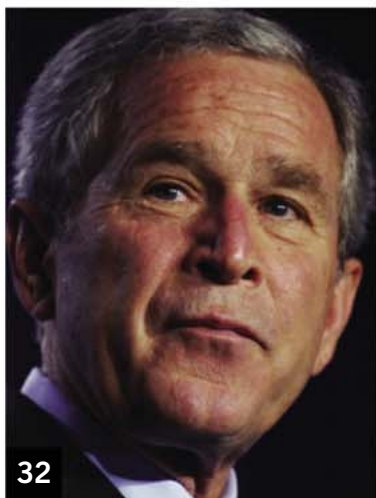
We invite you to look for even more ideas, conversations, and insights from these articles on ForeignPolicy.com. Throughout every issue, we highlight additional Web-only features tied to the essays and articles you read. For example, after reading Roger Bate's investigation into the rising danger of counterfeit medicine, take our interactive drug quiz. We bet you won't be able to tell the fake meds from the real thing. For a closer look at Kim Jong Il, we have compiled a photo essay on the bizarre life and times of the North Korean dictator. Or, check out interviews with our authors or ask them the questions you'd like them to answer. It's never hard to find these—and other fascinating features—at ForeignPolicy.com.



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Inside the booming market
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COVER: PHOTOILLUSTRATION BY FP;
PHOTO BY TODD WARSHAW/GETTY IMAGES

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66 How Economics Can Defeat Corruption What's the dirtiest secret about corruption? Just how little we know about it. Treasuries are plundered and kickbacks are paid, but the nature and scale of the world's shady transactions remain a mystery. Luckily, a little economic detective work is all that's needed to expose the smuggling, cheating, and bribing that is hiding in plain sight. *By Raymond Fisman and Edward Miguel*

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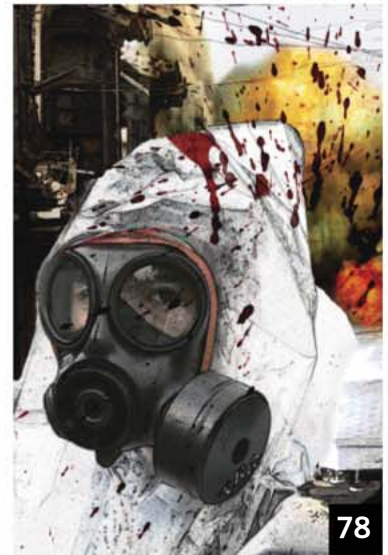
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The story of Kim Jong Il, from the teacher who watched him grow up.



In our annual survey, top terrorism experts see new hope for an old war.

TOP: CHIEN-CHI CHANG/MAGNUM; BOTTOM: PHOTOILLUSTRATION BY TRAVIS DAUB



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Major League Debate

We have great respect for Thomas Carothers's work on strengthening democracy and the rule of law. However, he misstates our proposal for a "Concert of Democracies" in three ways ("A League of Their Own," July/August 2008).

First, though Carothers recognizes that we do not intend a Concert of Democracies to replace the United Nations, he overlooks such a concert's potential for reforming it and other global institutions. One of the things that all members of a Concert of Democracies—which could include Argentina, Brazil, Chile, India, Indonesia, Mexico, South Africa, Turkey, and many other states—would agree on is that the circles of global decision-making need widening. If the concert gained sufficient credibility—or political legitimacy—it could speak with a collective voice on great issues of the day when the United Nations failed to do so, providing an additional incentive for reform.

Second, Carothers assumes that the concert's members would be carefully vetted for their willingness to do America's bidding. Our vision is radically different. We do not for a moment expect all liberal democracies to align harmoniously on international issues. On the contrary, we believe that the overwhelming opposition of friendly democracies around the world during the lead-up to the invasion of Iraq would have had far greater resonance in American public opinion than the opposition of the Security Council.

Third, and most important, tackling the challenges of the 21st century will require a wide array of institutions. The experience of the past century suggests that democracies are unusually capable of working together not only to solve common problems but also to champion a world of inclusive and multilateral rules and institutions. As Carothers himself recognizes, the Organisation for Economic Co-operation and Development, the European Union, and NATO all coexist with and support global institutions such as the United Nations and the World Trade Organization. The burden is on him to explain why a world that also included a Concert of Democracies

supported by countries both North and South would be so bad.

—G. JOHN IKENBERRY AND
ANNE-MARIE SLAUGHTER

Professor and Dean,

The Woodrow Wilson School

Codirectors,

The Princeton Project on National Security

Princeton University

Princeton, N.J.

No one dissects an idea with greater rigor than Tom Carothers. But, in his critique of the idea of a League of Democracies, he has wielded his scalpel a bit too vigorously.

First, if other major democracies don't wish to join such a league, there won't be one. It isn't something the United States should or could impose. Today we don't know what answer other democracies might give. I am more optimistic than Carothers is, based on my own conversations with foreign officials. But is there any harm in asking the question? If other democracies did want to join, that would go a long way toward validating the concept and, in my view, would answer most if not all of Carothers's objections.

As for the complaint that a collection of democracies would not necessarily perceive all its interests in common, that is certainly true. However, if that is the test for a successful international organization, I can think of very few that would pass, least of all the United Nations (which, by the way, a League of Democracies is not intended to replace). Would Carothers have us disband the G-8?

Even in the two existing leagues of democracies, NATO and the European Union, there are frequent occasions when nations do not agree with each other. Yet they survive and even prosper.

One of the hopes of a league of democracies, however, is that democratic nations such as India, Indonesia, and South Africa, which still often act more like postcolonial powers, might be inclined to think more like democracies if they were members of an international association of like-minded peoples. I honestly can't see the harm in trying.

—ROBERT KAGAN

Senior Associate

Carnegie Endowment for International Peace

Brussels, Belgium



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FOR INTERNATIONAL PEACE

Thomas Carothers replies:

I appreciate these thoughtful responses to my article. Both replies take issue with my skepticism that a broad group of democracies would work together more effectively on a wide range of issues than existing international institutional groupings. Yet John Ikenberry and Anne-Marie Slaughter seem to be unsure themselves. They state that a concert of democracies “could speak with a collective voice on great issues of the day,” while also noting that “[w]e do not for a moment expect liberal democracies to align harmoniously on international issues.”

I am genuinely puzzled by their argument that such a concert might have constrained the United States in the lead-up to the Iraq invasion. Many democracies, including close U.S. allies, made crystal clear their opposition to the war, with little discernible effect on U.S. plans. I doubt this would have been different had they been members of a concert (which would in any event have been divided on the issue).

Robert Kagan acknowledges that a broad group of democracies would often not dovetail, but he notes that NATO and the European Union prosper despite internal disagreements. Those organizations are more limited, however, in regional makeup and substantive focus than the proposed league. Kagan hopes that rising Southern democracies would act less like “post-colonial powers” as members of a league. Yet these countries’ fierce attachment to sovereignty, often in opposition to American ambitions (evidenced, for example, by South Africa’s siding with China and Russia to vote against the recent U.N. Security Council resolution condemning Zimbabwe) isn’t going anywhere. If anything, it’s on the rise.

As to what harm there could be in simply experimenting with a league, should a new American administration expend its precious initial diplomatic capital pushing a grand idea that has so far elicited little applause abroad and has significant chance of failure?

the real roots of tension between Western and Muslim societies—despite a proliferation of efforts to improve relations. Unfortunately, she proceeds from that sound starting point to mistakenly assert that interfaith dialogue and education somehow make these efforts less likely.

Abdo laments the amount of money spent on educational efforts, for example. Yet the U.S. government spends less money on cultural exchanges with the Middle East than it does on exchanges with Western Europe—or any other region for that matter.

Abdo sets up the straw man of a Muslim-American lobby and proceeds to tear it down, accusing it of under-emphasizing the degree of anti-American sentiment existing in Muslim countries. But, though anti-American sentiment has shot up in virtually every country in the world during the past eight years, the U.S. embassies in Arab countries also deal daily with long lines of people hoping to immigrate to the United States.

Many polls, most notably the Gallup World Poll of some 40 Muslim countries, have shown that majorities of Muslims admire American principles, values, and accomplishments, even though they strongly resent U.S. foreign policy.

Although global terrorism remains a serious threat and Abdo’s prescription of political dialogue is very important, her diagnosis and critique will only support those who exploit and benefit from irrational fears. Yes, there are too many “talkfests” that exclude Islamist movements. However, to advance the cause of political dialogue, we need more voices that continue to advocate for broader inclusion instead of playing to our fears or dismissing constructive efforts. As someone who has worked for many years to move beyond debate to building practical initiatives, I believe we cannot solve political conflicts by ignoring the interfaith and cultural dimensions.

—JOHN L. ESPOSITO

Professor, Georgetown University
Director, The Prince Alwaleed Bin-Talal
Center for Muslim-Christian Understanding
Washington, D.C.

In Bad Faith?


Geneive Abdo (“False Prophets,” July/August 2008) rightly points out the deficit of political will in addressing

Geneive Abdo replies:

Few people have done more than John Esposito to ensure a hearing for Muslim

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[Letters]

voices. Yet his defense of interfaith dialogue and cultural programs as effective tools for engaging Muslim populations is deeply deficient: He fails to explain how such approaches help curb extremism and anti-American sentiment.

My primary argument is that the U.S. government, absent any coherent policy to win over Muslims abroad, has instead employed its own domestic population—primarily American Muslims—to legitimize its policies. Similarly, institutions and organizations, such as the ones in which Esposito is intimately involved, are preaching to the converted under the guise of addressing the urgent problem of extremism.

Interfaith dialogue programs might feel beneficial, but U.S. and European government statistics prove otherwise: Radicalization is on the rise in Europe and across the Islamic world, even as millions are spent on promoting cultural “understanding.”

Esposito refers to the Gallup poll of Muslim societies to support his argument. He fails to mention that he is a paid consultant for this polling project. Furthermore, there are many credible polls contradicting the Gallup data and showing great percentages of Muslims loathing the United States as well as its policies.

Esposito's analysis represents an outdated school of thought about contemporary Islam. His views might comfort American politicians, autocratic Arab governments, and Westernized Muslims, but there is little or no evidence to suggest that the vast majority of Muslims agree.

India Plays Catch-Up

I agree with Yasheng Huang (“The Next Asian Miracle,” July/August 2008) that there need not be a conflict between economic growth and democracy, that India's recent economic miracle is an extremely important, hopeful development, and that China can learn from India's political experience. But I don't agree that his comparison of the development experiences of India and China during the past 30 years “tells us much about the relationship between democracy and growth, governance and prosperity.”

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Huang points out that it is not so much the level of democracy in a country that influences economic growth, but the direction of change in the political system. This useful philosophical point has little practical value in explaining differences in economic performance, however. Even India's experience shows that political liberalization does not generate growth unless it is accompanied by sound economic policies—which in India's case means economic liberalization.

His argument that China's political clampdown after the Tiananmen crisis underlies the economic slowdown and growing social inequality in the 1990s falls far short of acceptable empiricism. China's growth actually accelerated in the 1990s due to economic liberalization before the Asian financial crisis of 1997–98 triggered a temporary slowdown.

Huang also misinterprets China's recentralization of economic management in the early 1990s, its infrastructure investment policies (which on the whole have been farsighted and well-balanced), and the emphasis on high-rise construction in urban development. Where else can China's cities go, but up?

One may not like China's political system, but the country's growth and development experience during the past three decades, even in social dimensions, has been unquestionably superior to India's. India may eventually catch up. But so far, all we can say is that the rate at which it is falling behind China in terms of economic development has slowed down.

—PIETER BOTELIER

*Senior Adjunct Professor of China Studies
School of Advanced International Studies
Johns Hopkins University
Washington, D.C.*

Huang persuasively argues that China's growth rate is favorable to India's not because of some "authoritarian edge," and his reminder that democratic India is doing very well is a welcome one. But while India's performance is impressive in areas where

For More Online

Yasheng Huang answers reader questions about his provocative article, "The Next Asian Miracle," at ForeignPolicy.com/huang.




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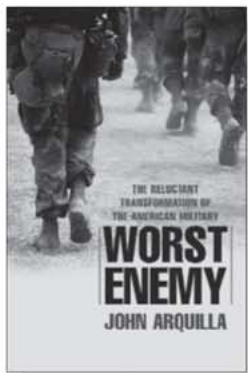
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the private sector has a free hand, those areas are few and far between. The dysfunction of India’s public sector in addressing such core responsibilities as law and order, infrastructure, and healthcare, is striking.

Indira Gandhi’s biggest fault was not reliance on patronage but the conversion of the Congress Party into a family business and the creation of a political dynasty to lead it. Over time, other Indian politicians saw how easy and lucrative it was to establish political parties of their own. Consequently, political dynasties have become the norm in India, seriously undermining the government’s effective delivery of services.

Corrupted as they are by the party system, India’s institutions are incapable of enforcing accountability. India’s elites tolerate a level of poor governance and abuse of power that has led to the collapse of democracy elsewhere. When politicians amass wealth by misusing their office, when politicians with criminal records (for crimes including kidnapping, rape, and murder) are elected to Parliament and even become cabinet ministers, or when ministers fail abysmally, the public responds with a collective yawn. Not surprisingly, India has failed to reach its potential.

—APPU SOMAN
*Research Fellow
The Belfer Center for Science
and International Affairs
Harvard University
Cambridge, Mass.*

Yasheng Huang replies:
Contrary to Pieter Botellier, I did not say that Chinese GDP growth suffered in the 1990s; I pointed out that its distribution worsened and that household income growth slowed down. And while we’re on the subject, GDP actually grew slightly faster in the 1980s than in the 1990s. A reasonable reader cannot possibly infer from my article that I discount the impact of liberal economic policies. Quite the opposite, political liberalism is conducive to economic liberalism in both China and India. The research I compiled for my most recent book shows that the reversal of liberal reforms during the 1990s was far more drastic than Botellier’s rosy view.

I am puzzled by Botellier’s comment about urban skylines. I was not expressing



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a personal opinion on the height of buildings. (In fact, I like tall buildings.) What I argue is that a country should invest more in education and healthcare rather than in skyscrapers, a point tragically illustrated during the recent earthquake. I would welcome a more serious debate on this issue.

Appu Soman rightly points to the dysfunctional aspects of the Indian system. Nowhere do I argue that Indian democracy is perfect. My argument is a dynamic one—India today is more democratic than it was in the 1970s, and economic growth began when the country improved governance. India must improve its public-sector performance. A bigger problem, though, is not that the system is intrinsically incapable of supplying accountability, but that its population chooses not to demand it.

Look no further than the current prime minister, Manmohan Singh. Hand-picked by Indira Gandhi's family and never forced to face elections on his own, he remains a weak and ineffective leader. India would be much better off if it weaned itself from

its unhealthy addiction to Gandhi's legacy, which Soman and I agree has had disastrous consequences for India's economic performance.

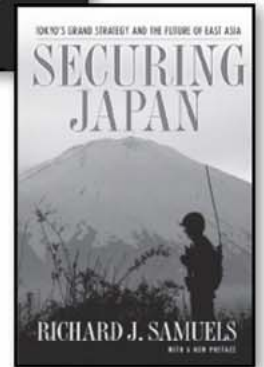
States of Failure

Although FOREIGN POLICY and the Fund for Peace's "Failed States Index" (July/August 2008) seeks to measure the strength and stability of countries based on a variety of factors, it does not properly account for historical context and relative progress, both of which are vital to understanding Afghanistan's circumstances today.

Prior to the defeat of the Taliban in late 2001, Afghanistan had been wracked by war for more than 20 years. Those conflicts, which were fueled by international actors, effectively destroyed Afghanistan's state institutions and scattered its people. In that sense, Afghanistan was a failed state. But it is no longer accurate to describe it as such today.

Building state capacity is a process that can span decades. Few countries

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developed into functioning states overnight. In fact, many took generations to do so. It took 21 years after the American Revolution before the United States saw a year of peace, almost 100 years before it abolished slavery, and 137 years before women could vote.

Although some may argue that the backing of the international community should assure quicker progress, Afghanistan still faces dangerous neighbors, a committed terrorist enemy, and a daunting reconstruction process.

Despite these challenges, Afghanistan has already drawn out the contours of a democratic system, brought women into the political process, and enrolled more than 6 million children in school—a fivefold increase since 2001.

Afghanistan is not yet in the clear, as recent security incidents indicate. But with committed and consistent international support, Afghanistan will continue to establish and strengthen its institutions. The process will be neither quick nor cheap. Only if the world treats it as

such will Afghanistan run the risk of once again becoming a failed state.

—SAID T. JAWAD

*Ambassador to the United States
Embassy of Afghanistan
Washington, D.C.*

Your classification of Israel among the world's most vulnerable states for the first time raises a central question about what it means to be a low-functioning state. Should measures of failure not weigh state functioning against the challenges a state confronts?

At least in Israel's case, the issue is not this year's level of "group grievance" or refugee displacement, as the rankings may suggest. It is how well the state produces services and protects citizens' rights in light of those long-standing challenges.

The occupation of the West Bank has had negative effects on daily life for Palestinians, but Israel does not relish the difficult job of combating terrorism there. Unfortunately, though the Palestinian Authority has produced gains in law and order in some areas, it has

shown no inclination to arrest militants or disrupt terrorist operations.

Although the West Bank's economic indicators may look bleak, Israel's government does much to safeguard its population's well-being. The public apathy you cite is only relevant because Israel remains the Middle East's sole democracy. Israel also recognizes that its own vital interests lie in the creation of a viable Palestinian state as soon as possible.

You argue that "weak states are weak precisely because they lack the resiliency to cope with unwelcome—and unpleasant—surprises." Regrettably, Israel's rich 60-year history is full of unpleasant surprises from neighbors committed to its destruction, most recently Iran and its proxies, Hamas and Hezbollah.

The Failed States Index views such challenges only as sources of instability. But when one views them as obstacles that a state has consistently overcome, Israel is doing just fine.

—DOUG LIEB

*Executive Assistant to the Executive Director
American Jewish Committee
New York, N.Y.*

The Fund for Peace replies:

Both Said Jawad and Doug Lieb raise valid concerns regarding how one can interpret the results of the Failed States Index. However, two clarifications are needed. First, the index measures "conflict risk" on a continuum. All 177 countries assessed, including those that are stable, have some risk, which is measured by the index in an annual snapshot of state vulnerability. Not all states in the top 60 are "failed" or "failing," but they do exhibit significant vulnerability to violent conflict. Second, every state can cite its own unique historical circumstances that provide meaningful context. Although that can be valuable, it does not provide policymakers with concrete ways to measure evolving risks.

In the case of Israel, which unquestionably has made remarkable progress in its 60-year history, these risks have, in fact, worsened recently. In the Failed States Index, assessments are applied equally, whatever the heroic achievements of the past or the unique qualities of the "obstacles that must be overcome"—another way of saying that significant sources of instability do indeed exist.

Jawad also raises the issue of historical context with regard to his country,

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Afghanistan. Here, too, there is a case to be made that the country has seen commendable progress in some areas and that it still faces huge challenges in others. None of that negates the risk profile in the index, which demonstrates more precisely what those challenges are and how far Afghanistan must go to achieve sustainable security.

For all countries, the index tracks progress—or deterioration—objectively. Rather than ignoring the past, the index is a means for enabling decision-makers, especially in risk-prone states, to shape the future. However, if they ignore the warning signs that the index offers, the risk of failure will only grow.

—PAULINE H. BAKER

*President
The Fund for Peace
Washington, D.C.*

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A MESSAGE FROM AMBASSADOR JOHN BRUTON



HEAD OF DELEGATION *European Commission Delegation to the United States*

Immigration offers both opportunities and challenges for the EU. The European population is aging rapidly, so we need immigrants to maintain our current levels of prosperity. However, illegal immigration strains social services and poses a significant risk to the EU's security.

The EU has been working to develop a comprehensive immigration policy that reflects the needs of individual member countries while setting consistent EU-wide standards. Economic prosperity, enhanced security, respect for human dignity and guaranteed fundamental rights are key principles of this policy. It also ensures fairness in the way EU Member States treat immigrants, and in many cases involves a distinct improvement in the rights of migrants in comparison with the present situation.

In the current edition of *EU Focus*, I invite you to learn more about the EU's approach to immigration, ranging from legal avenues for immigration and the integration process to the role migration plays in development.

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September 2008

The EU and Immigration: Opportunities and Challenges

"Immigration will, in the years ahead, be one of our biggest challenges, offering opportunities of growth and jobs for our aging economies and of development for countries of origin."

—Jacques Barrot, European Commission Vice-President for Justice, Freedom, and Security

From ancient times, humans have journeyed across the earth in search of a better life. Today, migration has become a permanent international phenomenon—unprecedented in its volume and scale—and one of the most visible challenges of globalization.

The EU and the U.S. face comparable opportunities and challenges from immigration in the 21st century. Both need immigrant labor to help assure continued economic growth and prosperity. Both are coping with the impact of immigration on social services and trying to find the proper balance between the economic need for immigrants, the challenge of integrating them into society, and the need to curb illegal immigration.

Aligning the immigration policies of 27 Member States, each with its individual historical and cultural ties to various countries that are traditional sources of EU immigrants, poses a significant challenge to the EU. Even the U.S., with its federal government, common language, and unifying historical and cultural background, is confronting significant resistance to adopting immigration reform.

The EU is developing a comprehensive European migration policy that is underpinned by principles promoting prosperity, solidarity, and security and the EU's value system, particularly its unwavering support for human rights and diversity.

While it falls to the individual EU Member States to grant residence rights to immigrants and asylum seekers, the EU strives to set a continental standard governing and facilitating numerous procedures and conditions relevant to asylum, legal and illegal immigration, and integration.

The EU aims to enhance economic opportunities and integration measures; ensure equivalent rights and treatment for non-EU nationals throughout the EU; support an integrated approach to the management

of its external borders by helping equip countries with comparable tools and expertise; and develop a coherent global approach to migration involving partnerships with immigrants' countries of origin.

Well-managed immigration can play a significant role in alleviating the impact of demographic aging and help Europe deal with labor and skill shortages. Without a credible European strategic initiative on economic immigration, however, the strong push/pull factors of immigration are likely to overpower existing national rules and legislation. The EU is striving to create a committed and consistent migration policy that optimizes the opportunities and resolves the challenges for all involved.

The EU and Immigration: Facts and Figures

Of the EU's approximately 495 million people, 18.5 million are non-EU nationals—just under 3.8 percent of the total population.

Recent projections suggest a natural decrease in the EU population between 2010 and 2050. Assuming zero net immigration, the EU's population would decrease by 26 million by 2030 and by 50 million by 2050.

Barring immigration, by 2050, the working age population (15-64 years old) in the EU is forecast to decrease by 59 million, posing a major economic challenge.

The largest immigrant populations in the EU are from Turkey, Morocco, Albania and Algeria.

European Commission Communication, "A Common Immigration Policy for Europe"



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- 4 Countering Illegal Immigration and Its Impact
- 6 The EU's Global Approach to Migration
- 8 A Common European Asylum System Based on Humanitarian Values

Managing Legal Immigration and the Integration Process in the EU



EU rules facilitate admission for students.

"Immigration is one facet of globalization which demands a European rather than a national response to be effective....

We need a European approach to legal immigration if we want to be serious in becoming the most competitive, knowledge-based society in the world."

European Commission President
José Manuel Barroso

By definition, immigration is a cross-border activity. EU leaders agree that in view of the Union's open borders, existing national legislation on immigration, while remaining distinct, should be "harmonized" to regulate migration flows according to the needs of the economy and Member States' abilities to absorb and integrate new immigrants. Over the past decade, the EU has been working to develop a comprehensive EU-wide immigration policy that is flexible enough to adapt to particular circumstances in individual member countries, while still setting consistent EU-wide standards.

Although far from complete, EU rules are being established to define the criteria for entry of legal immigrants into the EU, to promote integration of immigrants into society, and to curb illegal immigration and trafficking of immigrants.

Legal Immigration: Rules and Rights—A Work in Progress

EU legislation on legal immigration is typically tied to existing work or study arrangements and concerns:

- **Family reunification:** Underpinned by respect for fundamental rights, the EU outlines conditions under which legal immigrants with valid residence permits have the right to bring spouses and minor children into the EU.
- **Long-term residents:** Legal residents who have resided in the EU for more than five years are

granted rights comparable to those of Member State citizens, including reinforced protection against expulsion; equal treatment with EU nationals in many economic and social matters; and the right to reside in another Member State for work, study, or other specified purposes. A proposed amendment would extend the legislation's scope to refugees and beneficiaries of subsidiary protection.

- **Students:** EU-wide rules simplify admission for non-EU citizens for academic studies and exchanges, unpaid training, or volunteer work.
- **Researchers:** EU legislation facilitates admission for scientific researchers.

Two recent proposals will continue to advance the EU's immigration agenda:

- **Legal status of non-EU workers:** The proposed legislation introduces a streamlined, single application and permit procedure for immigrants to reside and work legally in an EU Member State; it guarantees a common set of work-related rights ensuring fair treatment, such as equal pay for equal work.
- **Highly skilled workers:** The proposal seeks to facilitate admission and residence for qualified immigrants to take up highly-skilled employment in EU Member States through issuance of an EU Blue Card, entitling the holder to a series of socio-economic rights.

Additional proposals addressing unskilled (including seasonal) workers, paid trainees and intra-corporate transferees are planned for the near future.

Competing for Highly Skilled Workers: EU Blue Card

Highly-skilled foreign workers constitute only 1.7 percent of the EU workforce in contrast to almost double this rate for the U.S. (3.2 percent) and still higher levels for Australia (9.9 percent), Canada (7.3 percent) and Switzerland (5.3 percent). International competition for these workers is intensifying, particularly from fast-growing, emerging economies.

To respond to increasing demands for highly qualified immigrant labor and to offset present and anticipated skill shortages, the EU has launched a proposal designed to help attract the "best and brightest" foreign workers. This fast-track procedure for the admission of highly-skilled immigrant labor does not create the right of admission. Rather it is demand-driven and contingent upon a work

contract, professional qualifications, and a specified minimum salary level three times above the national minimum wage level.

Workers admitted under these schemes will receive an EU Blue Card—a special residence and work permit entitling them to a series of socio-economic rights and favorable conditions for family reunifications. EU Blue Card holders, after two years of legal residence in a Member State, can move to another Member State for highly skilled work provided they have a work contract.

The EU promotes ethical standards to limit—if not ban—active recruitment for highly skilled workers in developing countries, particularly in Africa, suffering from serious "brain drain."

Helping Immigrants Integrate into Society: EU Values at Work

Legal immigration and integration are two sides of the same coin—inseparable and requiring mutual reinforcement. Immigrants are a critical component of the EU's competitiveness strategy, and their full potential can only be realized by giving them the opportunity to integrate into the host society and economy.

While the Member States are primarily responsible for the development and implementation of integration policies, the EU has enumerated eleven Common Basic Principles (CBP), which form the basis of the EU-wide approach to help bring immigrants into the mainstream of society. These principles take into account the legal, political, economic, social and cultural diversity of the Member States.

The EU is developing a European framework on integration of non-EU nationals, based on the CBPs, which is designed to support and lend coherence to national actions. The European Integration Fund (EIF) can help finance national, transnational or EU actions aimed at integrating non-EU nationals, as well as projects that help Member States share their experiences and best practices.

Funding

Integration measures depend on financial resources and the EU bolsters Member State integration policies through various funding measures. Through 2006, the INTI Program (Integration of Third Country Nationals) co-financed projects designed to put the CBPs into practice. One transnational project is testing a new multi-faith approach to integration aimed at fostering integration among migrant communities in the EU by familiarizing religious leaders with the core European values and the EU's multicultural and multi-faith environment.

Of the nearly €4 billion the EU has committed for migration issues over the 2007-2013 period, €825 million is assigned to the EIF. The bulk of funds are distributed to Member States for programs covering areas including civic orientation, language, history and culture. The EIF can help finance national, transnational, or EU actions aimed at integrating non-EU nationals in the host country, particularly recent arrivals. It will also help Member States share their experiences and best practices, strengthening teamwork at the EU level.

Additional Tools and Resources

National Contacts Points on Integration. This network of Member State officials meets regularly

to exchange and discuss best practices. The Network provided valuable input for the preparation of the first Handbook on Integration, a "how-to" document on integration, published in 2004.

Handbook on Integration for Policymakers and Practitioners. The second edition was issued in 2007 to further advance the exchange of information and best practices, with an emphasis on policymaking and integration; economic integration; access to quality housing for immigrants; and integration governance.

European Migration Network (EMN). EMN collects, analyzes and distributes data on asylum and immigration in order to provide backup for the European Union's decision-making process in this area. Comprised of designated National Contact Points and the European Commission (the EU's executive arm), EMN addresses the need to exchange information on all aspects of migration and to contribute to a common asylum and immigration policy.



Employment is key to the integration process.

Common Basic Principles for Immigration Policy: A Synopsis

1. Immigration is a dynamic process of mutual accommodation by immigrants and Member State residents.
2. Integration implies respect for the EU's basic values.
3. Employment is a key part of the integration process and central to immigrants' participation in society.
4. Basic knowledge of the host society's language, history and institutions is indispensable to integration; enabling immigrants to acquire this basic knowledge is essential.
5. Education is critical for preparing immigrants and their offspring to be active and successful participants in society.
6. Equal and non-discriminatory access for immigrants to institutions as well as to goods and services is important for integration.
7. Frequent interaction between immigrants and EU citizens is fundamental to integration and enhances immigrant/citizen interaction.
8. The EU's Charter of Fundamental Rights guarantees the practices of diverse cultures and religions, which must be safeguarded unless they conflict with inviolable European rights or national law.
9. The participation of immigrants in the democratic process and in the formulation of integration policies, particularly at the local level, supports integration.
10. Mainstreaming integration measures in all relevant policies, levels of government, and public services is a key consideration.
11. Developing clear goals, indicators, and evaluation mechanisms is necessary to adjust policy, evaluate progress on integration, and make information exchange more effective.

Countering Illegal Immigration and Its Impact:

EU Policies and Enforcement Tools



"Getting the balance right between clamping down on illegal immigration and welcoming those migrants we need for our economic and social well-being is essential. And we should not miss our target here—we need to be fighting those who organize illegal immigration, not the migrants themselves."

Benita Ferrero-Waldner,
EU Commissioner for
External Relations and
European Neighborhood Policy

An effective immigration policy is not limited to admission instruments and the integration of legal immigrants. It also requires a competent, resolute fight against illegal immigration and its negative impacts, including traffickers' roles in smuggling illegal immigrants.

Illegal Workers. One of Europe's greatest attractions for illegal immigrants is the possibility of finding work and a better way of life in the European Union. Illegal employment is concentrated in certain sectors, particularly construction, agriculture, cleaning, and hotel/catering, where they help meet the needs of some employers willing to take advantage of workers who will accept what are mostly unskilled, often unsafe, and generally low-paying jobs. Some migrants enter a Member State by using forged documents or organized criminal networks; others enter legally and

simply "overstay" their visa. The scale of the phenomenon is hard to quantify, and estimates vary from between 4.5 million to 8 million.

This "pull" factor is also responsible for the many deaths each year of illegal immigrants who take often tragic journeys, many times organized by traffickers, to reach the EU. Work on the black market distorts competition and exposes immigrants to exploitation, rendering them nameless, deprived of social welfare benefits, and leaving them effectively homeless and outside the law. The EU has made it a key priority to accelerate the fight against illegal employment.

Employer Sanctions. A 2007 European Commission proposal targets employment of illegal immigrants in the EU by requiring employers to obtain from non-EU citizens a valid residence permit or comparable authorization good for the duration of the employment. Building on existing national measures, the objective is to ensure that all Member States introduce similar penalties for employers of undocumented workers and enforce them effectively. Penalties run the gamut from fines and other administrative measures to criminal action in severe cases. Enforcement will be stepped up through increased inspections throughout the Member States.

Enforced Removal (or Voluntary Departure) of Illegal Immigrants. In June 2008, the European Parliament voted for a directive encouraging the voluntary return of illegal immigrants, but otherwise mandating minimum standards for their treatment. The new legislation ensures that immigrants receive similar treatment regardless of the Member State that carries out the return procedure, and addresses voluntary departure periods, the use of coercive measures, temporary custody, re-entry, and the fundamental rights of the persons affected. The new directive also provides for legal aid to be granted to illegal immigrants who have no resources of their own.

The EU Return Fund provides €676 million (2008-2013) to help Member States with the voluntary return of illegal immigrants, counseling for unsuccessful immigration applicants, and measures such as cooperative return flights with other Member States.

Human Trafficking and Immigration

Combating human trafficking is an essential element of the EU's efforts to improve the security of its external borders and to thwart illegal immigration.

Migrant smuggling and human trafficking are frequently linked to international organized crime networks and to the demand for cheap and illegal services. To counter this growing phenomenon, the EU promotes cooperation and information sharing among Member States, particularly those that are party to the Protocol against the Smuggling of Migrants by Land, Air and Sea, which supplements the United Nations Convention against Transnational Organized Crime.

The Protocol calls for countries to adopt legislation that will help prevent, investigate, and prosecute those involved in smuggling migrants or facilitating their entry or illegal stay in a country with fraudulent documents. It also advocates full cooperation and compliance with the law of the sea to prevent the smuggling of migrants by sea.

Developing Europe's Architecture for Border Management

As the EU's internal borders dissolve, controls at the Union's external frontiers are being strengthened. The EU plays a vital role in supporting Member State measures and in developing a coordinated and integrated management system for its external borders.

The Schengen Area

In 1985, Belgium, France, Germany, Luxembourg and the Netherlands signed an agreement at Schengen, Luxembourg, to enable "...all nationals of the Member States to cross internal borders freely." The Schengen area has grown dramatically since that time, to 24 European nations, and continues to enlarge. Within the expanding Schengen area, borders have disappeared between Member States, and EU residents and outside visitors are free to travel without systematic passport checks, although individuals can still be asked to prove their identity.

As the Schengen area has grown, the EU has developed a detailed series of measures designed to compensate for the abolition of internal border controls by reinforcing security at the Union's external borders, including common rules on visas, the right of asylum, and external border checks. The Schengen Information System (SIS), at the heart of Schengen controls, is a shared database used by Schengen members to maintain and distribute information relevant to border security and law enforcement. Member States supply information to SIS through national networks connected to a central system.

Schengen's current members include non-EU countries Iceland and Norway, and all but three of the EU's 12 newest members. EU Member States Cyprus, Bulgaria, and Romania will participate fully eventually. Non-EU members Switzerland and Liechtenstein are also in the process of becoming Schengen participants. Ireland and the United Kingdom do not apply the Schengen provisions on border controls, but continue to check the identity of everyone entering their territory, except from one another's territory.

Border Protection: Operational Measures

FRONTEX is the EU's Warsaw-based European Agency for the Management of Operational Cooperation at the External Borders, and works to improve the integrated management of the Union's external borders. Agency tasks include coordinating operational cooperation

between Member States in this field, risk analysis, and training border guards. FRONTEX also organizes joint operations along the EU's external borders, particularly in areas that are vulnerable to illegal immigration, including the Canary Islands, the Mediterranean, eastern land borders, and major European airports.

Rapid Border Intervention Teams (RABIT) are designed to provide rapid operational assistance for a limited duration in response to a request by a Member State facing urgent and exceptional pressure by large numbers of migrants at the country's external borders. Member States contribute to the pool of border guards.

The **European Patrols Network (EPN)** brings together existing Member State maritime patrolling activities, primarily along the EU's southern maritime borders. In combination with regular information exchange, this operation facilitates more efficient control of the Union's maritime borders and reduces related costs.

The **External Borders Fund** has committed an estimated €1.8 billion between 2007 and 2013 to upgrade infrastructure (e.g. border crossing points and video surveillance) along the 6,000 kilometer land and 85,000 kilometer coastline which make up the EU's external border.



"The enlargement of the Schengen area demonstrates the EU's commitment to facilitating legitimate traveling within and into the EU whil[e] at the same time improving the security of Europe's external borders."

—Jacques Barrot, European Commission Vice-President for Justice, Freedom, and Security

Border Security in the 21st Century

The EU is considering ideas for a 21st century integrated border management system that will rely heavily on technology along with intensified Member State cooperation to facilitate legal border crossings and help secure the Union's frontiers against illegal immigrants, trafficking and organized crime, and terrorists. New initiatives anticipated over the near- to medium-term include:

- Enhancing border surveillance through new technology and improved cooperation and information-sharing among Member States.
- Creating a European Border Surveillance System (Eurosur) to facilitate the use of state-of-the-art technology for border surveillance and provide the common technical framework for streamlining cooperation and communication between Member States' authorities.
- Reinforcing operational coordination between Member States through FRONTEX and intensifying joint operations between Member States, including sea border patrols.
- Facilitating legal border crossings while enhancing security through technology, including the introduction of a biometric entry/exit system for non-EU citizens; automated border crossing facilities for EU citizens and specified non-EU nationals (registered travelers); and development of an Electronic Travel Authorization System which might also provide a workable alternative for non-EU nationals requiring visas.

The EU's Global Approach to Migration: Encouraging External Dialogue and Creative Cooperation



"Through these mobility partnerships, the European Union is taking practical steps toward managing migration in a coordinated and responsible fashion, which should better equip both the Union and its partners to meet the challenges posed by migration and to take full advantage of the opportunities it offers."

—Jacques Barrot, European Commission Vice-President for Justice, Freedom, and Security

The EU is pioneering an innovative, global approach to migration management by promoting dialogue, close cooperation, shared responsibility and tailored partnerships with immigrants' countries of origin and transit. The objective is to formulate short-term actions to streamline legal immigration, stem illegal migration, and in the longer term, address the root causes of migration, especially poverty.

Benefits are widespread and accrue to the countries of origin and destination, the immigrants, their families, and their communities. The initial focus was on Africa and the Mediterranean, but has recently been extended to the eastern and southern regions neighboring the EU. Two new types of legal migration arrangements are beginning to take shape.

Mobility partnerships, currently in a pilot phase, are designed to foster responsible joint management of migratory flows by the EU, its Member States, and the migrants' countries of origin to serve the best interests of all.

Each side of the migration equation fulfills certain commitments, such as EU or Member State awareness campaigns highlighting available jobs; origin countries' efforts to stop the flow of illegal immigrants to the EU; origin country measures to facilitate emigrants' return; or Union funding to help with

capacity building relevant to migratory issues in countries of origin or transit.

Facilitating the legal movement of people between non-EU countries and the EU, if properly tackled, will contribute to meeting EU labor needs, help origin countries optimize the benefits and limit the negative impacts (such as brain drain) of emigration, and remove or mitigate many of the incentives for illegal migration.

Circular Migration is a form of legal migration that when well-managed allows some degree of legal mobility back and forth between two countries for the purposes of temporary work, study, and/or training. It can help address labor needs in EU Member States and maximize the benefits of migration for the countries of origin through fostering skills transfers and mitigating the risks of brain drain.

Such incentive-based movements between countries of origin and destination can enhance the positive effects from the contribution to development provided by migrants and members of settled diasporas when they visit or return to their country of origin on a temporary basis. For non-EU national residents in the Union, circular migration offers the opportunity to engage in an activity (business, professional, voluntary or other) in their country of origin while retaining their residency in an EU Member State.

Migration and Development: An International Perspective

Migration is an issue of increasing importance for the international community. The EU and its Member States are active participants in and strong proponents of international political dialogue and exchange of best practices concerning how best to improve the linkages between migration and development.

As the rate of migration accelerates and emerging evidence highlights the significant advantages it brings for development in both origin and destination countries, the EU is working with other policymakers through the UN and other global and regional fora to better understand and optimize this complex relationship and maximize its beneficial two-way impact through smarter policies and practices.

The **United Nations High-Level Dialogue on Migration and Development** in 2006 led to the

establishment of a permanent forum on the topic—the **Global Forum on International Migration and Development** (GFMD). The GFMD is a unique multilateral forum designed to examine the potential synergies between international migration and development and to steer current research findings and good practices toward more shared, cooperative forms of migration and development management.



| Skilled worker in Benin.

Migration and Development

Effective management of economic migration is linked closely to harnessing the synergies between migration and development, which can help stem illegal migration and address its root causes. This benefits not only individual migrants and their countries of destination, but it can also contribute positively to development in the migrants' countries of origin through the transfer of remittances, skills and experience acquired by migrants in the host countries.

To help optimize the impact of migration on development, the EU has developed a package of practical measures to make remittances easier, enhance the role of diasporas in the Member States as agents for home country development, encourage circular migration and return to the country of origin, and mitigate the adverse effects of brain drain.

Remittances. The increasing amounts of money sent "home" by migrants can potentially contribute to development objectives in the immigrants' countries of origin. According to EU data on official flows of worker remittances, €19.2 billion was sent outside the EU in 2006. The EU plans to make sending remittances cheaper, faster, and more secure through promotion of measures including:

- Partnerships between micro-finance and mainstream financial institutions;
- Encouragement of development-oriented investment by migrants in their home countries;
- Improved data collection for better understanding of the scale of remittance flows;
- Requirements that payment service providers make charges (e.g., exchange rates used) and other conditions (e.g., execution times) fully apparent to customers;
- Creation of a harmonized EU-wide legal framework for payment services;
- Improved access to financial markets;
- Use of new technology through EU financial support for pilot projects;
- Development of alternative, inexpensive technology-based remittance channels, such as debit cards and ATMs.

Diasporas. The EU encourages participation by diasporas in the EU Member States in the development of their home countries. These communities include naturalized Member State citizens originally from these nations as well as people with the nationality of the country of origin. The EU envisages supporting developing

countries' efforts to set up databases that would help them map their diasporas and build links with them. EU funding would help finance joint projects by diaspora organizations and local groups in support of local development. Youth exchange schemes are encouraged and are focused particularly on migrant communities.

Circular Migration. Migrants' return to their countries of origin—even temporarily or virtually—can foster the transfer of skills to the developing world. The EU has a plan to help accomplish this through circular migration, return policy, and building upon temporary or virtual return programs:

- Encourage circular migration by granting priority status for further temporary employment to workers who have already participated in this program and returned at the end of their contract;
- Facilitate return migration by ensuring the successful reintegration of migrants in their home countries through measures such as transferability of pension rights or recognition of qualifications;
- Build upon temporary or virtual return programs by promoting and supporting measures including e-learning schemes; networking programs; projects by migrants to establish sustainable economic activities in their countries of origin; and the identification of best practices in areas such as secondment or sabbaticals.

Brain Drain. Brain drain has negative consequences for developing countries and the EU has proposed ways to counter its impact and foster "brain gain:"

- Establishing databases for developing countries wishing to improve their knowledge of the labor market;
- Encouraging Member States to coordinate their respective recruitment efforts and develop codes limiting active recruitment in cases that would negatively impact specific developing countries, particularly in the health care and education sectors;
- Cultivating institutional partnerships between the EU and developing countries with entities including research institutes, universities, and hospitals.

Funding. The EU has allocated €205 million (2007-2010) for cooperation in the area of migration and asylum. Designed to stimulate the link between migration and development and to help developing countries improve the management of their migratory flows, the program's funding targets labor migration, illegal migration and trafficking, migrants' rights, and asylum and international protection.

EU Mobility Partnerships with the Republic of Moldova and Cape Verde: First Partnerships Launched June 5, 2008

Moldova. The EU-Moldovan mobility partnership is multi-faceted and based on reciprocity. It promotes improved information, integration, and protection for migrants; matching labor market opportunities; reducing the risks of illegal immigration and human trafficking; strengthening the Moldovan capacity to manage migration; and Moldovan development through efforts to support voluntary return, sustainable reintegration of returning migrants, and circular migration schemes tailored specifically to Moldovans.

Cape Verde. The partnership responds to both sides' expectations, focusing particularly on facilitating short stays for Cape Verde's nationals in the EU and intensified efforts by Cape Verde on readmission and combating illegal immigration. The EU and Cape Verde are committed to mitigating the adverse effects of brain drain—the emigration of highly qualified Cape Verdean citizens—through temporary or permanent return policies aimed specifically at highly skilled Cape Verdean migrants and European nationals of Cape Verdean origin.

A Common European Asylum System Based on Humanitarian Values

"As we look toward a future Common European Asylum System, it is essential that we develop greater convergence, not only of legislation, but also of practice. It is vital that asylum authorities of the Member States have at their disposal concrete support to answer their daily and operational needs...[so that they]...can share information, improve the quality of procedures, and jointly find solutions to emergency situations such as mass arrivals of asylum seekers."

—Jacques Barrot, European Commission Vice-President for Justice, Freedom, and Security

The countries of the European Union have a long tradition of providing protection to people forced to flee their homelands because of persecution or other serious harm. The right to asylum is guaranteed by the EU's Charter of Fundamental Rights and underpinned by the rules of the 1951 United Nations Geneva Convention on the Status of Refugees.

The development of a Common European Asylum System (CEAS) is crucial, given the freedom of movement within the EU. With few border controls between Member States, people can travel unhindered from one EU country to the next. If some governments impose stricter rules than others, refugees would naturally gravitate toward countries most likely to approve their asylum application, resulting in an unfair imbalance among Member States.

The EU's CEAS is based on the humanitarian values shared by all EU Member States and the full application of the Geneva Convention. The idea behind CEAS is to ensure equivalent conditions for access to protection in all EU Member States.

Phase One of CEAS is complete. Launched in 1999, it consists of four principal legislative instruments that guarantee a minimum level of protection and procedural safeguards in all Member States for those genuinely in need of international protection, while preventing abuses of asylum applications that undermine the system's credibility and place additional administrative and financial burdens on Member States.

- **Reception Conditions Directive:** Establishes minimum standards for rights and benefits for asylum applicants to ensure them a dignified standard of living and comparable living conditions in all Member States.
- **Asylum Procedures Directive:** Guarantees minimum standards for examination of asylum applications throughout the Member States, based on the 1951 Geneva Convention and its 1967 Protocol, particularly regarding the definition of "refugee" and provisions against expulsion of the applicant prior to a decision.
- **Qualifications Directive:** Defines the conditions for the qualification and status of non-EU nationals or stateless persons as refugees or as persons who otherwise need international protection; specifies the content of the protection granted.



- **Identifying asylum seekers through fingerprints.**
- **Dublin Regulation:** Requires Member States (plus Norway and Iceland) to use objective criteria to determine which Member State is responsible for examining an asylum application lodged in their territory, in order to prevent "asylum shopping" and ensure that each applicant's case is processed by only one Member State.

EURODAC is a centralized, automated European fingerprint database designed to identify asylum seekers. By comparing fingerprints, Member States can determine whether an asylum applicant or foreign national living illegally within a member country has previously claimed asylum in another Member State or entered Union territory illegally.

A €628 million European Refugee Fund (2008-2013) has been established to support Member States receiving refugees and displaced persons and to apply consistent, fair, and effective asylum procedures.

Phase Two of CEAS, due to be in place by 2010, aims for a higher standard and greater equality of protection throughout the EU, and foresees the establishment of a common asylum procedure and uniform status for those granted asylum or subsidiary protection. It also strives for enhanced solidarity among Member States, so that responsibility for processing asylum applications and granting protection in the EU is shared equitably.



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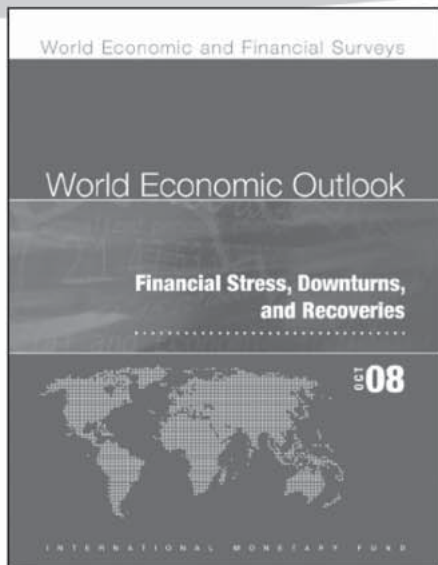
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IN BOX

Escape to Europe

Last September, Hayder Hussian, a 24-year-old Baghdad native, trekked 10 days through a land-mined patch of woods along the Turkish-Greek border in a desperate attempt to immigrate to Europe. Ali Majeed, a 28-year-old computer engineer who escaped Iraq after insurgents raided his home and shot him in the stomach, braved the Aegean Sea on a flimsy rubber raft. They are just two of the nearly 40,000 Iraqis who applied for asylum in the European Union (EU) last year, twice as many as in 2006 and eight times the number received by all other developed countries combined. The influx has made Europe the reluctant new frontier in the Iraqi refugee crisis.

The EU requires asylum seekers to lodge their claims in the first member

state they enter, and for most Iraqis, that means Greece—the least welcoming of all EU nations for refugees. Last year, fewer than 1 percent of Iraqis who requested asylum there were approved. As a result, many Iraqis push north and try their luck in other European countries. But once their identity has been registered with Greek authorities, other EU nations refuse to weigh their asylum applications and send them back to Greece. “It’s a cruel game of chance,” says Bjarte Vandvik, secretary-general of the European Council on Refugees and Exiles. “The merits of your case matter much less than where you happen to land.”

This dilemma has fostered a booming human-smuggling trade, with Iraqis hiring agents to ferry them from the Middle East through Greece to northern Europe—a journey that can be dangerous, grueling, and costly. Salam al-Saadawi, a former translator for the U.S. Army in Baghdad who fled Iraq after receiving death threats, says he hawked his car, his furniture, and his wife’s heirloom jewelry to get \$10,000 for transport to Sweden. He ended up being caught in Greece, where he spent three



No exit: Iraqis are fleeing to Europe by the thousands.

weeks sleeping on the concrete floor of an immigrant detention center with 350 other refugees. After his release, he fled to Sweden, but the Swedish government denied his asylum claim and threatened to return him to Greece. “I said I won’t go back,” Saadawi says. “They treated me worse than a criminal.” Instead, he returned to Baghdad last year.

There might be a solution in sight. In July, the EU agreed to common rules for handling asylum applications, slated to take effect in 2009. Kris Pollet, of Amnesty International’s EU office, says it’s “a move in the right direction.” And that’s all Saadawi and thousands like him are looking for. —*Mariah Blake*

BIZARRE BIOFUELS

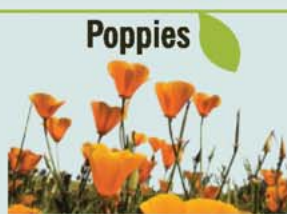
It’s been a tough year for biofuels. Blamed for soaring food prices, rapid deforestation, and even an increase in carbon emissions, fuels from corn and sugarcane have quickly gotten a bad rap. So, energy researchers are investigating a handful of unlikely sources for the world’s next biofuel bonanza.



Kudzu

STATS America’s most invasive plant species could produce 270 gallons of ethanol per acre, comparable to corn.

STATUS **Research phase.** Harvesting large amounts of kudzu may prove difficult because the vine’s roots are deep and much of it grows on hillsides. But given that the “vine that ate the South” can grow more than 6 feet a week, supply shouldn’t be a problem.



Poppies

STATS Experts think Afghanistan’s more than 300,000 acres of poppies could produce 100,000 tons of biodiesel, roughly 2.5 percent of current global demand.

STATUS **On its way.** The idea isn’t just popular with the counter-narcotics crowd—it’s viable. A poppy seed biodiesel plant is already operating in Tasmania, and CSIRO, Australia’s science agency, is hoping to invest in Afghanistan’s crop.



Garbage

STATS Processing 90,000 tons of garbage (about what New York City throws away in a week) could produce 10.5 million gallons of ethanol, enough to fill the tanks of 750,000 flex-fuel cars.

STATUS **Green light.** During the past year, several trash-to-ethanol facilities have been approved in Canada and the United States. The advantage? It’s the most economical option: Garbage is free and plentiful.



Algae

STATS Corn produces about 330 gallons of ethanol per acre. Algae boast an incredible 10,000 gallons.

STATUS **In business.** In April, the first algae biofuel plant opened in Texas. And because algae naturally absorb huge amounts of carbon dioxide, supporters argue the crop can suck up harmful exhaust from power plants. The next challenge? Lowering the production cost, which can climb as high as \$20 a gallon.

Shelter from The Storm

Your retirement savings may soon rest on a bet against Mother Nature. The reason? The rise of cat bonds. Short for “catastrophe bonds,” cat bonds transfer the financial risks that come with disasters such as hurricanes and earthquakes from insurance companies to the broader capital markets. Bruised by the stormy global economy, investment managers are flocking to these bonds in a bid to diversify away from assets linked too closely with suffering market trends, such as mortgage-backed securities. Even with climate scientists predicting more severe storms on the way, cat bonds are proving to be a gamble with plenty of willing takers.

How does a basic cat bond work? An insurance company sells a bond to investors who bet that, say, a hurricane won't hit Miami and cause \$1 billion in damages in the next year. If there is no hurricane, the investors get impressive payouts. But if the hurricane hits and the losses exceed \$1 billion, the insurance company is

off the hook and the investors are wiped out.

Growth in the cat-bond market has been swift. In the two years after Hurricane Katrina devastated New Orleans, the market for cat bonds roughly tripled to more than \$13 billion. Goldman Sachs estimates the market will exceed \$23 billion by the end of the year, and John Seo, a hedge fund manager at Fermat Capital Management, expects it to grow to at least \$150 billion in the next 10 to 15 years.

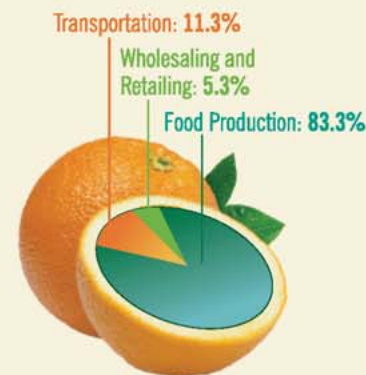
So far, insurance companies and investors consider cat bonds win-win. After Katrina, insurance companies realized their pockets weren't deep enough to cover another major catastrophe. With cat bonds, they are increasingly able to offload some of their risk, especially along vulnerable coastlines. “We have twice as much property value placed in every square mile along [U.S.] coastlines every 10 years,” Seo explains. “Our catastrophe losses are going to double every 10 years.” And the bonds have been a sound deal for investors, returning an average of 11 percent per year since 2005. But given that investors are now betting billions against the weather, their returns can only be as good as Mother Nature allows.



You Can No Longer Argue...

...that buying local food is better for the environment.

Emissions from Food Consumption

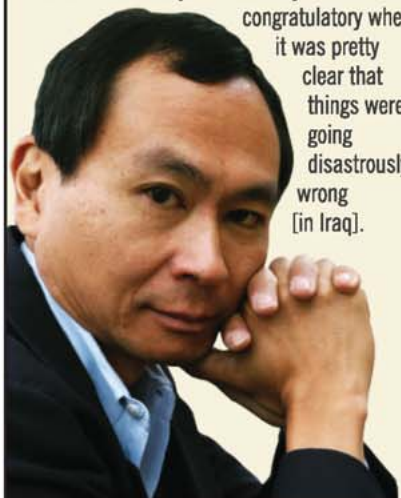


Buying local food won't make much of a dent in your carbon footprint. According to researchers at Carnegie Mellon University, transportation accounts for just 11 percent of the greenhouse gases that the average U.S. household produces from consuming food. Growing and harvesting food account for far more. In fact, eating one less serving of red meat a week achieves the same decline in emissions as buying all your food locally.

Epiphanies: Francis Fukuyama

IT WAS AN [AMERICAN ENTERPRISE INSTITUTE] dinner that really clinched it for me. [It] was February 2004 and everybody in the room was just deliriously self-

congratulatory when it was pretty clear that things were going disastrously wrong [in Iraq].



THE MOST MISUNDERSTOOD THING [about my idea, the “end of history”] was the word ‘history.’ People thought I was saying that nothing was going to happen after the Cold War.

WHAT WE'VE DEVELOPED in this country is a class of professional worriers.

PEOPLE WHO HAVEN'T WORKED in the government sometimes don't appreciate its bureaucratic tribalism—the degree to which loyalty to your particular team tends to override changing your mind in light of new evidence.

I ENDED UP DECIDING I'D VOTE FOR OBAMA by process of elimination. I just don't think the Republicans deserve to get reelected, even with McCain. If you have a big policy failure, you shouldn't get rewarded for it. And I really don't like Hillary Clinton, so that left Obama.

IT'S IMPORTANT FOR PRESIDENTS to have someone who can come up to them and say, ‘You know, Mr. President, you're really full of sh*t.’

THE LEADER I MOST ADMIRE in the 20th century is Deng Xiaoping, who was able to totally change the Chinese economic system because he understood that communism didn't work. What he did was throw aside ideological presuppositions. I worry that Americans are not prepared to think in those terms about their own policies and institutions.

MOST OF THE OTHER THINGS it would be fun to do would require talent that I don't have.

Francis Fukuyama is Bernard L. Schwartz professor of international political economy at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies.

For More Online Read more of Fukuyama's Epiphanies, like his advice for Barack Obama, at ForeignPolicy.com/extras/fukuyama.

The Poppy Trade

Soaring food prices have led to violent riots and swift setbacks in the global fight against poverty this year. But in Afghanistan, which has been hit particularly hard by the spike in wheat prices, a silver lining to the food crisis is emerging. The high price of wheat might be accomplishing something the international drug war never could: convincing Afghan farmers, who supply 90 percent of the world's opium, to abandon poppies for growing food.

Because wheat prices have nearly tripled in the past year, the price of bread for Afghans has risen dramatically. David Mansfield, an independent researcher who has studied Afghanistan's opium market for nearly two decades, thinks that the price increase has made wheat a far more attractive crop to many poppy farmers. In September 2007, the price per kilogram of opium stood around \$90, while the same amount of wheat earned a farmer about \$55. But eight months later, the price of wheat had risen to \$160 per kilogram, while opium prices had barely budged.



Crop swap: Afghan farmers are pulling up poppies for wheat.

According to nearly 500 interviews Mansfield recently conducted with Afghan farmers, poppy yields this year have been much lower than expected, which suggests that farmers are planting more wheat in response to market pressures. "[P]eople said they were going to grow more poppy than they subsequently did," Mansfield explains. He says that even farmers in the poppy capital of Helmand province may have torn up and replanted their fields with wheat as the price began to jump. According to Afghanistan's Ministry of Counter Narcotics, 20 provinces are

poppy free this year, seven more than in 2007, largely because farmers were switching to legal crops.

Still, the likelihood that Afghan farmers will stop growing poppies is remote. Bad roads, checkpoints, and corrupt intermediaries make it hard for many farmers to transport their wheat surpluses to market.

For now, most farmers are finding that extra wheat makes it easier to feed their families or sell locally. But, interestingly, it was supply and demand—*not* aggressive antidrug efforts—that made the progress possible.

FOR THE FIRST TIME

The number of millionaires has surpassed 10 million.

The FP Quiz

Are you a globalization junkie? Test your knowledge of global trends, economics, and politics with 8 questions about how the world works.

- 1** Which country has the world's best healthcare, according to the World Health Organization?
- A France
 - B Norway
 - C Singapore



- 2** Which country has the highest corporate tax rate?
- A Canada
 - B Germany
 - C Japan



BLOGGER

- 3** How many new blogs are created each day?
- A 7,000
 - B 50,000
 - C 120,000

- 4** Which country has the Middle East's fastest-growing economy?
- A Iraq
 - B Qatar
 - C United Arab Emirates

- 5** Which country has the most prisoners on death row?
- A China
 - B Pakistan
 - C United States



- 6** How many countries have nationwide laws permitting same-sex marriage or civil unions?
- A 12
 - B 23
 - C 34



- 7** What is Japan's conviction rate in criminal cases?
- A 69 percent
 - B 81 percent
 - C 99 percent

- 8** How many gallons of fuel does the U.S. military consume each day?
- A 1.5 million
 - B 15 million
 - C 150 million



For the answers, turn to page 124.

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By David Frum

BUSH'S LEGACY

He may be the most unpopular president in modern times: a reckless, unilateralist cowboy. But history will be kinder to George W. Bush than contemporary caricatures. After eight years, he leaves behind much more than a defeated dictator in Iraq. Closer ties to India, a pragmatic relationship with China, and the pressure he applied to Iran will pay dividends for years to come.

“Iraq Is Bush’s Only Foreign-Policy Legacy”

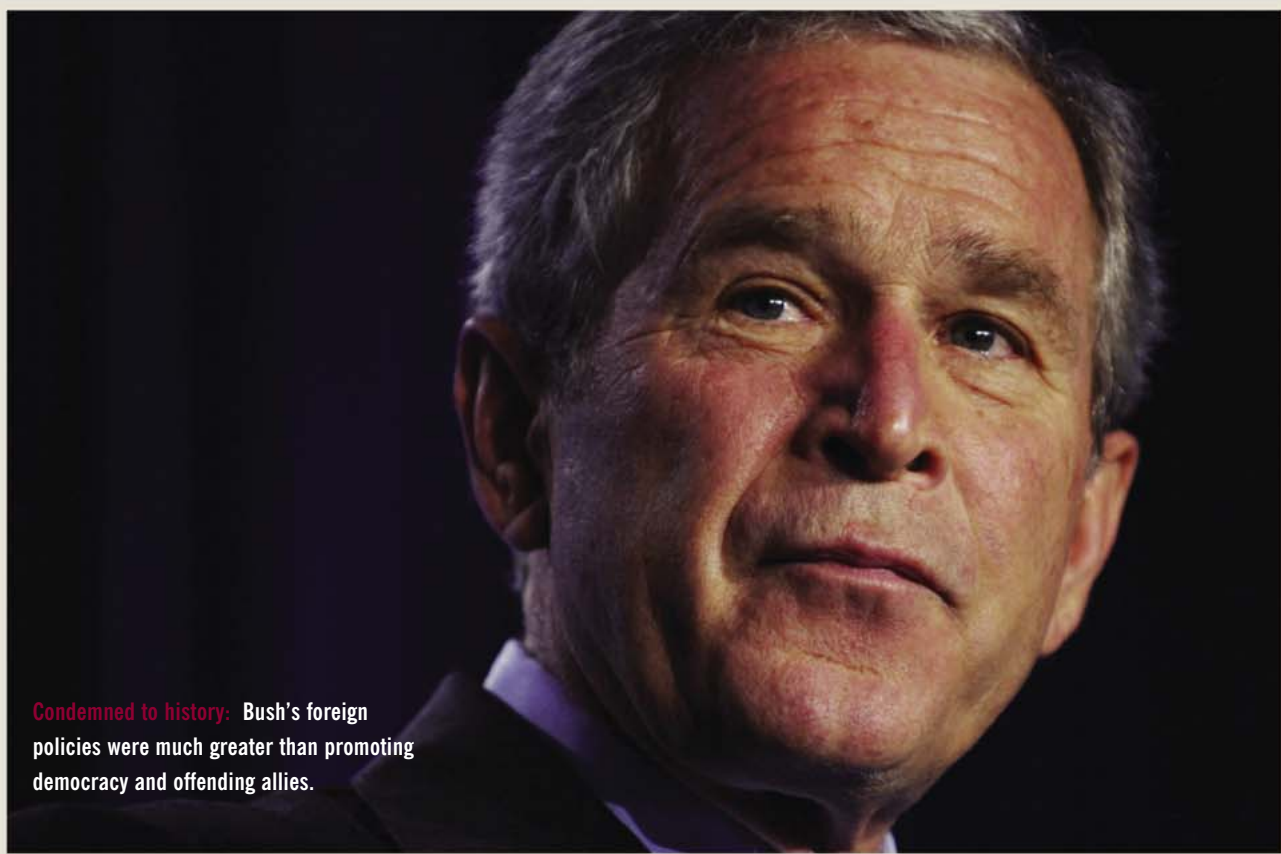
Hardly. There’s no denying that the war in Iraq has defined the presidency of George W. Bush in important ways. But history is unlikely to remember the war as negatively as most assume.

It’s now likely that the war will stagger to an inconclusive ending. The insurgency will shrink but not disappear. The government will function but will be divided. The U.S. military presence will be reduced but not entirely withdrawn. And Iraq’s neighbors will be bruised but their geopolitical policies will stay intact. Yet, by overthrowing Saddam Hussein and replacing him with a nonaggressive, albeit weak, elected regime, the United States will have achieved a real improvement in the region. It will have come at a high cost in money and lives. But it will also falsify the worst predictions of the war’s opponents. As the Iraq war recedes into history, it will come to be seen more like the frustrating Korean conflict, or the Philippine insurrection, rather than the debacle of Vietnam. It will be an important part of Bush’s legacy, but hardly all-defining.

*David Frum, a former speechwriter and special assistant to President George W. Bush, is a resident fellow at the American Enterprise Institute and author of *Comeback: Conservatism That Can Win Again* (New York: Doubleday, 2007).*

As time passes, other crucial decisions of the Bush years will come into sharper focus. Among the most important will be the formation of a U.S.-India military alliance. Under Bush, the United States and India (along with Australia, Japan, and Singapore) have begun joint naval exercises. The United States and India signed a treaty to share nuclear materials in 2007. The United States is offering India fighter planes, warships, and other equipment sales that could total as much as \$100 billion during the next 10 years. Otto von Bismarck once famously predicted that the most important geopolitical fact of the 20th century would be that the United States and Britain spoke the same language. Now, the values shared by the United States and India may emerge as the most important geopolitical fact of this century.

Other foreign-policy legacies of the Bush years include the signing of new bilateral trade agreements, the world’s first convention on cybercrime, the wise decision to give Hugo Chávez enough rope to hang himself, and the continued successful management of the U.S.-China relationship. Conversely, if Iran is allowed to follow North Korea into the nuclear weapons club, it could well be the failure to act against the other two thirds of the “axis of evil,” not the willingness to act in Iraq, that will be regarded as the most important decision of the Bush years.



Condemned to history: Bush's foreign policies were much greater than promoting democracy and offending allies.

“The Iraq War Has Made America Less Safe”

Prove it. In the two decades leading up to Bush's presidency, the United States and its allies were struck by a rising number of increasingly ambitious, aggressive, and deadly terrorist attacks. The hijacking of TWA Flight 847 in 1985. The Berlin disco bombing in 1986. The Buenos Aires bombings in 1992 and 1994. The assassination of Kurdish exiles in Berlin in 1992. The World Trade Center bombing in 1993. The Paris subway bombings in 1995. The plots to attack New York monuments and Pacific Ocean jetliners in 1995. The Khobar Towers bombing in 1996. The East Africa embassy bombings in 1998. The USS Cole in 2000. 9/11.

Now compare that with the period since the invasion of Iraq. Since 2003, former state sponsors of terrorism have behaved much more cautiously. Libya, for instance, has retired from the business altogether. Where terrorism has existed outside the Middle East, it has steadily declined in both effectiveness and sophistication. The Madrid

bombing of 2004 was less sophisticated than 9/11. The London subway bombings in 2005 were less sophisticated than Madrid. And the plots foiled in Germany, in Canada, and at Heathrow Airport in the summer of 2006 were all less sophisticated than the London bombings.

The U.S. homeland has enjoyed almost complete immunity from acts of international terrorism, and the plots that have come to light have been reassuringly amateurish in their conception and attempted execution. Even in the Islamic heartland, terrorism is waning. Abu Musab al-Zarqawi's attack on a wedding at a Jordanian hotel in 2005 soured Arab Middle Easterners on the al Qaeda movement. Al Qaeda's commanders in Iraq have publicly acknowledged that their bloodthirsty tactics have alienated local residents—and left their movement in dire straits. It would be absurd to attribute this improving trend line solely to President Bush. But it would be equally absurd to deny that things are improving.

“Bush Has Wrecked America’s Alliances”

Wrong. Yes, the Western alliance system is in trouble. But it was in trouble well before Bush. NATO’s tensions, for instance, were already noticeable during the Balkan crisis in the late 1990s. And remember that President Bush was met with mass protests on his first European trip in the summer of 2001—before either 9/11 or the war in Iraq. Among the issues irking the United States’ allies then was Bush’s decision not to stay the execution of Timothy McVeigh, the terrorist who killed 168 Americans by detonating a truck bomb outside the Oklahoma City federal building in 1995. It would be far more accurate to say that American unilateralism is a symptom of alliance troubles rather than a cause.

Many have argued that the Bush administration somehow squandered Europe’s goodwill toward America by going it alone in Iraq. Not so. Polls conducted in the weeks after 9/11, well before the Iraq war, showed that only about one sixth to one quarter of Europeans supported the use of force against state sponsors of terrorism. That did not prevent NATO from approving the mission in Afghanistan—the first conflict approved under Article 5 of the NATO charter. It has, however, made it difficult to gain serious commitments for NATO troops from many member countries. And the reason

NATO must ask for those extra troops in the first place is that all too many of the European troops already deployed in Afghanistan have been carefully positioned out of harm’s way. Even those allies who have sent troops to Afghanistan often insist on rules of engagement that preclude almost all serious missions.

There were many instances of tactlessness in the Bush years. The administration too often lost sight of the value of diplomatic decorum. But every American president, Bush included, always prefers to work with allies, if only for the political cover they can provide. That’s why Bush worked through the six-party talks to tackle North Korea’s nuclear ambitions and through the “Quartet” to address Israel-Palestine. And it is why he has put a smiling face on his assurances that Arab allies have done everything America has asked them to do in the fight against terrorism. If anything, it can be argued that Bush has been overly influenced by allies, at least certain allies. From 2003 to 2006, he outsourced Iran policy to Britain, France, and Germany. Today, the United States’ Iran policy is largely driven by the anxieties and political needs of its Sunni-majority Arab allies in the Middle East. Similarly, Bush’s North Korea policy has retreated from red line to red line, in deference to South Korea.

“Bush Has Pushed Democracy Over All Else”

False. It’s fair to say the president’s rhetoric on democracy has sometimes soared into the empyrean. Actions, however, have not followed words. In Egypt, Pakistan, and Saudi Arabia, the Bush administration has followed a very traditional American policy that attaches relatively little importance to democracy promotion. The same can be said of Iraq, in fact. The war there was fought for a very traditional balance-of-power reason: to overthrow a hostile and dangerous regime believed to be seeking weapons of mass destruction.

Ask the Author

Have a question for David Frum? Send it to letters@ForeignPolicy.com by Sept. 20, and we’ll post his answers on Oct. 1 at ForeignPolicy.com/extras/frum.

The debate over democratization in the Middle East is basically a debate over the causes of extremism. Antidemocratizers see Middle Eastern extremism as a response to grievances arising from the encounter between the Middle East and the West. It is best met, they argue, by some form of conciliation. In practice, this usually means the pursuit of Palestinian statehood. Democratizers, on the other hand, have stressed that extremism originates from dysfunctions within the Middle East itself: tribalism, authoritarianism, and corruption. They argue it can only effectively be addressed by internal reforms. Democratizers have tended to be skeptical of Palestinian statehood. As they see it, extremism is often deliberately stoked by Middle Eastern governments for their own ends, and the creation of a Palestinian state that is anything less than wholeheartedly moderate will most likely exacerbate



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and many can be expressed in
a single word: freedom, justice,
honor, duty, mercy, hope."

—Sir Winston Churchill

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rather than mitigate the region's instability and violence. In this debate, the Bush administration has subtly but unmistakably shifted its alignment. Having begun in 2002 by arguing that Palestinian statehood should follow Palestinian reform, it has now reversed itself to pursue Palestinian statehood as a precondition of reform.

Democracy has of course been an important priority for Bush, as it was for most of his predecessors. And like them, the president was often obliged to subordinate that priority to other concerns. In his policy toward

Libya, the president put disarmament ahead of democratization. In China, he has followed past policy by emphasizing stability and trade over political reform. An increasingly authoritarian Russia remains a welcome eighth in the club formerly known as the G-7, despite having an economy that now ranks behind those of China and India, who remain uninvited. Nor has Bush hesitated to levy powerful threats to deter Taiwan from asserting its right to self-government. That is hardly the pursuit of democratization above all else.

“While Bush Was Distracted, China Surged”

Not exactly. If the U.S. economy continues to grow at its recent average of 3 percent a year, even a booming China will not overtake U.S. GDP for half a century. If China's growth rate slows, the moment of “catch up” recedes even further into the future. Such a slowdown seems inevitable. China's financial sector is rickety to the point of collapse, inflation is accelerating, and the country is quickly bumping up against the limits of low-wage manufacturing. Energy and water shortages are rampant. Environmental degradation is escalating into a serious political issue. Political tensions between the central and regional governments are intensifying. And, very soon, China's aging population will have to leave work and begin tapping into its savings. Even if China somehow escapes the laws of economic gravity, what precisely is an American

president to do about it? Try to stunt China's growth? How? And to what end?

Unlike its economic growth, China's strategic assertiveness is a proper American concern. Here the Bush administration acted both decisively and prudently, continuing the long-standing U.S. policy of hoping for the best and preparing for the worst. It cultivated closer strategic ties with Australia, India, Japan, Singapore, and other regional powers, including Vietnam. U.S. warships now once again call at Cam Ranh Bay. If China decides to act out, it will soon find itself hemmed in, thanks in part to these relationships—a reality that is all the more acute thanks to recent elections in Japan, South Korea, and Taiwan that have brought pro-American leaders to power. Bush is bequeathing to his successor an Asian strategic environment much friendlier to the United States than the one he inherited.

“America Has Never Been More Hated”

Says who? On what basis could one even begin to decide whether such a statement is accurate? Global opinion surveys are inexact, to put it mildly. A survey of international public opinion by the Pew Research Center, for example, suggests that one fifth of the population of Spain changed its view of the United States in the 12 months between the spring of 2005 and the spring of 2006. Any polling expert knows that strongly held views do not shift that rapidly. A number that bobs up and down reflects, at best, a transitory impression, if not statistical noise. Outside

the developed world, in poor countries that are predominantly rural and illiterate, such global public-opinion surveys tell us even less.

Even if we choose to believe these assessments, what they mostly tell us is that the United States faced serious image problems well before Bush. The Gallup Organization conducted a wide survey of Islamic public opinion between December 2001 and January 2002. It found that a majority of those surveyed regarded the United States unfavorably, with Pakistan, Saudi Arabia, and Iran being the most hostile. Significant numbers

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regarded the 9/11 attacks as justifiable. Barely one fifth of those surveyed accepted that the 9/11 attacks were carried out by Arab men—two thirds denied it outright. In Saudi Arabia, the government refused to allow the question to be asked at all.

Americans like to tell themselves that the world rallied in sympathy to the murder of some 3,000 Americans on Sept. 11, 2001. In fact, the attacks triggered a spasm of delight across the Middle East. The

Middle East Media Research Institute has compiled an archive of grisly press clippings. Many of the worst come from Egypt, a key Middle Eastern ally. In an Islamist opposition newspaper, columnist Salim 'Azzouz wrote, "We have been prohibited from showing the happiness and joy that we feel, so as not to hurt the Americans' feelings—although, in this case, rejoicing is a national and religious obligation." This kind of malignancy has deeper roots than any one president.

"The Next President Will Radically Revise Bush's Policies"

Unlikely. Granted, the next president will feel the need to create an appearance of distance between himself and the unpopular Bush. But that's hardly new. George H.W. Bush did exactly the same thing when he followed the highly popular Ronald Reagan. No doubt, climate change will assume a higher priority under a President McCain or a President Obama. Guantánamo Bay will, in all likelihood, be closed. The United States will take a more active role in international organizations. And the next president will probably try harder to broker an Israeli-Palestinian peace deal.

Yet the continuity between Bush and his successor will be strong. A U.S. drawdown from Iraq will proceed more slowly than most expect. Relationships with

India, Japan, and Vietnam will continue to grow. The United States will continue to spend much more on military power than all other major countries combined. Financial pressures on Iran will continue to intensify. The United States will still press for more open trade. And even democracy promotion, Bush's most maligned foreign-policy goal, will continue to figure prominently in presidential addresses for years to come.

George W. Bush's political opponents will surely revile him long after he's gone. But you can be sure of this: Just as the Bush presidency led Democrats to express an unexpected nostalgia for Ronald Reagan, the next Republican president can expect to hear from pundits and academics alike that he falls far short of the high standard set by the last one. **FP**

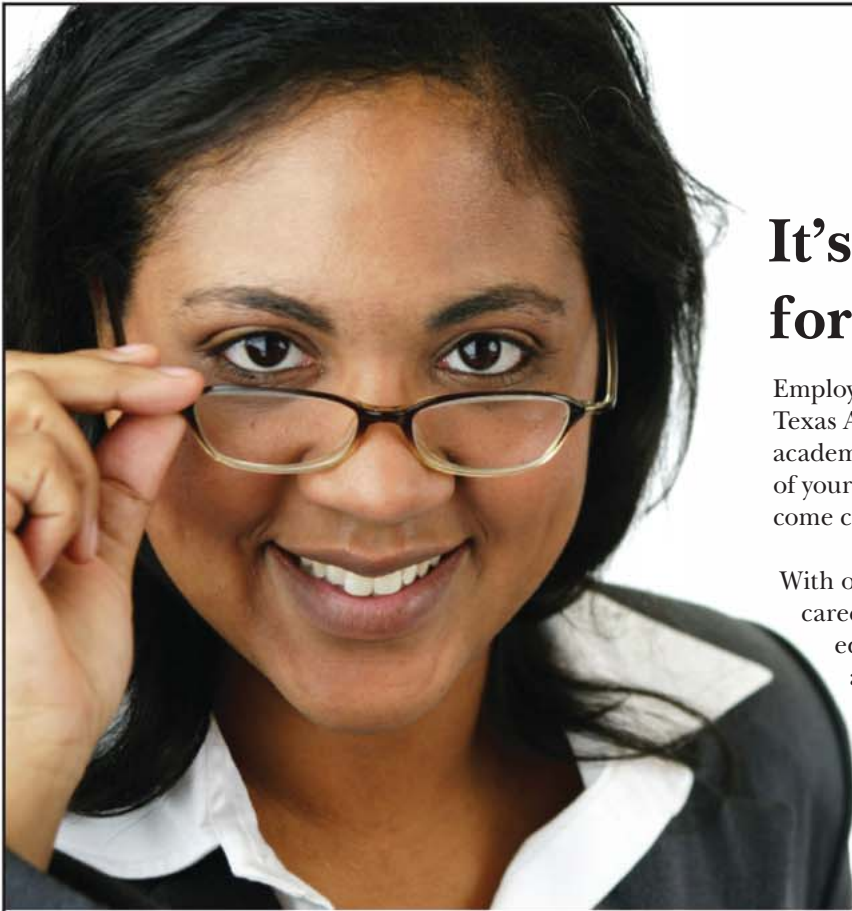
[Want to Know More?]

David Frum's *Comeback: Conservatism That Can Win Again* (New York: Doubleday, 2007) offers a strategy for contemporary conservatives to repair their relationship with Americans. In "Who Wins in Iraq? Samuel Huntington" (FOREIGN POLICY, March/April 2007), Frum argues that Iraq catalyzed a clash of civilizations.

For a look at two of the major architects of Bush's foreign policy, see *The Confidante: Condoleezza Rice and the Creation of the Bush Legacy* (New York: St. Martin's Press, 2007), by Glenn Kessler, and "Angler: The Cheney Vice Presidency" (*Washington Post*, June 24–27, 2007), by Barton Gellman and Jo Becker.

The PBS documentary "Bush's War" (*Frontline*, March 24–25, 2008) examines the lasting impact of the Iraq war on Bush's legacy. In "The War We Deserve" (FOREIGN POLICY, November/December 2007), Alasdair Roberts argues that the American people are complicit in the failures of Bush's foreign policy.

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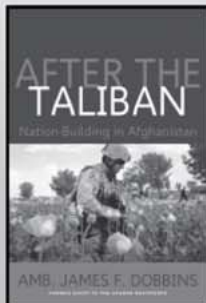
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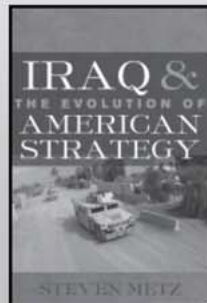
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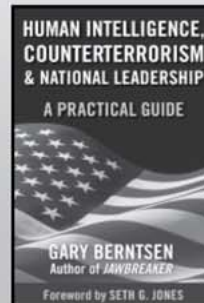
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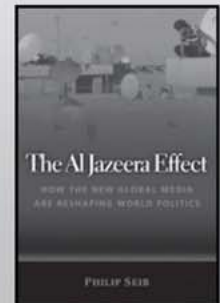
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Talking Trash

The world throws away more than 2 billion tons of garbage every year. And though recycling rates are at historic highs, trash heaps are piling up in rapidly growing countries like China and India. So, how do we create a solution to the global garbage crisis that isn't a load of rubbish? | By **Martin Medina**

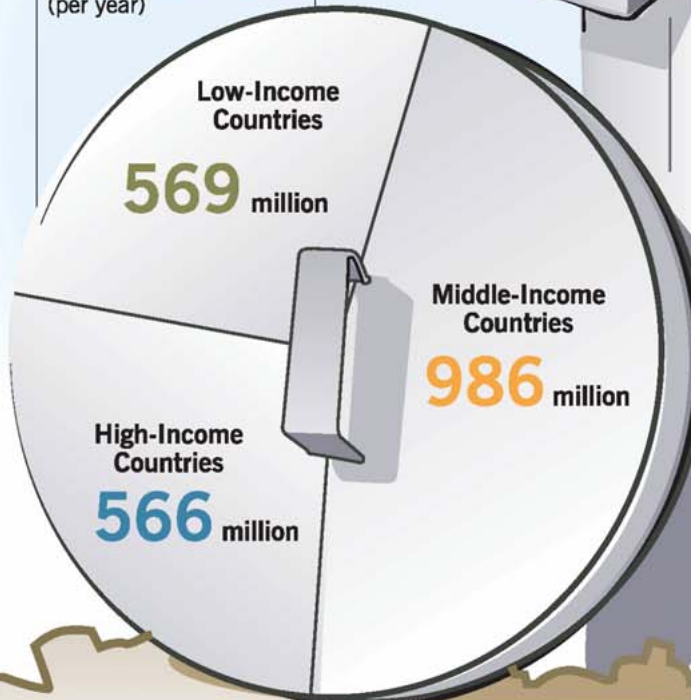
Rich Refuse

Unsurprisingly, the wealthier the person, the more garbage he or she produces. The good news? As recycling rates increase, the amount of trash per person in rich countries is leveling off. But it's beginning to overflow everywhere else.

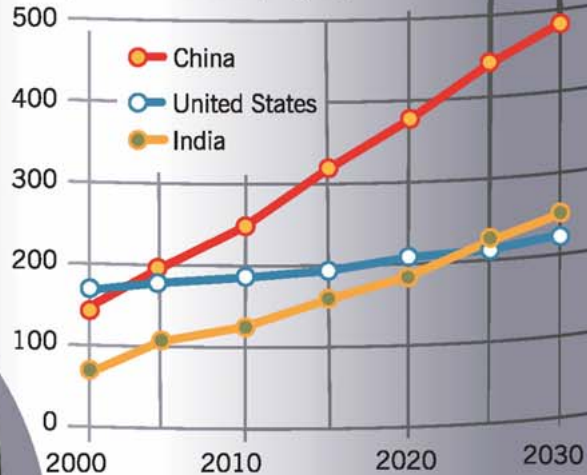
Garbage Generation
(per capita/per day)



Total Tons of Trash
(per year)



Projected Garbage Generation
(in millions of tons per year)



Waste Land

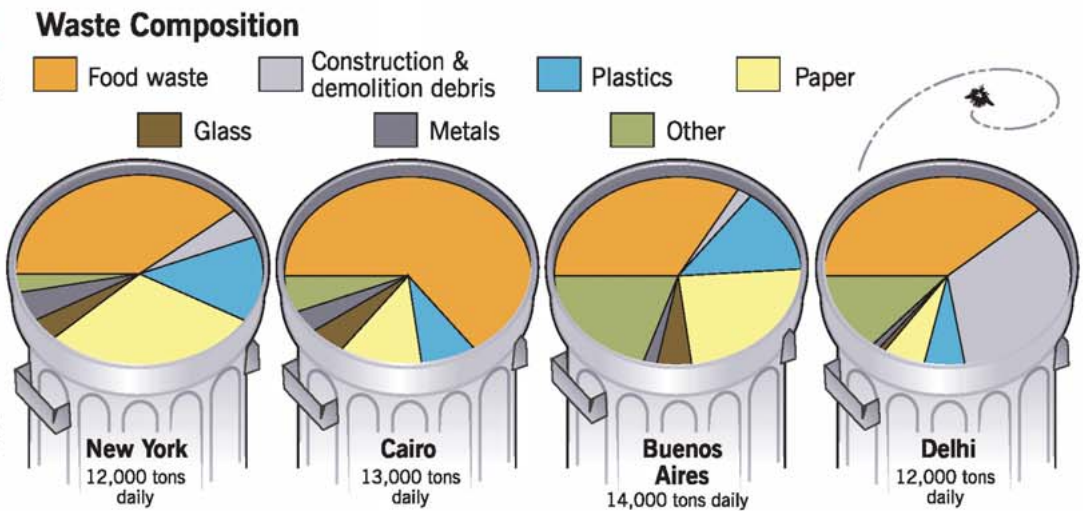
No country has produced more garbage in less time than China. In 2004, the country overtook the United States as the world's top trash producer. To cope with its mounds of garbage, China's spending on waste management will have to increase eightfold by 2020, and 1,400 new landfills will be needed, nearly as many as there currently are in the United States.

Martin Medina is a waste management consultant for the World Bank and the United Nations and author of The World's Scavengers (Lanham: AltaMira Press, 2007).

CHARTS: BY DAVE MERRILL
SOURCE: WORLD BANK

In the Dumps

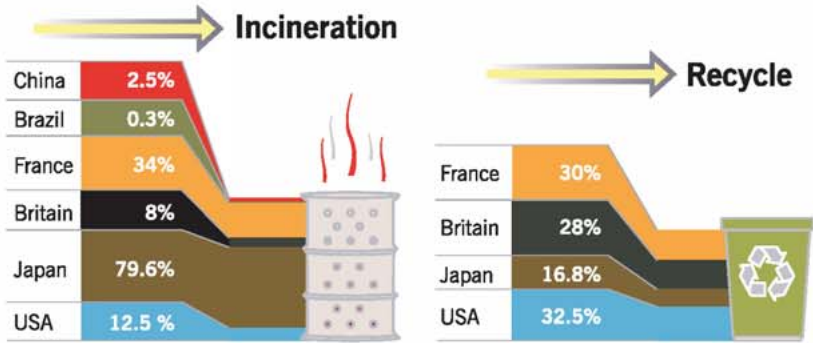
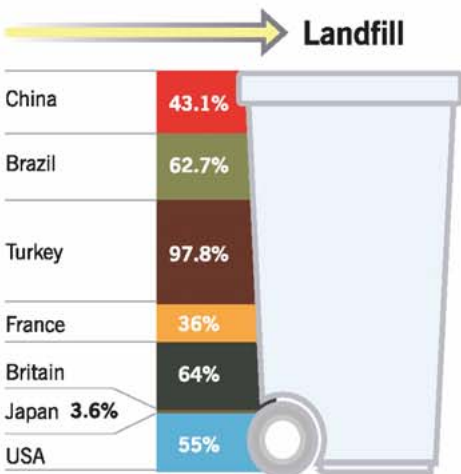
Your trash says a lot about you. Open up a trash can in New York City, for example, and you will find evidence of its residents' wealth: There will be as much food packaging—paper, wrappers, or plastic—as leftover food, plus toys and electronics barely off the shelf. But in poorer cities such as Cairo, garbage piles are full of the inedible remains of fruits and vegetables.



Bag It, Burn It, or Bin It

How countries take out the trash varies enormously. Some countries, such as Turkey, rely on landfills; countries with space constraints, like Japan, send most garbage to incinerators. In the United States, where more than half of all trash heads to landfills, the number of dump sites has decreased significantly in recent years—from 6,300 in 1990 to fewer than 1,800 in 2006—but the average size of each site has grown dramatically.

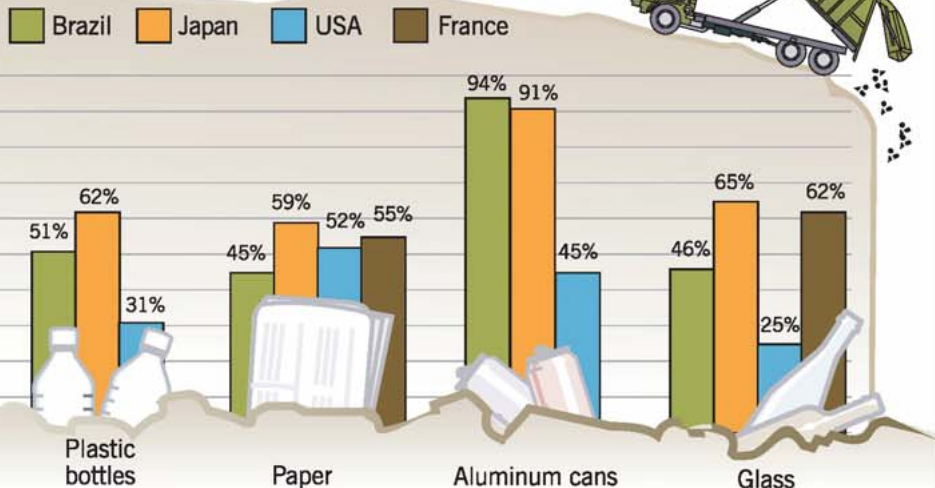
Where Trash Goes:



Choosing to Reuse

Americans recycle twice as much trash as they did 20 years ago, mostly due to thousands of local recycling programs. In countries where such programs are rare, the poor often step in to fill the void. Worldwide, at least 15 million people make a living by recovering and recycling trash. Brazil boasts one of the world's highest aluminum recycling rates thanks largely to the 500,000 trash pickers who toil on the streets collecting refuse.

Recycling Rates



SOURCES: NEW YORK CITY DEPARTMENT OF SANITATION; LIVING FROM WASTE; LIVELIHOODS OF THE ACTORS INVOLVED IN DELHI'S INFORMAL WASTE RECYCLING ECONOMY; ASOCIACION PARA EL ESTUDIO DE LOS RESIDUOS SOLIDOS; WORLD BANK; UNITED NATIONS; DEFRA; JAPANESE MINISTRY OF ENVIRONMENT; ENVIRONMENTAL PROTECTION AGENCY; OECD; COMPROMISSO EMPRESARIAL PARA RECICLAGEM



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THE SECRET HISTORY *of* KIM JONG IL

Few people have the chance to watch a shy young man grow into a ruthless dictator—and live to talk about it. But, for one North Korean professor, Kim Jong Il is much more than the man holding his country hostage. He's a former student. | By Kim Hyun Sik

I first met Kim Jong Il in October 1959. He was a senior at the elite Namsan Senior High School, and I was a 27-year-old professor of Russian at the Pyongyang University of Education. I also happened to have been chosen as a private tutor for the family of North Korean President Kim Il Sung. One day, the Great Leader remarked that he found his son's Russian to be very poor and told me to go to his school and evaluate both Kim Jong Il's proficiency and the quality of Russian education there. Handpicked by Joseph Stalin to rule over North Korea and a fluent Russian speaker himself, Kim Il Sung deemed study of the language essential to relations with the Soviet Union, North Korea's biggest

political, economic, and military patron. At the school, I attended every Russian class, made evaluations, and then summoned the 17-year-old Kim Jong Il into the principal's office. The principal, one of the school's Russian teachers, and I, in accordance with Kim Il Sung's orders, jointly administered an oral Russian exam for Kim Jong Il.

Just a young student at the time, the examinee appeared to be extremely nervous sitting alone for an oral exam before the three of us—especially one arranged at his father's behest. The shy boy with puffy, red cheeks responded meekly to each question I posed.

"Please open the book, *Ri Su Bok, the North Korean Matrossov*, and translate it," I told Kim.

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particularly wealthy or privileged. But, through my travels beyond the Hermit Kingdom, and my contacts, and that special secret responsibility of tutoring Kim Il Sung's family for 20 years, I did have something most of my fellow citizens never did and still don't: a window through which to understand the dynasty that continues to terrorize North Korea.

I wish I could argue that the shy and determined young man I first met that October day is the real person behind the cruel and mercurial dictator the rest of the world now knows him to be. But too much has happened since then.

In 1991, during a stint as a visiting professor in Moscow, I was approached by a South Korean agent. He brought me incredible news. He could arrange a meeting with my older sister, who had fled to the South during the Korean War and later moved to Chicago. Arranged by South Korea's national intelligence agency, it would be the first time we had seen each other in more than 40 years. All that time, we thought the other was dead. I was overcome with emotion. She begged me to come back to the United States with her and become a minister—our mother's dying wish for me. Although I could not return with my sister, it was one of the happiest moments of my life.

Our joy was short-lived. Another agent who had allowed us to use his house as a meeting spot was, in fact, a double agent working for the North. I received instructions from the government to return home the very next day. But I knew very well I couldn't; I would be killed as a traitor. I anguished over what my failure to appear would mean for my family back in Pyongyang. It's bad enough for a soldier or a student to defect. But I knew intimate details of the ruling family's inner circles. Surely they would view my betrayal as a personal insult.

I never returned to North Korea, and I never saw my family again. A few years later, I heard from a well-placed South Korean minister that my family had been sent to a gulag and murdered, the innocent victims of my treasonous crime. To this day, I know nothing of the details of their deaths, or whether they blamed me as they perished.

I ache when I imagine what Kim Jong Il did to my family. So many times, I've imagined killing him and then killing myself. Countless days and nights I have pounded my chest with guilt and grief, unable to forgive myself for the ghastly fate that I have brought my beloved wife—my lifelong

companion—our daughters and son, their spouses, and even our dear grandchildren.

But I am willing to let go of my painful grievance against Kim Jong Il. My only wish is that he opens North Korea's doors and lets the hungry, tired people enjoy the kind of freedom and abundance that South Koreans, Americans, and so many others do. Until then, I will let the rest of the world see what I've seen: a young, innocent boy who turned into a monster, and a country with so much promise transformed into a concentration camp.

SCHOOL'S OUT FOREVER

In September 1973, Kim Jong Il's daughter, Sul Song, was to enroll at Namsan Primary School. Surrounded by tall, green poplar trees where birds rested and sang, the school had the air of a natural park. Beyond the rear of the school's stadium atop Haebang Hill sat the mansions of the highest officials.

Its pastoral setting was reserved for children of the elite—party officials above the rank of vice minister. They enjoyed all the perks that come with a rarefied spot in North Korean society: the best teachers, the best facilities, and just a few days of mandatory farm

I ache when I imagine what Kim Jong Il did to my family. So many times, I've imagined killing him and then killing myself.

work every spring (as opposed to the average 60 to 90 days). Graduates of Namsan were guaranteed a spot at any university of their choice and an open door to a successful career. Isolated from the children of ordinary people, the students at Namsan would go on to become officials of the party and state.

Naturally, Kim Il Sung's children had studied at Namsan, including Kim Jong Il. Throughout his years there, Kim was a rather ordinary student. From academics and art to sports and extracurricular activities, he excelled in none. He made few friends. Upon graduation, Kim and his siblings all enrolled at Kim Il Sung University. His daughter's life was planned out much the same way—until that September day.

The school's staff waited by the entrance gate with flower bouquets in hand. As the minutes passed

He proceeded to read passages slowly from the book and translate them into Korean. His translations were not outstanding, but he managed to read and translate the text without making an error.

After a while I said, “Please summarize the contents of the book.”

“You mean in Korean?” Kim asked.

“No. It should be in Russian, of course,” I replied.

Looking a bit flustered, he began to speak in halting Russian. His spoken Russian seemed to lag behind his reading and translation.



The little emperor: Kim Il Sung took a great interest in his eldest son's early education.

“OK. Next I will test you on noun/adjective inflection, verb tense, and the first/second/third-person form.”

When his father ordered me to evaluate Kim's Russian, he had praised his son's grammatical skills. He was right. When I rapidly threw out words at him, he replied without the slightest hesitation.

“Finally, I will test you on Russian conversation. Please listen to my questions and remarks and respond accordingly.” I asked Kim Jong Il routine questions like his name and birthday, the date and day of the week, and the weather, yet he had a hard time responding.

For More Online

For a photo essay tracing the notorious and bizarre moments of Kim Jong Il's life, visit:

ForeignPolicy.com/extras/kim.

During the final conversation phase, he blushed and beads of sweat gathered on his forehead. Without ever boasting that he was the son of the Great Leader, Kim Jong Il patiently endured the exam.

My evaluation of Russian education at Namsan High School was that the instruction of spoken language had fallen behind that of grammar. When informed of my finding, Kim Il Sung became irate and demanded that any Russian teacher at Namsan High School who was not fluent in Russian be dismissed. I recommended a new, conversation-focused

Russian program and suggested holding the annual nationwide Russian teachers' convention at Namsan the following year.

The following January, Russian teachers from across the nation convened at the high school. At the convention, Kim Jong Il showed off his new Russian skills with confidence. The combination of a new curriculum and the prodding by his father had paid off: Kim's nervous, diffident demeanor from the exam a few months back had disappeared. As an educator, I was quite gratified by his impressive progress.

Nearly 50 years have passed since the day I administered that test, but I still remember the questions I posed to Kim Jong Il, and the answers he gave in his amateur Russian: “I love and respect my

father more than anyone else.” “I plan to enroll in the Kim Il Sung University upon graduation from Namsan Senior High School.” “I enjoy watching films more than playing sports.”

It doesn't sound like an extraordinary moment. Just a teacher and a student behaving as they would anywhere. Of course, I've seen enough now to know just how far from ordinary anything about North Korea ever is.

Had I died fighting the Americans in the Korean War—which I almost did—I might not have ever come to know just how morally bankrupt were the ideals I was defending. But I survived. I went to college. I learned Russian. I was lucky enough to teach the language I loved to generations of students, some of whom went on to hold positions of power and influence throughout the country. I became dean of the foreign-language department. I wasn't



Our father: North Koreans revere Kim Il Sung as God, and Kim Jong Il as Jesus. They mark this year as 97, the number of years since the Great Leader's birth.

and the bell rang, Sul Song failed to show up. The staff grew increasingly anxious. One hour later, the school received the following one-line notification from state authorities: "Kim Sul Song will not enroll in Namsan School." Disappointed, the teachers and staff, who had been preparing for Kim Sul Song's enrollment, were simply left to wonder if she would be studying abroad instead.

They didn't have much time to linger: That day also marked the enrollment of another important first-grader. He was none other than Kim Min Chul, the nephew of Kim Il Sung's second wife. I remember that day extremely well, for I had been selected to evaluate the 6-year-old child's aptitude for advanced education. That day, Kim Il Sung's mother-in-law came to see her beloved grandson begin his schooling. Several other relatives milled about, and the school bustled with the unusual presence of so many important people.

Kim Jong Il was incensed to know that his only daughter would be sharing the spotlight throughout her early education with a child from the "side branches," those relatives who lay outside the main family line. So, he had decided to hire a private tutor for his daughter rather than send her to Namsan. Withdrawing his daughter from the school was a public revelation of his hostility toward his extended family, but, on its own,

it wouldn't eliminate those potential rivals to his own children. Which is why Kim Jong Il had his alma mater, where he had spent so much of his youth, blown up.

Several years later, in 1982, as he was consolidating power within the party, Kim Il Sung's mother-in-law (and a close friend of mine) described how Kim Jong Il finally executed his plan. First, he brought up the school at a meeting of high officials.

"Comrades, what do you think of the fact that Namsan School is located right in front of our Central Party office building?"

His sycophants got the message.

"Dear Comrade Leader, is it not advisable to have a school inside the Central Party district?" was a typical response. "I think it best that Namsan School find another site and be relocated."

Kim Jong Il became more and more pleased with each nod of agreement.

"I have thought so for some time. I have long believed that the presence of a school within the party district is inappropriate, and I am opposed to having party officials' children educated at a special school like Namsan. Why should party officials receive special consideration, and why should their children be educated by themselves, cut off from the rest of the people? Let's put an end to dividing the party officials and the general public."

Now, the original intent behind the school was to sequester the children of high officials in an attempt to thwart the spread of sensitive state secrets. But, as in so many communist societies, the school actually served to keep the lavish lifestyles of high officials hidden from the rest of the population. While the children of ordinary North Koreans ate cornmeal with soybean soup and soy sauce chemically made from soybean dregs and unseasoned kimchi, the students of Namsan ate high-grade white rice with meat, fish, and eggs. Should the wider population discover such a contrast in lifestyles, the image of the socialist state was bound to suffer.

A few nights after Kim's meeting, the Namsan School was blown up by a demolition squad of the North Korean Army. On the very same plot of land, a new office building was erected. It would house the party's Organization and Guidance Bureau. As the Namsan School vanished into thin air, so too disappeared the hopes of the school's teachers and staff, students, and parents of students who had looked to Kim's other relatives as potential successors to Kim Il Sung. By demolishing the school, Kim Jong Il was effectively declaring that he, and only he, was the rightful successor.

Even today, long after becoming the sole supreme leader of North Korea, Kim refuses to allow graduates of the Namsan School in his inner circle. After all, those who have known Kim Jong Il since youth are bound to see him as human—not the center of a god-like cult of personality.

'A WORLD WITHOUT NORTH KOREA NEED NOT SURVIVE'

At the Three Revolutions Exhibition Hall in northwestern Pyongyang, there hangs a big sign that reads, "A world without North Korea need not survive." What do these words mean? And what do they tell us, if anything, about Kim Jong Il's military mind?

In late 1993, when North Korea was gearing up to withdraw from the Nuclear Non-Proliferation

Treaty, fears of an imminent war broke out across the Korean Peninsula. The eyes of the world were firmly fixed on the region. Not a day passed without some international coverage of the North Korean nuclear crisis.

In the midst of such concerns, Kim Il Sung convened a meeting of all his military officers above the rank of commanding general. One general who was in the room later explained what happened next. Kim posed to his generals the following question: "The American scoundrels are about to start a war against us. Will we be able to defeat them?"

The generals replied without hesitation: "Yes, we can win!" "When have we ever lost a war?" "We shall win every battle!" "How can we ever lose when we have you, Commander of Steel, our Great Leader, to lead us?" "Oh, Great Leader! Just give us the order!" "In a single breath we will rush to the South, drive out the American imperialists, and unify the fatherland!"

Despite such vigorous displays of bravado, Kim Il Sung did not appear satisfied. "That's all very well," he replied. "But what if we lose? What shall we do if we lose?"



The nuclear family: Talk of Kim Jong Il's home life is forbidden in North Korea.



To protect and serve: North Korea's people are free to submit to Kim Jong Il—and not much else.

Kim Il Sung's prodding was unexpected. The moment that their Great Leader uttered the word "lose," the generals' lips closed and remained tightly shut. As they sat still in extreme anxiety, the 51-year-old Kim Jong Il suddenly stood up. Raising his clenched fists, Kim yelled out, "Great Leader! I will be sure to destroy the Earth! What good is this Earth without North Korea?"

Kim Il Sung looked at his eldest son and smiled.

"That is surely the answer. I am pleased to see that a new North Korean general has been born at this very gathering. Henceforth, I transfer to you the operational command of the North Korean military."

A short while later, Kim Jong Il was named the commander in chief of the Korean People's Army. And a big sign inscribed with Kim Jong Il's words, "A world without North Korea need not survive," was duly installed at the exhibition hall, the nation's flagship display of achievements in industry, technology, engineering, and agriculture.

In the 1990s, after the fall of the Soviet Union, and with a tide of democratization and reform spreading across the world, Kim Jong Il chose to buck the trend and implement a "military-first policy." True to his familiar slogan, "The military is the core force of the revolution and the pillar of the state," Kim called for the militarization of the entire society. He believed

that even though North Korea was a small state, he could stabilize the nation and make the country powerful and prosperous by growing the military.

Today, just as he hoped, Kim Jong Il's vision has been realized—albeit through a continuing policy of military extortion. Whereas international trade and finance have only played a marginal role in North Korea's economy and security, Kim has managed to extract resources from wealthier and stronger states by manufacturing crises and generating international instability. His brand of nuclear blackmail is a virtual guarantor of bottomless international aid for the world's most militarized society.

'PARADISE ON EARTH'

Living under a totalitarian regime requires a daily suspension of disbelief. Nowhere is that more true today than in North Korea, where otherwise ethical people contort themselves into untenable moral positions because they've bought into the oft-repeated notion that their country is "Paradise on Earth." Simply to survive in North Korea, citizens must believe they are living in a chosen land. And when ideological indoctrination morphs into reality, the dictator need not even be nearby to spread fear. Not if average people will do his bidding for him.

All of which is bad news for those who don't fit into Kim Jong Il's ideal of a healthy, vital citizenry. In the people's paradise that is North Korea, disabled—even short—people are considered subhuman. In 1989, Pyongyang hosted the World Festival of Youth and Students. In preparing for the international gathering, the entire nation was encouraged to outdo South Korea's hosting of the Summer Olympic Games the year before. Pyongyang's event had to be bigger and more glamorous. One such method was to purify the revolutionary capital of Pyongyang of disabled people.

Six months before the festival, the government rounded up all disabled residents of Pyongyang and sent them away from the capital to remote villages. The majority were clockmakers, seal engravers, locksmiths, and cobblers who made their living in the city. Overnight, they were forcibly deprived of the lives they had known.

I saw this policy of "purification" up close. I have an old friend who, upon graduation from the Pyongyang University of Medicine, built a career in the state Academy of Medical Science. We were classmates at Heungnam High School and fought together in the Korean War. We were like brothers.

When indoctrination morphs into reality, the dictator need not even be nearby to spread fear. Not if average people will do his bidding for him.

One day during May 1989, he visited me at home looking deeply upset.

"What's troubling you? You look very distressed," I said to my friend.

"Well, I'm OK, I guess . . . but I've done a terrible thing. An abhorrent thing."

"What do you mean? You aren't a bad person."

His eyes welled with tears.

"I have made cripples out of normal, healthy people and sent them away for good," he said. "It is inhumane, what I have done. I shall never be able to hold my head up again."

My friend, a well-connected physician at the time, told me that he had been ordered by the Communist Party to pick out the shortest residents of Pyongyang and South Pyongan province. Against his conscience, he went out to those areas

and had local party representatives distribute propaganda pamphlets. They claimed that the state had developed a drug that could raise a person's height and was recruiting people to receive the new treatment. In just two days, thousands gathered to take the new drug.

My friend explained how he picked out the shortest among the large group. He told the crowd that the drug would best take effect when consumed regularly in an environment with clean air. The people willingly, and without the slightest suspicion, hopped aboard two ships—women in one, men in the other. Separately, they were sent away to different uninhabited islands in an attempt to end their "substandard" genes from repeating in a new generation. Left for dead, none of the people made it back home. They were forced to spend the rest of their lives separated from their families and far from civilization.

"I can hardly believe that I've done such a terrible thing," he told me.

My friend, who still lives in North Korea, will spend the rest of his days tormented with guilt. At the same time, he did not forget to beg me over and over that this incident was a state secret and that I was not to tell a soul, not even my wife. I kept his secret for some 16 years. There seems little point now in protecting a party, a government, and a leader that failed to do the same for its people.

WITNESS TO HISTORY

In late June, the United States took the dramatic and highly symbolic step of removing North Korea from its list of state sponsors of terrorism. As one component of the ongoing six-party talks to encourage North Korea to give up its nuclear program, the trade-off doesn't seem so bad. But a lack of hard evidence doesn't mean something isn't true. Although the current chatter revolves around Kim Jong Il's possible ties to a nascent Syrian nuclear program, one episode from 25 years ago reminds me of the very real dangers the North Korean regime poses to international stability.

A bright former student of mine had risen to become a high-ranking official in the Central Party's Department of Propaganda and Agitation. One day in October 1983, he invited me and two other professors to his home for dinner. He lived in a luxury apartment complex for officials of the Central Party



Manipulator-in-chief: Kim Jong Il's "military first" policy has made the country an international pariah.

with the rank of director or above, where he shared a unit with his son, himself a special reporter for the official North Korean news agency.

All of a sudden, as we were in the middle of dinner, our host's son ran into the room out of breath.

"Dad, we have a serious problem," he said. "Have you heard the news?"

Our hearts skipped a beat. What could possibly have transpired to put an experienced news reporter in such an agitated state?

"This just came in over the wire. They botched the job. It's a serious situation. The bald goon survived and his underlings died instead. Our news report is now worthless, and they sent all of us home."

Our host excused himself suddenly and rushed back to his office. The three of us left the apartment puzzled and concerned.

Within two days, news of a terrorist attack had spread far beyond my friend's apartment. At the time, we were told that a bombing in Burma had narrowly missed its target: the traveling South Korean president. In Pyongyang, nationwide rallies blamed an inside job by a rogue South Korean agent and, more broadly, the "American imperialists." Calls for the liberation of the South through revolutionary war were rampant. Only then could I guess at the reason for the commotion at my former student's place two nights before: His son had been

informed of the operation ahead of the actual bombing in Burma and had written the news report in advance under the assumption that the operation would be a success. He assumed the South Korean president, as well as his entire entourage, would be dead. At his rank, our dinner host, my former student, not only would have known about the attack, he probably would have helped plan it.

In North Korea, there is a special unpublicized wing of the Communist Party called Bureau 3 that oversees all operations vis-à-vis the South. Another former student who works in Bureau 3 said that the director of a special team assigned to the Burma operation was dismissed suddenly. We later learned that he was demoted to party secretary at a small factory in the eastern coastal city of Sinpo for botching the secret mission of assassinating the South Korean president.

The Aung San terrorist bombing of Oct. 9, 1983, claimed the lives of 17 South Korean cabinet members, including Deputy Prime Minister Suh Suk Joon and Foreign Minister Lee Beom Suk. Fifteen more suffered major injuries. A year later, the Burmese government reported to the United Nations that the country had carried out the Aung San terrorist bombing and severed diplomatic relations with North Korea. I only learned those facts many years later, upon coming to Seoul. At the time, I was

oblivious to the truth and was busy being summoned every day to rallies condemning the South Korean regime for the bombing.

Now, when I hear of tragic events on the peninsula, such as the incident in July in which a North Korean soldier shot and killed a 53-year-old tourist from the South, I think of the lies that the North must be telling its citizens. That is, if they hear anything at all.

THE ENEMY OF MY ENEMY

Thirty years have passed since I last saw Kim Jong Il. Upon leaving Pyongyang, I spent some 10 years in South Korea. And now I am living in the United States, the land of my so-called mortal enemy.

A world away, I think of Kim often. Any day, I imagine he will be taken out by the single bullet of an aggrieved underling. Who could blame such a person? He has driven his people to starve to death. He is the only person in the country who enjoys basic freedoms and human rights. He has managed to shut the eyes, ears, and mouths of the North Korean people.

And yet, I hope that he does not meet such a tragic end. At times I pray for him. More than anything, I am saddened by how he has changed since that day we met so long ago. Sometimes, I even feel guilty, for I could claim to be indebted to his family.

Because of his father's immense zeal for education, I studied for free and became a university professor.

Today, I remain optimistic. News of the outside world has been silently seeping into North Korea. Day by day, the number of people leaving the country grows. More than 10,000 North Koreans have resettled in South Korea, and tens of thousands hide in China. Try as Kim might to intimidate his people with guns and knives, they are abandoning him more and more. But even if he refuses to open North Korea's heavy and sturdy doors, the currents of history have grown strong enough to break them open like floodgates.

If Kim Jong Il ever realizes that opening up North Korea is in his interest, I will return to Pyongyang the very next day. I want to devise the best education system in the world based on my observations and experiences in Seoul and the United States. But I am already more than 75 years old. I can feel myself growing weaker by the day. Before I grow so infirm that my experiences become useless, I would love to meet Kim Jong Il one last time and give him one last lesson. I, who became a university professor thanks to his father; I, who traveled to Russia, Seoul, and now Washington. I no longer loathe him. I pity him. Even though he killed my family, I have already forgiven him. **FP**

[Want to Know More?]

Andrei Lankov's *North of the DMZ: Essays on Daily Life in North Korea* (Jefferson: McFarland & Company, 2007) describes the typical absurdities of the difficult but determined existence of many North Koreans. For one of the better accounts of life in a North Korean gulag, see Kang Chol Hwan and Pierre Rigoulot's *Aquariums of Pyongyang* (New York: Basic Books, 2001). In *The Reluctant Communist: My Desertion, Court-Martial, and Forty-Year Imprisonment in North Korea* (Berkeley: University of California Press, 2008), Charles Robert Jenkins and Jim Frederick recount Jenkins's life as an American deserter held hostage in the Hermit Kingdom.

For more on how North Korea's education system molds young minds into obedient servants of the state, read Kim Hyung Chan and Kim Dong Kyu's *Human Remolding in North Korea: A Social History of Education* (Lanham: University Press of America, 2005). *Korea's Place in the Sun: A Modern History* (New York: W.W. Norton, 1997), by Bruce Cumings, is an engaging account of Korea's recent past.

In "How to Topple Kim Jong Il" (FOREIGN POLICY, March/April 2007), Lankov tells U.S. Secretary of State Condoleezza Rice how to rid the world of the dictator without resorting to war. Kongdan Oh and Ralph C. Hassig forecast what happens to the country once Kim Jong Il is no longer in power in "The Day After—North Korea: The Hardest Nut" (FOREIGN POLICY, November/December 2003).

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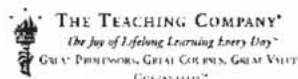
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THE DEADLY WORLD OF FAKE DRUGS

Whether it's phony Viagra or knockoff cancer meds, fake drugs kill thousands of people each day, thanks to counterfeiters in China and India who mix chalk, dust, and dirty water into pills sold around the world. With the Internet becoming the world's dispensary, these poison pills could be coming to a pharmacy near you. | By Roger Bate

Suresh Sati, a large and cheerful man from a small city in northeastern India, has been hunting down counterfeit goods for more than half his 49 years. From the moment I meet him at my hotel in Delhi, I can tell that he enjoys his work. Most days, Sati makes the rounds visiting his undercover agents, who live near the main wholesale markets in Delhi, where most fakes are traded. They pass on news and rumors about new dealers and crooked police. As we set off down the road toward one of the city's sprawling markets, Sati smiles nostalgically as he recalls his first anticounterfeit raid, back in 1981, on a small-scale outfit manufacturing knockoff TV antennas. His work has changed a great deal since then; his targets today are far better financed, organized, and dangerous. These days, Sati runs a company called "The Protector," which leads raids for multinational

corporate clients. His bread-and-butter work: hunting for fake drugs.

Back in his basement office the next day, in an unremarkable building in residential Delhi, Sati offers me a glimpse of what he is up against. He lays out the samples of phony drugs he has collected from recent clandestine purchases and the previous week's raid. He places two vials of liquid erythromycin, an antibiotic used to treat bacterial infections, on the table in front of me. One vial is the real thing; the other contains water from a Delhi tap. "Which one is the fake?" Sati quizzes. I can't say. They look absolutely identical.

During the past decade, trafficking in counterfeit drugs has become one of the world's fastest-growing criminal enterprises. The World Health Organization (WHO) estimates that more than 30 percent of medicines on sale in parts of Africa, Asia, and Latin America are fakes. By 2010, the global turnover for phony pharmaceuticals is projected to be \$75 billion, a 90 percent increase since 2005. A sharp increase in drug seizures also points to a mounting crisis. In

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2006, the European Commission reported that customs agents intercepted 2.7 million counterfeit drugs at EU borders—an increase of 384 percent from a year earlier.

The fake drug industry works in much the same way as the counterfeiting of designer handbags or DVDs of the latest Hollywood blockbuster. It provides a superficially reasonable imitation of the real product, manufactures fakes in vast amounts, and relies on economies of scale to make profits. Products are often distributed by the same criminal middlemen

Half of all drugs purchased over the Internet fail simple tests for active ingredients.

who deal in other knockoff goods. The difference is that fake drugs can carry a human price tag.

For much of the past decade, lifestyle drugs—erectile dysfunction medicines, painkillers, and anti-anxiety medicines like Valium—were the most common knockoffs, particularly in rich countries. But in the past few years, counterfeiters have moved into far more life-threatening fake pharmacology, manufacturing drugs used to treat cancer, HIV/AIDS, and serious heart conditions. As many as 1 million people a year die as a result of taking these fakes, most of them in the developing world, but an increasing number in wealthy countries, too. In the past year, at least 95 Americans died from allergic reactions linked to Chinese-manufactured heparin, a medicine used to prevent blood clots. Sources at the U.S. Food and Drug Administration tell me that the contaminated heparin was almost certainly counterfeit.

Some counterfeit drugs are simply good copies of brand-name pharmaceuticals—hygienically made with the correct ingredients in the correct proportions. They breach intellectual property rights, to be sure, but they are not inherently dangerous, so long as they are perfect copies. Unfortunately, the motivation for most counterfeiters is profits, not reliable products. So, they are more inclined to perfect the packaging, not

the contents, and then pass off their dangerous wares as the real thing.

A lack of quality oversight and enforcement makes poorer countries the most lucrative potential markets for these counterfeiters. A market like the United States is more difficult to crack, but the anonymity and breadth of the Internet now offers counterfeiters an attractive route around controls. Many so-called Canadian generics bought over the Internet are actually made in China and India, transported by traders via Dubai, Egypt, or Russia, and then shipped into Europe and North America for sale. In the fall of 2007, British customs officers uncovered a scheme in which millions of dollars' worth of fake Viagra was shipped from India, Pakistan, and China to Britain, where it was repackaged, and then sold online

to customers in 35 countries—including the United States and Canada. According to the WHO, half of all drugs purchased over the Internet fail simple tests for active ingredients.

But the greatest cause for concern may be just how little is being done to combat the counterfeit drug trade, especially in developing countries. Hampered by a lack of resources, most countries find the problem overwhelming. On the day I spent with Sati, his rounds started at 7 a.m. and finished just before midnight. He may not work that hard every day, but he hardly ever stops. That's because he's fighting a losing battle. "I've been busy," he says. "For every faker we shut down, another two or three start up."

OVER-THE-COUNTER COUNTERFEIT

It's hardly surprising that a product like pharmaceuticals might be a target for massive counterfeiting. The price of genuine drugs is high, which pushes the profit margin on fakes even higher, and the global market of potential customers is enormous. What's more, fakes can be difficult to detect. A patient will likely attribute ineffective drugs to the severity of an illness, not to the quality of the medicine. Policies designed to promote domestic generic-drug producers may also permit lower quality controls on exported drugs, creating an opportunity for counterfeiters to sneak their supply into the market.

The complexity of the drug supply chain and the pains forgers take to conceal their origins make it extremely difficult to pinpoint the hubs of inter-

For More Online

Think you can spot the difference between a fake drug and the real thing? Take our interactive quiz at:

ForeignPolicy.com/extras/drugtest.

national drug counterfeiting. That said, nearly every observer and researcher on the hunt for these dangerous fakes will point to two primary culprits: China and India. My own research on antimalarial drugs suggests that 60 to 80 percent of those fake drugs come from these two countries alone. “The overwhelming volume of counterfeit pharmaceuticals originate in Asia,” says Peter Pitts, president of the Center for Medicine in the Public Interest. “Fifty percent is probably a conservative estimate.”

Chinese and Indian counterfeiters come in all shapes and sizes. Some counterfeiters work for legitimate pharmaceutical firms; rogue employees stay after hours to substitute substandard ingredients and then sell the drugs to criminal networks. Other counterfeiting rings are based in slums, with ingredients shoveled into concrete mixers and blended to produce medicines sold on the street. Some producers market chalk as aspirin or lactose as Viagra, putting extreme care into faking a medicine’s packaging so that the drugs can be sold in stores or exported to foreign markets. More sophisticated counterfeiters add small amounts of the right ingredients so their drugs pass simple chemical tests, fooling authorities trying to prevent fakes from entering the distribution chain. “Indians copy everything,” says Vijay Karan, the former chief of Delhi police. “There is more Black Label whiskey sold in India than made in Scotland.”

But when it comes to fake drugs, the Indian government strongly denies that it has a problem. Indian government figures claim, somewhat preposterously, that counterfeit medicines account for just 0.4 percent of all legal drugs on the market there. The WHO says the rate is closer to 20 percent, and other experts place it as high as 30 percent. But the Indian government may not know how bad the problem is because it isn’t looking very hard. Even when drug authorities in other countries do the necessary detective work, banning Indian firms producing counterfeits from shipping drugs to their countries, the Indian government often allows those firms to continue operating.

In January, Sati and I drove for more than an hour down rutted roads in the state of Uttar Pradesh to visit a “drug factory” where some of India’s fake



Vial consequences: Experts believe 1 in 5 drugs sold in India is a fake.

medicines are made. The factory turned out to be nothing more than a small house in a remote village outside of Aligarh, a city of a million people about 90 miles south of Delhi. An industrial cement mixer was blending dust and chalk, which would be compressed into pills and passed off as a local painkiller. The eight or nine people working in the factory were too poor to venture outside the village. They probably had no idea they were doing illegal work or that their product would be shipped to pharmaceutical wholesale markets in nearby cities.

One such city is Agra, best known as the home of the Taj Mahal, and it has become the center of India’s counterfeit drug trade in recent years. Of the three main wholesale markets where fake drugs are traded in Agra, the largest is Mubarak Mahal, which spans three floors and houses about 500 small drugstores. According to Uday Shankar, a pharmacist with Agra Government Hospital, fake drugs comprise 20 percent of store sales, which are easily in excess of \$5 million a day. In the nearby Fountain market, at least 50 stores trade in generics, but they offer illegal copies as well. But, according



Burn unit: Anticounterfeiting is often left to a brave few, who are hampered by a lack of resources.

to Shankar, it's the market in and around the S.N. Medical College, where at least 180 drugstores operate, that has the highest percentage of fake drugs. "Many doctors at the college will tell patients to buy drugs from particular vendors within the market," he says. "Some [do it] to ensure that these patients buy drugs of decent quality, but others to intentionally direct them to pharmacists supplying fakes." Shankar believes the doctors are probably receiving kickbacks for the referrals.

Some of the markets' supply of fakes will come from big manufacturers such as Rajesh Sharma, who is believed to be an increasingly important counterfeiter from the state of Haryana, just outside Delhi. Sharma allegedly specializes in producing fake drugs to order, allowing the buyer to set the percentage of active ingredients. Some drugs will be chemically similar to brand-name antibiotics and painkillers, but other versions will be little more than placebos with excellent packaging. It all depends on what the buyer wants and what he is willing to spend.

Sharma, who is believed to move millions of dollars' worth of merchandise a year, has a business that is growing and mobile, with production facilities in several locations outside Delhi. But he does not yet operate at the level of the infamous counterfeiter Pavel Garg, whose operation produces millions of fake pills each day. Garg once notoriously told an undercover BBC crew that to keep his operations alive, he had bribed the chief minister of Haryana with a Bentley. (It's worth noting that despite such an admission, Garg's counterfeit drug business continues to flourish.)

Unlike smaller village operations, Sharma and Garg sell a lot of their drugs overseas. When a colleague approached Sharma's network, posing as a buyer for a southern African pharmacy chain, he was offered rifampin, a critical tuberculosis drug, at 15 percent strength. Fifteen percent is "enough to pass color dye tests and much cheaper than 100 percent," Sharma told him. From the point of view of the sophisticated faker, this may make sense. But at that strength, the pill will do little to help the patient and is likely just enough to allow the

bug to become resistant to future drug treatments. (See "The Path of Least Resistance" on page 62.)

THE MISSING INGREDIENT

If the international community thinks that going after men like Rajesh Sharma or Pavel Garg is a priority, it seems to be biding its time, too afraid to engage a politically sensitive issue. The WHO has been vocal about combating fakes, but even it hesitates to embarrass member countries who allow fake drugs to enter the market. Unfortunately, many observers believe it may take large-scale casualties for real action to occur. As one British drug-security expert put it to me in April, "Action against al Qaeda really only took off after September 11."

Making matters more complicated, the governments of some countries where faking is big business, notably China, India, North Korea, Thailand, and Vietnam, often do their best to throw up roadblocks. Although India's counterfeit drug problem

appears to be driven by willful government ignorance and illicit distribution networks, China's is rumored to involve a more official channel: the military. Shanghai- and Hong Kong-based insiders, fearful of retribution if they speak on the record, tell me that a small fake-drug factory in northern China is even housed inside a military base. African health experts tell me that their complaints about fakes to the Chinese government fall on deaf ears, alleging that corrupt Chinese politicians are paid off to not inspect manufacturing facilities. And though Beijing executed the former head of its drug authority last year for accepting bribes, such retribution has not been followed by enforcement of tough penalties against counterfeiters themselves. In nearby Thailand, the Government Pharmaceutical Organization for years produced drugs of suspect quality and dictated that hospitals purchase their more-expensive domestic

drugs over better-quality imports. And in North Korea, where much of the foreign currency comes from counterfeit operations, fake drugs are a sizeable chunk of the revenue stream, British security sources tell me.

It might seem logical that Western pharmaceutical companies would be at the forefront of anti-counterfeiting efforts, eager as they are to protect their brands. Pfizer, for example, spends a lot of time and effort trying to stamp out illegal copies of its drug Viagra. But going after counterfeiters too hard—or too publicly—can be a double-edged sword. Ultimately, if the public believes a drug is being widely faked, sales of the genuine drug may suffer. As a result, many large pharmaceutical companies have been reluctant to pursue fakes, particularly imitations being distributed in developing countries. In 2005, Oxford University health professor Nicholas White,

Message in a Bottle

Packaging is the quickest route to success in the world of drug counterfeiting. If you can replicate a drug's box or bottle, most consumers won't notice what's inside.

Fake Viagra is a huge global business: Millions of counterfeit Viagra pills are manufactured each year and sold for tens of millions of dollars. But to understand why Viagra is one of the world's most faked drugs, you have to understand the costs that go into making the knockoff blue pills. In both China and India, a kilogram of sildenafil citrate, the active ingredient in Viagra, costs \$60. Diluted into thousands of fake tablets and slipped into the United States for sale, that single \$60 kilogram can be worth as much as \$300,000. (That's a higher markup than cocaine, with lower penalties for getting caught.) Even if a Viagra counterfeiter in India makes



Die hard: Fake Viagra can cause nausea, vomiting, and even death.

pills at 100 percent strength, he will still probably spend more on packaging than pills. He can produce a 30-pill bottle for about 33 cents, spending 15 cents on the tablets and 18 cents on a near-perfect label and bottle. Of course, if the counterfeiter uses sugar or chalk instead of the active ingredient, the price of production plummets. Then, packaging might take up nearly 90 percent of manufacturing costs.

It is widely believed that if pharmaceutical companies would simply lower their prices on drugs, counterfeiters would have less incentive to make fakes. Intuitively, it makes sense; smaller profit margins should be a deterrent. Unfortunately, it doesn't work that way.

Counterfeiters can accept tiny margins on each product sold—as long as they move millions of pieces of merchandise. Take a Johnson's bar of soap, like one I saw recently in a Delhi market. The genuine product can be bought in a shop for just 60 cents, but the soap on sale that day was a fake. The bar itself was made of low-grade

cleanser; the packaging, however, was nearly identical to the real thing. The counterfeiter may only make a cent or two in profits on each bar of soap, but he will manufacture and sell thousands, perhaps millions, of bars. If counterfeiters will go to this much trouble to fake a bar of soap, the cost of genuine drugs—no matter how cheap—will always make it worth their time.—*R.B.*

one of the world's top malaria experts, lambasted British pharmaceutical giant GlaxoSmithKline for failing to warn patients in Ghana of fake Halfan, the company's pediatric antimalarial drug. Thousands of children were potentially exposed to and harmed by the phony medicines. GlaxoSmithKline denied it had hidden information, but Nigerian and Ghanaian health experts I spoke with confirmed the company's silence. Like governments protecting substandard businesses, pharmaceutical giants often have reason to remain quiet.

Well-intentioned nongovernmental organizations distributing drugs in developing countries may also contribute to the problem. To save money and treat more patients, the groups often purchase copy drugs from China and India that have not been tested properly. Many of those drugs might indeed be of reasonable quality. But those countries' overall record for quality enforcement is poor, and too many substandard medications are allowed to slip into the supply chain, even alongside genuine ones. Desperate to get lifesaving medicines to the world's poor, humanitarian groups are left with a difficult choice: expensive, safe drugs that treat fewer patients, or cheaper drugs that might not work.

With so many standing by doing so little, the counterfeit drug trade has been given time to grow larger and more complex. With free-trade zones and Internet sales offering counterfeiters more options for moving and selling their wares, the fight against fake drugs becomes all the more difficult without concerted and coordinated international efforts. Luckily, that hasn't stopped a few brave individuals from taking on the challenge alone. But their hard-won progress could easily be undone.

THE OTHER DRUG WAR

Dora Akunyili, a 54-year-old pharmacy professor, knew she had her work cut out for her when she took the helm of Nigeria's drug-watchdog agency seven years ago. Back then, in 2001, the WHO estimated that 70 percent of the drugs on sale in Nigeria were counterfeit or substandard. But little was being done; government corruption was rampant. Akunyili only got the job when she impressed the former president with her honesty, returning leftover funds from a medical operation paid for by the state. But Akunyili always had a more personal reason for fighting drug counterfeiters: Her sister died from taking fake diabetes medicine in 1988. Since taking office, Akunyili has collected volumes of shocking

The Path of Least Resistance

Billions are being spent on disease-fighting drugs in poor countries, but millions are still dying. Why? Because what doesn't kill a virus only makes it stronger. | By Rachel Nugent

Never before has there been such a generous and concerted global effort to fight the diseases that afflict poor countries as there is today. More money is being spent, more research is being conducted, and more governments and organizations have pledged to eradicate the illnesses that kill millions in the developing world each year. Between 2001 and 2006, annual assistance for health programs in developing countries more than doubled, from about \$6 billion to \$14 billion. Roughly half of that total is dedicated to reducing infectious diseases, with several billion spent each year on drug treatments. The vast sums of money are coming from governments in both developed and developing countries, as well as from well-funded private groups and charities such as the Bill & Melinda Gates Foundation.

Despite these colossal efforts, the battle against infectious diseases is not yet being won. Cases of both malaria and tuberculosis (TB), two diseases that have been singled out for donor attention, are on the rise. Together, these diseases kill more than 3 million people each year, and many millions more suffer bouts. About 402 million cases of malaria occurred worldwide in 2004, up 47 percent from 1998. Meanwhile, new TB cases rose nearly 30 percent between 1996 and 2006, from 7 million to 9 million. Other infectious diseases, such as cholera, shigellosis, and *Streptococcus pneumoniae* infections, most of which are largely eradicated in the rich world, remain common killers. What's worse, these diseases are becoming increasingly difficult to treat.

How can we be working harder than ever against these ailments but making so little headway? Because the microbes we are fighting are adapting faster than we are. The drugs used to treat many diseases in the developing world are becoming less effective at killing the viruses, bacteria, and parasites that cause illness. Microbes are constantly evolving organisms, and many are proving to be impervious to the drugs designed to combat them. Hardy viruses, capable of mutating faster than we can kill them, can wipe out years of research

Rachel Nugent is deputy director for global health at the Center for Global Development.

and millions of dollars spent on drug development. And as resistant strains of disease are born, new drugs must be developed that can successfully attack the mutated form of the disease, creating a vicious cycle of infection-treatment-mutation. Too often, the labors of drug companies and the international health community lag far behind the speed with which diseases evolve. Add to the problem weak and unresponsive health systems, drug makers uninterested in products for poor customers, and dangerous fake drugs, and our well-intended billions in health aid don't stand a chance against the next generation of mutating microbes.

Time and again in recent years, drugs that once successfully treated infectious diseases have had to be abandoned because of a bug's ability to fight back. In the 20th century, eight different drugs were developed for treating malaria. Today, only one remains widely effective, and it is so expensive that it is often rejected in favor of cheaper, less potent options. Quinoline-based drugs have been the bulwark of malaria treatment for decades, but an estimated 50 to 60 percent of cases in East and Central Africa, where roughly 110 million people are exposed to the disease, are resistant to the drugs. In extreme cases, such as Burundi, the one-time standard treatment, chloroquine, is ineffective in 69 percent of cases, and its newer replacement fails 31 percent of the time. In South America, resistance is as high as 80 percent. In Peru, for instance, chloroquine cannot cure 86 percent of patients. Fortunately, quinoline-based drugs are not the only tool in the antimalarial arsenal. A breakthrough successor was introduced in 1967, but within a few years, malaria parasites managed to become largely resistant to the new treatment. Parasites developed a resistance to two drugs developed earlier this decade within 12 months.

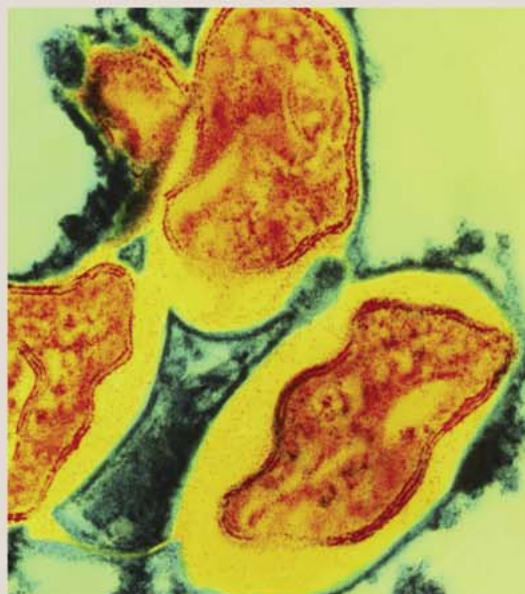
Tuberculosis is another disease prone to drug resistance. Run-of-the-mill TB is complicated to treat, requiring six to nine months of drug therapy and many different antibiotics in specific combinations. Both the long treatment period and the difficulty patients have in adhering to the regimen give the TB microbe good conditions for mutating before the drugs can cure. And because the same drugs have been used to treat the disease for more than five decades, they are becoming less

powerful. Health workers are encountering a sharp rise in drug-resistant TB, including incurable cases. Today, about 20 percent of new TB cases each year are resistant to at least one of the drugs available, and almost a half a million cases (about 5 percent of the world's total) are classified as multidrug resistant based on their resistance to the two most powerful first-line drugs. In Tashkent, Uzbekistan, for example,

approximately 60 percent of cases where the patient has previously been treated for TB are multidrug resistant; more than 85 percent of repeat patients are resistant to at least one drug. Of newly infected patients, the highest rate of resistance is found in Baku, Azerbaijan, where nearly 1 of every 4 new patients is infected with an already multidrug resistant strain. The costs of treating these resistant patients can be as much as 300 times more expensive than for regular cases of TB, and fewer than 10 percent of them currently receive treatment. TB is also spread easily from person to person, so the remaining untreated cases create a substantial public-health threat.

The reality is that we are in a battle with the microbial world that we cannot ultimately win. Diseases move around with people, and so does resistance. But that doesn't mean we shouldn't try to level the playing field. The international health community must act quickly to preserve the efficacy of our existing drugs, while we keep at the arduous and expensive task of replacing those that no longer work. Key to improving our chances is to learn where microbes are mounting a comeback. Better information sharing about which drugs have lost their effectiveness, how fast people build up resistance, and how resistant strains spread is critical for improving

our odds against swiftly mutating diseases. At a minimum, more timely information about resistance will reduce the all-too-frequent mistake of people taking drugs that can no longer help them. It will also divert those drugs to places where they can still make a difference. Having in place an internationally linked resistance-surveillance system will give us a fighting chance against fast-moving parasites. Until then, we will never be confident that we are getting the right drugs to the right people at the right time.



tales about phony drugs and government complicity. “People have been dying in this country from fake drugs since the early 1970s,” she says.

According to Akunyili, corrupt Nigerian officials extort money from legitimate drug manufacturers and accept bribes from counterfeiters in exchange for access to the market. In 1995, when the Nigerian government tried to help neighboring Niger battle a meningitis epidemic, more than 60,000 vaccine doses were distributed before all of it was found to be fake. Some 2,500 patients died as a result. But most troubling for the country is the widespread counterfeiting of antimalarial medicines. Some 2.6 million people are afflicted by malaria in the country each year; roughly 5,000 succumb to the disease. My own research shows that a third of

new antimalarial drugs are fakes. Thousands of Nigerian mothers have watched their children die because their meager savings bought imitation drugs.

Akunyili has made impressive strides in fighting counterfeit drug rings in the country, securing the convictions of more than 60 counterfeiters, with as many cases pending. In 2006, her office shut down a market in the southeastern city of Onitsha in a raid that netted more than 80 truckloads of counterfeit drugs with convincing labels. Public awareness campaigns have also had notable successes, with \$16 million worth of fake drugs seized or voluntarily handed over in 2005. Akunyili’s efforts have brought the country’s proportion of fake drugs down from 70 percent in 2002 to just 16 percent last year. She recently told me that this year, it is close to 10 percent. “Not good enough, but a lot better than before,” she says.

But Akunyili’s work has not come without steep personal costs. In 2003, her car was ambushed; a

bullet grazed her head and a member of her staff was killed. The following year, her government offices were burned down. She now has bodyguards with her around the clock. Akunyili is a target partly

because she successfully pushed for harsher punishments. Prior to her taking office, drug counterfeiters faced at most an \$80 fine and three months in jail. Most of the accused never saw the inside of a courtroom, let alone a jail cell, because they paid off police. Today, the penalties still do not rival those dealing in narcotics, but fines are increasing—many exceed \$1,000—and jail time is measured in years, not hours. Despite these successes, Akunyili thinks unscrupulous local businessmen and politicians would like her out of the way so they can go back to business as usual. And she faces a daily battle dealing with officials



Pick your poison: Each year, 200,000 kids die after taking bad malaria meds.

from India and China, the two countries that supply most of her country’s fake pharmaceuticals. “Neither government is really trying to stop production and export of fakes,” she says.

In India’s case, the troubles stem partly from toothless laws. As far as my research shows, counterfeiting was not even successfully prosecuted as a criminal offense until last year, and today there is scant enforcement. In a small sign of progress, the Indian cabinet approved a bill in July that increases counterfeiting fines from \$250 to \$25,000 and jail sentences from 5 to 10 years for the worst offenders. But much more needs to be done. Cases still rarely make it to court. Police are often bribed to look the other way. Waiting in Sati’s office one day, I watched the local police come by to talk about a pending prosecution; they spent 10 minutes trying to persuade Sati to drop the case.

A PRESCRIPTION FOR REFORM

As noble as the efforts of people like Dora Akunyili and Suresh Sati are, their hard work will be meaningless against global drug counterfeiting if the major sources of the product are not pursued. That will require far more effective international drug testing and oversight, and most importantly, the nerve (and necessary budgets) to see good intentions through. At the very least, the struggle against these fakes should not be left to a courageous few. After all, what is to say that Nigeria's progress against dangerous fake medicines won't be reversed if the next bullet aimed at Akunyili hits its mark?

As the fake-drug sector continues to grow in speed and sophistication, the global situation will get worse before it gets better. China and India may be the major producers today, but several countries are hot on their heels. Russia's counterfeit drug industry is estimated to be worth \$300 million a year. Small-time producers in Argentina and Brazil are growing rapidly. Egypt has become a major hub for Chinese counterfeits en route to Europe and the United States. Even terror links have become part of the equation: In March 2006, the U.S. FBI busted a

counterfeit ring with associates in Brazil, Canada, China, and Lebanon. The ring was funneling money to Hezbollah.

The good news is that new technologies are making random quality testing easier and faster.

When it comes to deciding between untested drugs or no drugs at all, we may have to go without—for our own sake.

Hand-held spectrometers can assess drug potency in a matter of seconds. If more of these devices are made available to customs agents, imported fakes can be found rapidly and destroyed. But technology can only be one facet of the response. Governments that protect counterfeit drug industries must be named and shamed, and aid agencies should only purchase and distribute drugs that have undergone rigorous testing. That may mean that when the moment comes to decide between untested drugs or no drugs at all, we go without—for our own sake. That's the approach Dora Akunyili believes in. "Better to have lack of access," she says, "than access to counterfeits and substandard medicines." In the end, it may be the only sensible remedy. **FP**

[Want to Know More?]

For more analysis on the global threat of fake pharmaceuticals, read Roger Bate's *Making a Killing: The Deadly Implications of the Counterfeit Drug Trade* (Washington: AEI Press, 2008).

The World Health Organization offers counterfeit drug fact sheets, traveler warnings, and tips for spotting fakes on its Web site. More information on anticounterfeiting efforts can be found at the Web site of IMPACT, a coalition of pharmaceutical companies, NGOs, and national drug authorities. See the Web site of Africa Fighting Malaria, a health nonprofit, for information on how counterfeit drugs are complicating the fight against malaria.

Katherine Eban's *Dangerous Doses: How Counterfeiters Are Contaminating America's Drug Supply* (Orlando: Harcourt, 2005) is the riveting story of a crack team of investigators exposing a counterfeit drug ring in South Florida. Dora Akunyili, head of Nigeria's drug-watchdog agency, is profiled in the BBC documentary on counterfeit drugs, *Bad Medicine*. FOREIGN POLICY Editor in Chief Moisés Naím explores how the global trade in fake goods is transforming the world in *Illicit: How Smugglers, Traffickers, and Copycats Are Hijacking the Global Economy* (New York: Doubleday, 2005).

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How Economics *Can Defeat* Corruption

What's the dirtiest secret about corruption? Just how little we know about it. Treasuries are plundered and kickbacks are paid, but the nature and scale of the world's shady transactions remain a mystery. Luckily, a little economic detective work is all that's needed to expose the smuggling, cheating, and bribing that is hiding in plain sight.

| By Raymond Fisman and Edward Miguel

It was the odd uniformity of the suitcase's contents that tipped off the baggage inspector: six thick, identical rectangles. They could have been books, but then again, they could have been six bundles of cocaine. And in August 2007, security was tight at the airport in Buenos Aires; the country was in the midst of a presidential election. It was worth taking a closer look. The suitcase's owner, a Venezuelan

businessman just in from Caracas, hesitated briefly when asked to open his suspicious luggage. Out tumbled \$800,000 in cash. It was, according to U.S. investigators, an illegal campaign contribution from Venezuelan President Hugo Chávez intended for Cristina Fernández de Kirchner, wife of Argentina's former president and a candidate for the presidency herself. What better to grease the countries' friendship, investigators alleged, than a suitcase full of cash?

Such tales of bribery and corruption are as old as politics. Try as we might to rid officialdom of crooks, however, extorting senators, vote-buying presidents, and judges for sale remain all too common. Whether it's the \$90,000 in cold cash that turned up a few years ago in a U.S. congressman's

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freezer, the “Versailles in the jungle” built with the billions embezzled by Zaire’s Mobutu Sese Seko, or the bank balances of oil autocrats in Central Asia, venality and excess remain the scourge of modern global politics.

But corruption is not simply a moral concern, warranting a collective finger wagging at political leaders. It’s blamed—perhaps rightly—for many of the world’s ills. Corruption is widely accused of being an endemic barrier to economic development, responsible for Africa’s lasting poverty and Latin America’s perennial stagnation. It is, says the conventional wisdom, what makes poor countries poor. It undermines the rule of law, distorts trade, and confers economic advantages on a privileged few. It prevents aid money from reaching disaster victims, topples buildings thanks to shoddy construction, and strangles business with the constant burden of bribes and payoffs.

Yet the truth is that we have very little idea about how corruption works or how pervasive it is. We have anecdotes about rotten individuals—a Ferdinand Marcos, a Robert Mugabe, or a Charles Taylor—but the thievery of a few thuggish rulers tells us almost nothing about the breadth and depth of global corruption. After all, when

bribery and embezzlement is done right, it’s invisible. Economists haven’t even resolved if and when corruption is really a problem: East Asian economies have boomed in recent decades under reputedly corrupt regimes.

What little systematic evidence we do have about corruption comes from surveys administered by groups such as the World Bank and Transparency International. But we economists are skeptical of what people say about corruption (and most everything else, for that matter). It’s called “cheap talk” for a reason. And we’re especially suspicious of what people say when surveyed on sensitive topics such as bribery and embezzlement. There are obvious reasons to believe that responses to the question, “How much did you receive or pay last year in bribes?” are of questionable accuracy. And if we can’t measure something, it’s hard to know where it’s really thriving, let alone figure out what to do about it.

But all is not lost. The hidden underworld of corruption often reveals itself in unexpected ways—and in situations that allow us not only to measure actual corruption but to test different methods of preventing it. All that’s required, it turns out, is a little economics and a dash of ingenuity. To truly

understand corruption, we must watch what people do, rather than just listen to what they say. And as we'll see, damning evidence, like cash-filled suitcases, often leaves footprints in the data for those who know where to look.

FORENSIC ECONOMICS

Economics is fundamentally about how people respond to incentives. So, if we forensic economists want to unearth corruption, we must look for situations where incentives for crooked rewards somehow translate into actions that everyone can see. In other words, by looking in the right places, we can uncover evidence of corruption staring us in the face. Only then can we take up the much more difficult challenge of determining what to do about it.

THE PRICE OF POLITICAL CONNECTIONS

Whether through hefty campaign contributions or cushy jobs for former politicians, corporations are constantly accused of trying to profit through political ties. (Just think Halliburton or Russia's Gazprom). But what's the real value of these companies' connections? If you ask politicians or investors, you're likely to hear a lot of denials. To get the truth, we could ask insiders to put some money where their mouths are, making them bet some of their own cash on whether particular companies are making back-alley deals with politicians to increase their profits. In this political betting pool, raw financial self-interest would lead bettors in the know to reveal their true beliefs about corruption.

This betting pool actually bears a remarkable resemblance to the stock market, where investors (including insiders) place bets on companies based on what they think they're worth. A stock price is a measure of a company's value, which can also include political ties: If connections buy tax breaks, valuable licenses, and advantages in bidding for government contracts, then strengthening political ties should boost profits. These higher profits translate directly into higher stock prices, and conversely, removing those ties should send profits—and stock prices—tumbling.

To illustrate our approach in action, let's take a trip to Indonesia and turn the clock back to 1996. Former President Suharto, who by then had ruled the country with an iron fist for nearly 30 years, would be forced to step down a few years

later. However, in 1996, Suharto's government still exercised tight control over the economy: The president decided who could get loans, log for timber, build toll roads, or import rice. In other words, he decided who would make money and how much. If ever there were a time or place where we'd expect the market to place a value on connections, this would be it.

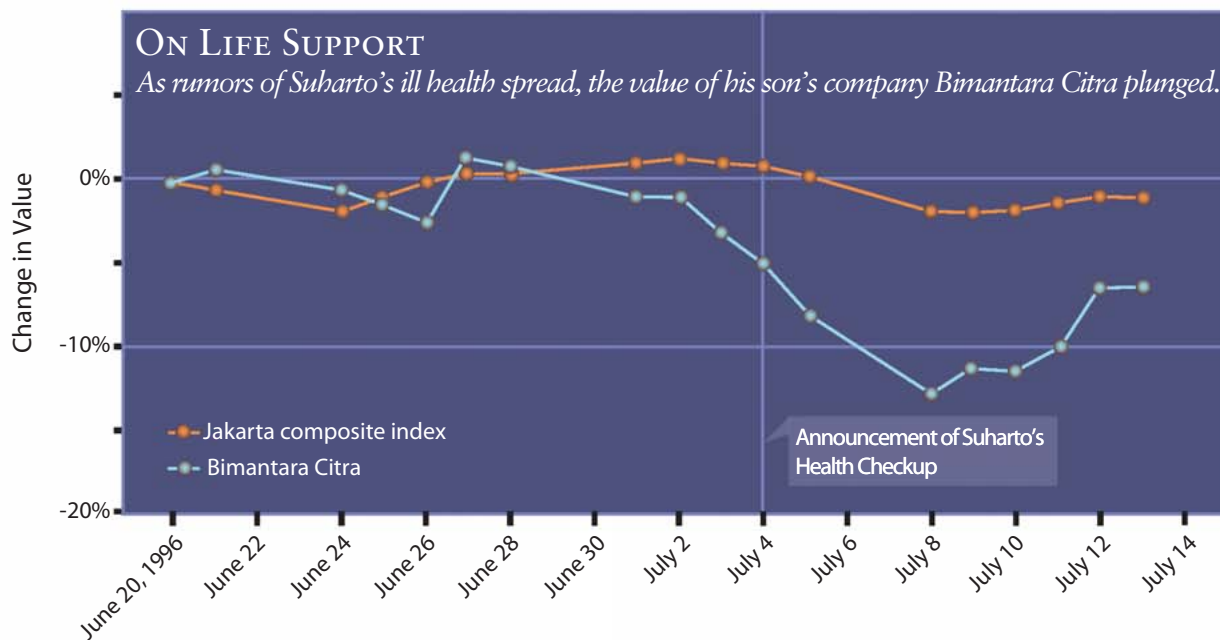
But the aging dictator was in poor health. And because none of his kids or cronies was seen as a capable successor, any leader who followed Suharto would be unlikely to honor (or enforce) the cozy business relationships established under his rule. Any threat to Suharto would translate into a threat to the value of connections, and bets would be placed accordingly.

And indeed, Indonesian investors didn't disappoint. On July 4, 1996, the Indonesian government announced that Suharto was traveling to Germany for a health checkup. That may not sound like much, but who travels 10 time zones to get his pulse taken? Investors at the stock exchange were inundated with rumors that Suharto had already suffered a stroke or heart attack. The Jakarta composite index, an indicator of Indonesian stocks' overall performance, much like New

**Damning evidence, like cash-filled suitcases,
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York's Dow Jones Industrial Average, fell 2.3 percent on the day of the news.

What was merely bad for Indonesian stocks turned out to be devastating for well-connected companies. One such firm was Bimantara Citra, a media conglomerate run by Suharto's son, Bambang Trihatmodjo. In the weeks leading up to the July 4th announcement, both the Jakarta exchange and the price of Bimantara Citra bounced around a bit, not gaining or losing very much value. Then, with the market awash with rumors in the first week of July, Bimantara's stock price took a nose dive. The prospect of the company without its connections had shareholders dumping their stock and running for the exits, driving its price down more than 10 percent in just a few days, obliterating



about \$100 million of its value. (As the chart shows, Bimantara starts its steep slide even before the announcement, probably reflecting early selling by those with close ties to the Suharto family or his doctors.)

One can just imagine what would have happened to Bimantara shares if the 75-year-old Suharto had died suddenly. In fact, our estimates, based on stock returns during a number of Suharto health scares, suggest that a complete severing of Suharto connections would have resulted in a 25 percent loss for similarly well-connected companies. How much is 25 percent of a company's value? When Apple announced its iPhone to great fanfare in 2007, its shares went up 8 percent; when Pfizer was unexpectedly forced to withdraw its bestselling antibiotic Trovan in 1999, its shares fell 10 percent. So, connections in Indonesia were worth a lot more than a blockbuster new drug or the next big technology gadget—or even both of them combined.

Of course, Suharto's government was considered one of the most corrupt dictatorships of its time, so we should not make generalizations based only on its extreme example. Luckily, researchers have since created market-based measures of political connections in many other countries. Mara Faccio, an economist at Purdue University, has measured the value of political connections for nearly every country with a well-functioning stock market. She has followed the political careers of business tycoons (and the business careers of politicians), traced bloodlines to detect family ties, and

read the society columns of local newspapers to track who dines with whom. Her conclusion? Close political-corporate ties exist in nearly every country. In Russia, fully 87 percent of the Moscow stock exchange's value is in companies with close Kremlin connections. Maybe this isn't such a shock in the unruly capitalism of post-Soviet Russia. More surprisingly, nearly 40 percent of the London Stock Exchange is politically connected.

But Faccio found big differences from country to country in the actual value provided by these connections. Although business-government ties are very common in Britain, the stock prices of British companies don't budge when political ties are strengthened. For example, when Rolls-Royce Chairman John Moore was appointed to the House of Lords, there was no detectable effect on Rolls-Royce's stock price. Italy, however, is true to its stereotype; insider connections matter a great deal. When Fiat boss Giovanni Agnelli was appointed to the Italian Senate, his companies' stock prices soared 3.4 percent, adding hundreds of millions of dollars in value overnight.

Sadly, the United States appears to be more like Italy than Britain. Numerous studies have found that the economic fortunes of well-connected U.S. companies mirror the political fortunes of their connections. When U.S. Sen. Jim Jeffords defected from the Republican Party and handed Senate Democrats a slim majority in 2001, Democratically connected companies benefited in the immediate aftermath. Similarly, the stock value of companies

with former Republican lawmakers on their boards increased an average of 4 percent when the Supreme Court handed the 2000 election to George W. Bush, while companies with former Democratic politicians on their boards declined.

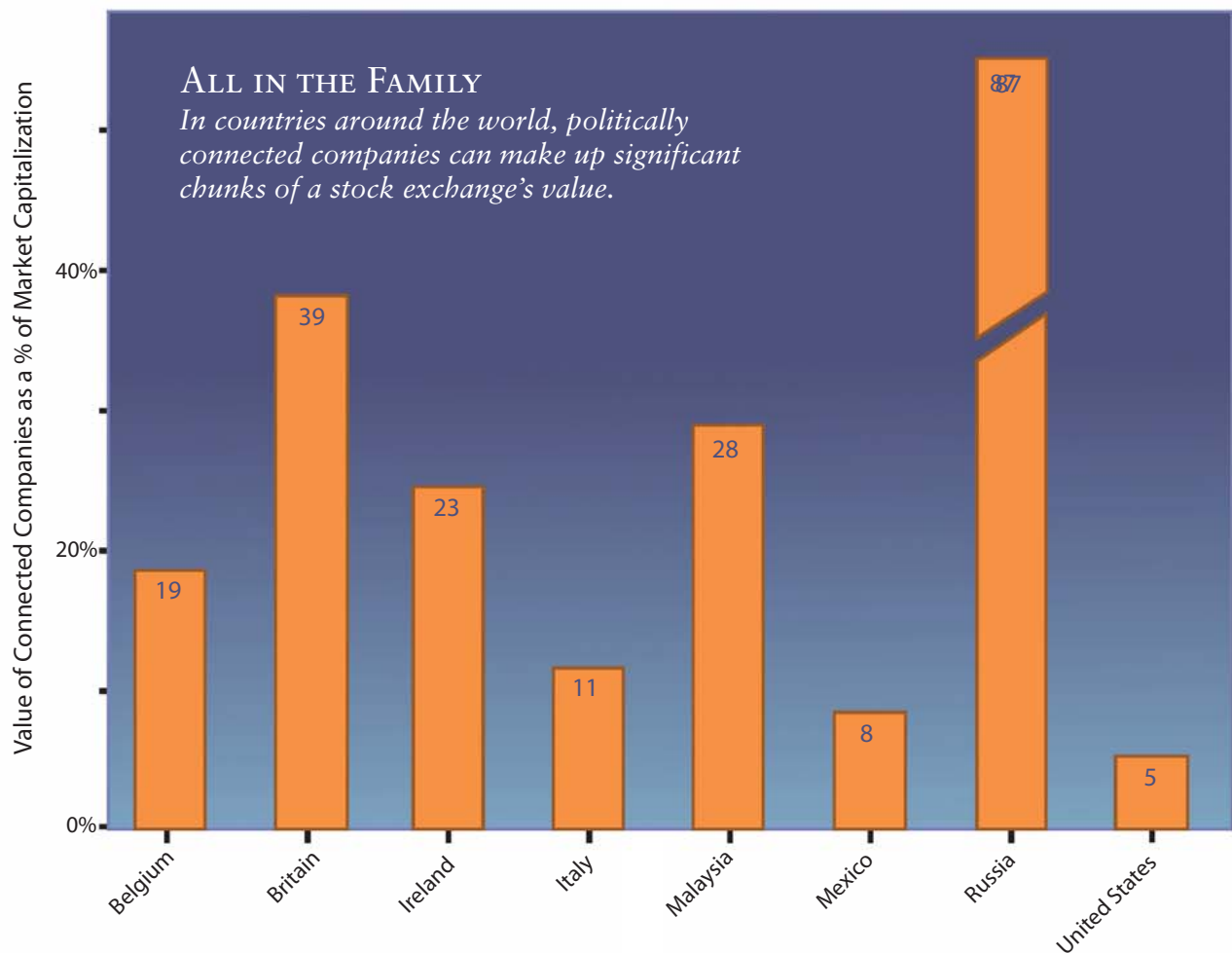
SMIFFING OUT SMUGGLERS

Well-connected companies may not gain much from being honest about their political ties, but when it comes to bribes, there are a few situations where people or companies do have reason to tell the truth. Before 1999, when the Organisation for Economic Co-operation and Development endorsed a global anticorruption agreement, firms in many nations, including Germany, the Netherlands, and Switzerland, were allowed to pay bribes, just as long as the money went to officials in other countries. Not only was this international bribery permitted by law, it was tax deductible as a business expense. If we could check these corporations' tax returns, their self-reported bribe payments might just be believable. But tax returns aren't the only place that candor on corruption makes an occasional

appearance. Truthful reporting of misdeeds by other corporate rogues appears elsewhere in plain sight, thanks to the ready availability of international trade data.

Consider the global trade in antiques. If traders are being honest to customs officials, the value of antiques leaving other countries and bound for the United States should be the same as the value of antiques coming into American ports of entry. But they're not—not by a long shot. A lot more antiques arrive on American shores than the world claims to be sending its way. Leaving aside the rather unlikely possibility of floating antiques factories, it appears there must be different incentives for antiques importers and exporters to report their dealings truthfully. It turns out there are, and by studying how these different incentives translate into gaps in the trade data, we can get a better handle on the nature of global smuggling.

A short lesson in the laws governing the antiques trade is in order. Most countries ban or severely restrict the export of antique art and other cultural goods. These restrictions include big-time antiquities



such as Etruscan chariots and Greek statues that can fetch millions on the market, as well as cheaper trinkets like pre-Columbian pottery shards and old coins. Such objects can only be exported with special government permission, which is rarely forthcoming. So, exporters must either suffer through the bureaucratic hassle of filing for export permits, or simply take their chances with paying off a customs agent at the border. In short, the incentives to lie often outweigh the benefit of telling the truth.

Either way, there's no problem on the import side: You're probably free to bring your coins, pottery, statues, and chariots into the United States. The U.S. Department of Homeland Security explains in its handbook for art importers that violating a foreign country's export laws doesn't necessarily mean you're violating U.S. laws. So, while it's OK to bring illegally exported items into the United States, you do have to be honest about what you report to U.S. authorities—or else. The penalties for dishonest reporting include fines and seizure of your merchandise. So on the import side, it pays to tell the truth. The mysterious gap between antiques sent and antiques received—what we'll call the smuggling gap—can be explained by these different reporting incentives. As one might expect, the smuggling gap for antiques is widest for those countries where it's easiest to bribe your way around export restrictions—Nigeria, Russia, and Syria, to name a few. But smugglers of all kinds of products leave similar fingerprints in the data that are visible to economic detectives.

Not surprisingly, smuggling gaps aren't unique to antiques traders. We've looked closely at the prints left by Hong Kong exporters trying to avoid paying Chinese import tariffs. The principle is much the same as with antiques trading, but in reverse: The free-trading economy of Hong Kong puts few restrictions on exports, so there is no incentive to mislead customs agents about what you are shipping out. But because of high tariffs on certain goods entering China, there is a great deal of deception on the receiving end. For instance, in the late 1990s, Chinese tariffs on perfume were set at 55 percent, and for tobacco products, 70 percent. By contrast, raw steel and aluminum ore, key commodities for China's burgeoning economic machine, came into the country tariff free. You can probably guess where there was a bigger gap: lots of Hong Kong

perfume and tobacco went “missing” before it reached China, but not much iron or aluminum.

By looking at the data, we have been able to identify the preferred methods that smugglers use to evade Chinese customs. Think about a smuggler who wants to bring in, say, chickens that face a 20 percent tariff. He could lie about the chicken count in his shipping container, or shave downward the value of each chicken. But what if inspectors counted his chickens by weighing his container or had ready access to the market price for chickens? Our smuggler would be easily caught and punished. But suppose the tariff rate on turkeys is only 10 percent. Our smuggler friend could simply relabel his chickens as turkeys; all the inspector

Exporters must suffer through the bureaucratic hassle of filing permits, or take their chances with bribing a customs agent.

would see if he opened the container is frozen poultry. In the data, this sleight of hand will show up as lots of disappearing chickens on the Chinese side, with turkeys appearing in their place. When we analyzed three years' worth of Hong Kong-China trade data, we found that similar chicken-to-turkey switches—high-tariff wooden seats becoming lower-tariff wooden seat parts, manual drills becoming machine-controlled drills—account for most of the smuggling gap.

Crucially, knowing smugglers' evasive techniques can help policymakers figure out the most effective ways of putting them out of business. Because most of the smuggling we uncovered was of the “chickens-turned-turkeys” variety, a good start would be to equate tariffs on goods that are similar enough to be mislabeled. Of course, Hong Kong smugglers will still surely come up with another way of getting their goods to the mainland. But by plugging up the easiest channel for tariff evasion, the Chinese government—and others—can force a reaction that makes smuggling less profitable and begins to chip away at this gritty underside of economic globalization.

PAVING THE ROAD TO CORRUPTION

Just as corrupt customs officials might look the other way for a slice of the action, crooked politicians



and contractors have been siphoning cash from road-building projects for as long as there have been roads. Road construction requires materials such as sand and stones and lots of manual labor, all purchased locally by contractors. The Tony Sopranos of the world have figured out that there is good money to be made by over-invoicing these contracts: Double the budget for supplies, buy some cheap concrete, and split the leftover cash with your cronies in the roads ministry.

As with all other forms of corruption, we need data before we can investigate potential solutions. Here, we turn to Ben Olken, an economist at the Massachusetts Institute of Technology, who has devised an innovative method of measuring road-building corruption. Olken wanted to figure out how much money was being stolen from a World Bank construction program in Indonesia. Under the terms of the program, 600 villages received \$9,000 each to build a local road. If Olken could determine how much was spent actually building each road, he could find out how much cash had “leaked out,” most likely into the pockets of unscrupulous contractors and public officials. So, Olken sent teams of experienced engineers to all 600 villages to assess the quality of each road.

The teams dug up road samples, measured pavement depth, and analyzed whether a road had been “watered down” by using cheap sand instead of expensive gravel.

As part of the study, Olken also built in metrics that tried to ensure the money was well spent. Some villages were informed ahead of time that their road project would be audited. Others were ordered to hold “town hall”-style meetings to allow villagers to discuss and monitor construction plans. (Community involvement of this kind has been held up as a cure-all in development in recent years, especially for governance woes like corruption.) There was also a third set of “control” villages, where nothing special was done at all.

In the villages with no special oversight, road funds disappeared at an average of nearly 30 percent, about \$2,700. Nearly as much was stolen in the villages with town-hall meetings. In the villages where contractors were forewarned about audits, theft dropped below 20 percent—still a sizeable loss, but a third less than appeared in the other two groups. From just this single innovative study, we can gain insights into the anticorruption efforts that will likely work best in other types of development projects.

THE CORRUPTION CURE

So far, we've documented the kingly sums channeled to Suharto's buddies, uncovered the hidden tracks of antiques smugglers, and dug into the contract padding of unscrupulous road contractors. But there is a dizzying array of corrupt practices in the world and an even greater number of plausibly effective anti-corruption policies beyond those we've examined. Is there any way to be more systematic in figuring out which policies will work in practice?

Economic principles, together with common sense, can be our most useful guides. We know that economic incentives matter, so a good starting point is to think about the carrots and sticks that motivate potentially corrupt officials. Can greater government financial transparency, perhaps through Web postings of highway contract announcements and more details on the winning bids, help curtail theft in Indonesian road building? Will lowering or linking tariffs on similar products dampen the incentives for bribe-paying traders? Or how about increasing the salaries of government officials to reduce the need to supplement their incomes with kickbacks?

We economists could wait around for the right kind of experiments to take place on their own. But governments tend to make lots of changes

simultaneously: Salaries are doubled, enforcement increased, and governments made transparent all at the same time, making it hard to sort out which improvements are really the result of any specific policy. And even if changes are implemented one by one, it's a rare government that sets aside a group of employees or road contracts to serve as a bench mark, like the control villages in the Indonesian road study.

Perhaps the answer is that governments should become more experimental, quite literally, in how they deal with their corruption problems. Officials interested in rooting out corruption must think seriously about evaluating what does and does not work in the real world. Just as medical scientists experiment with different ways of treating human diseases, policymakers can experiment with different solutions to social problems. After all, abstract speculation can take us only so far. At some point, our economic theories must be tested in the chaos of real economies. And once we've understood which anti-corruption approaches work—whether higher salaries, government transparency, stricter punishments, or all of the above—policymakers can start to work to end corruption systematically. If they do, they may just find that economics—armed with a little creativity—can make corruption a little less common. **FP**

[Want to Know More?]

For more tales of unscrupulous smugglers and crooked bureaucrats manipulating the global economy, read *Economic Gangsters: Corruption, Violence, and the Poverty of Nations* (Princeton: Princeton University Press, 2008), by Raymond Fisman and Edward Miguel.

Mara Faccio's work on the cozy ties between big business and government can be found in her study "Politically Connected Firms" (*American Economic Review*, March 2006). In "Partisan Impacts on the Economy" (National Bureau of Economic Research Working Paper, March 2006), Erik Snowberg, Justin Wolfers, and Eric Zitzewitz examine how the outcomes of recent U.S. elections have affected the American stock market. In an innovative experiment, Fisman and Miguel recently discovered that U.N. diplomats from corrupt countries have far more unpaid New York City parking tickets than those from less corrupt countries in "Cultures of Corruption: Evidence from Diplomatic Parking Tickets" (NBER working paper, June 2006).

James S. Henry investigates how \$3 trillion in foreign aid was squandered and looted in *The Blood Bankers: Tales from the Global Underground Economy* (New York: Four Walls Eight Windows, 2003). In *Tropical Gangsters: One Man's Experience with Development and Decadence in Deepest Africa* (New York: Basic Books, 1990), Robert Klitgaard gives a riveting firsthand account of what it's like to face down corruption, economic inefficiency, and out-and-out thuggery in Africa.

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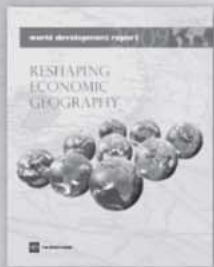
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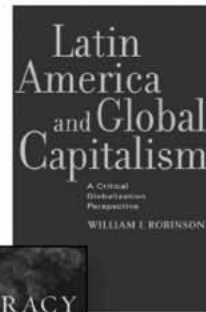
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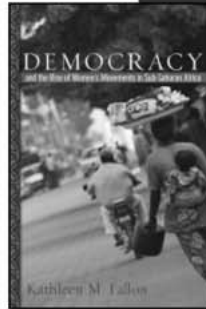
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THE TERRORISM INDEX

Signs of progress in Iraq have left America's top foreign-policy experts experiencing a rare sensation: optimism. But, according to the fourth Terrorism Index, the U.S. national security establishment is in sharp disagreement with the presidential candidates—and alarmed that its so-called allies may soon harbor its worst enemies.

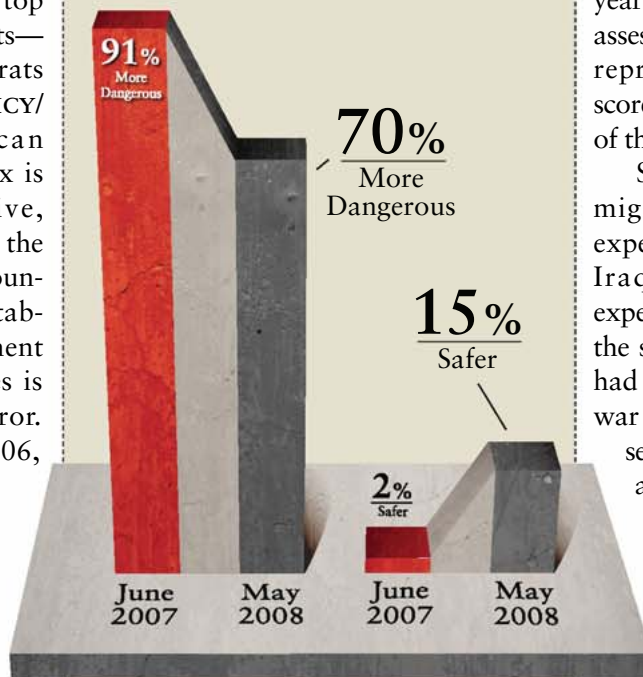
For the first time since the terrorist attacks of Sept. 11, 2001, issues of national security no longer dominate political discourse. Rising energy costs, the subprime mortgage implosion, and other domestic imperatives now monopolize the national conversation. In a recent poll conducted by the Pew Research Center for the People & the Press, Americans ranked terrorism as the country's 10th-most important priority—behind healthcare, education, and the federal budget deficit. But even as attentions shift, the wars in Iraq and Afghanistan have become the longest U.S. military engagements in a century, with the exception of Vietnam. Around the world, terrorists have continued to strike with deadly effect—from Athens and Paris to Beirut and Baghdad. The upcoming presidential election presents the United States with a choice about how it will seek to combat this threat, even as, somewhere, terrorists might be plotting their next attack. Wherever the war on terror may exist in the public's consciousness, there is no doubt that it rages on.

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But is it making the United States safer? To find out, each year FOREIGN POLICY and the Center for American Progress survey the very people who have run America's national security apparatus during the past half century. Surveying more than 100 top U.S. foreign-policy experts—Republicans and Democrats alike—the FOREIGN POLICY/Center for American Progress Terrorism Index is the only comprehensive, nonpartisan effort to poll the highest echelons of the country's national security establishment for its assessment of how the United States is fighting the war on terror. First released in July 2006, then again in February and September 2007, the index attempts to draw definitive conclusions about the war's priorities, policies, and progress. Its participants include people who have served as national security advisor, director of the Central Intelligence Agency, senior White House aides, top Pentagon commanders, seasoned intelligence professionals, and distinguished academics.

Although most of these experts still see a world with considerable dangers, this year's index revealed a new trend: signs of progress. For the first time since the index was launched in 2006, the experts have become more optimistic. A year ago, 91 percent of the experts said they believed the world was growing more dangerous for Americans and the United States. This year that figure fell to 70 percent, a 21-point drop in 12 months. Similarly, when asked in 2007 if they agreed or disagreed with the statement, "The United States is winning the war on terror," just 6 percent of the

Would you say that the world is becoming safer or more dangerous for the United States?



The United States is winning the war on terror.



experts agreed. Today, 21 percent of the experts say the United States is making headway in fighting terrorism. Overall, the percentage of experts who see the threat of global terrorist networks as increasing dropped from 83 percent last year to 55 percent today. Such assessments, broadly speaking, represent the most positive scores in the two-year history of the index.

Some of this optimism might stem from what the experts see as good news in Iraq. Sixty percent of the experts, for instance, say that the so-called surge in Iraq has had a positive impact on the war effort. That figure represents a massive reversal from a year ago, when 53 percent of the experts said the surge was failing. The experts also see progress in U.S. policy elsewhere, including the Korean Peninsula. Forty-six percent of the experts believe that U.S. policy toward North Korea is positively advancing America's national security goals, a 35-point increase from two years ago and a 12-point increase in the past 12 months. More than half the experts say that U.S. policy toward China is having a positive impact, up 25 points from 2006.

The experts are not, however, without concern. On issues ranging from the war in Afghanistan to Iran to U.S.

energy policy, they find worrisome trends. Perhaps nowhere is this truer than with regard to the war in Afghanistan. Eighty percent of the experts say that the United States has focused too much on the war in Iraq and not enough on the war in Afghanistan. A majority, 66 percent, continues to say that the war in Afghanistan is having a positive impact on U.S. national security, but that figure is down 27 points from two

PREVIOUS PAGE: ILLUSTRATION BY TRAVIS DAUB
PHOTOS: SABAH ARAR/AP/GETTY IMAGES; MIN CHAN/GETTY IMAGES

years ago. The U.S. government's efforts to stabilize and rebuild Afghanistan have been judged to be below average. Eighty-two percent of the experts say that the threat posed by competition for scarce resources is growing, an increase of 13 percentage points from last year. More than 8 in 10 experts say that the current U.S. policy toward Iran is having a negative impact on national security. And, though a large bipartisan majority agrees that creating peace between Israelis and Palestinians is important to addressing the threat of Islamist terrorism, they grade U.S. efforts at working toward that goal to be just 3.3 on a 10-point scale.

The belief that some threats are increasing while others are ebbing may help explain why, over the long term, the experts' views about the threats we face remain consistent. As in the previous indexes, a large majority of experts—71 percent—continues to say that a terrorist attack on the scale of 9/11 is likely or certain within the next decade. As has also historically been the case, an even larger majority—85 percent—continues to expect a smaller-scale attack akin to those that occurred in Madrid and London within the next 10 years. It's a reminder that, though the public's priorities may shift, the war on terror continues.

A SURGE OF SUPPORT

What a difference a year makes. When the index's experts were asked a year ago about the so-called surge of U.S. troops into Iraq, 53 percent believed it was doing little good. Today, 60 percent of the experts see the surge as a reason for progress. Seventy-nine percent say the surge helped to lift Iraq's economy. Nearly 9 in 10 say the surge benefited Iraq's security. And about half say that the surge assisted Iraqi political reconciliation.

But don't confuse this change of heart with unconditional support. Despite being more positive about the surge's gains, the experts do not want the surge to continue. A large majority, 87 percent, does not want to see the United States add more troops to Iraq. Nor does a majority believe the status quo can persist—62 percent do not think that current troop levels should be maintained. Instead, almost 70 percent recommend that the majority of U.S. forces be withdrawn and redeployed to Afghanistan and the Persian Gulf in the next 18 months. Perhaps most tellingly, when asked what the most important U.S. policy objective during the next five years should be, only 8 percent of the experts listed a stable, secure Iraq. Whether out of frustration or just plain exhaustion, it appears many in the foreign-policy community just want to move on.



In June 2007, 10% of experts named the Iraq war as the **single greatest threat** to U.S. security. In May 2008, not a single expert did.

Which country is most likely to become the next al Qaeda stronghold?



THE TEHRAN TIMELINE

What is the principal strategic outcome from the war in Iraq? According to the index's experts, it's not the end of Saddam's dictatorship, a rise in militant Islam, or even a war-torn Iraq. Rather, almost half of the experts say that the most important outcome is the emergence of Iran as the most powerful country in the Middle East. Worse, three quarters of the experts believe that the threat posed by Iran's nuclear ambitions is rising.

The U.S.-led war has not only benefited the United States' chief regional nemesis, but the experts

are no longer optimistic that Washington knows what to do about it. Their confidence that U.S. policies can adequately address the Iranian threat has

never been lower. The experts give U.S. policy toward Tehran an average grade of just 2.8 on a 10-point scale, where 10 means the United States is doing the best possible job. More than 80 percent of the experts, including 69 percent of conservatives, believe that U.S. policy toward Iran is negatively affecting America's

national security goals. This appraisal represents the most critical view of U.S. policy toward Iran since the index began two years ago.

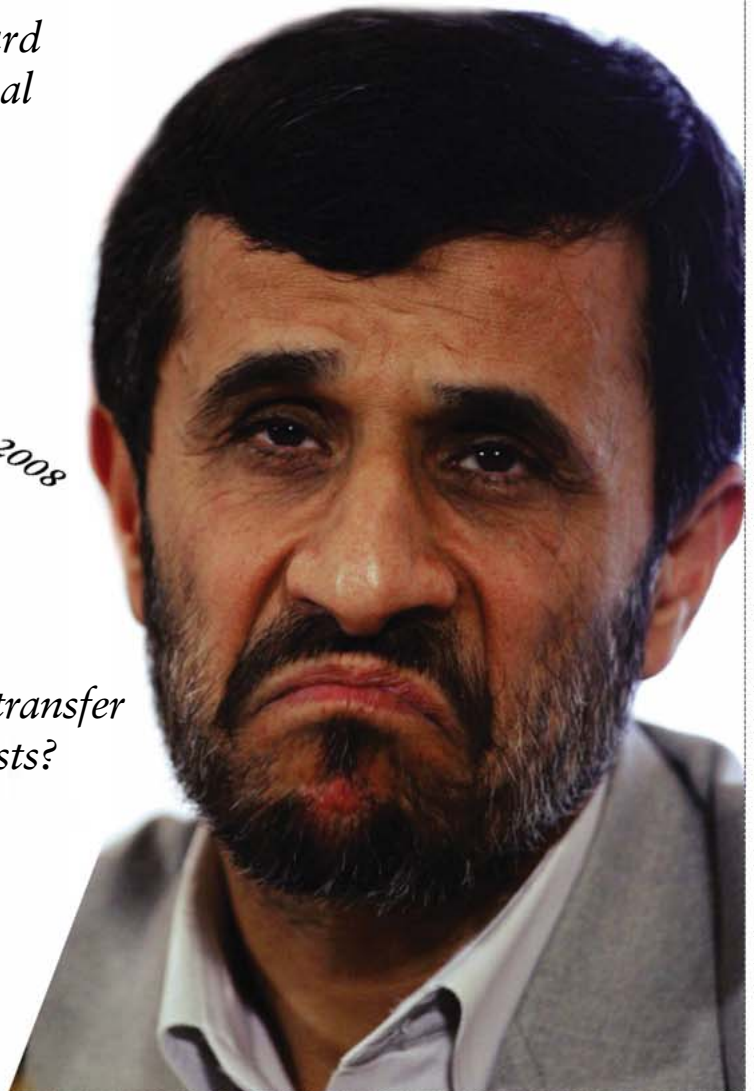
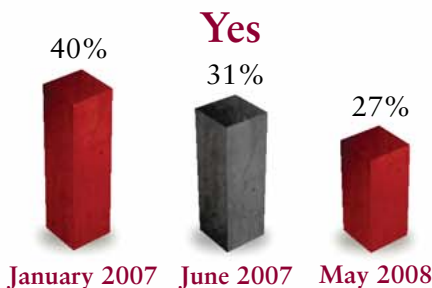
32% of the experts believe the United States will attack Iran before the end of January 2009.

How has U.S. policy toward Iran advanced U.S. national security goals?

Negative Effect



Is it likely that Iran would transfer nuclear weapons to terrorists?



PHOTOS: ALI YUSSEF/AFP/GETTY IMAGES; WILLIAM THOMAS CAINGETTY IMAGES; PAUL J. RICHARDS/AFP/GETTY IMAGES

CANDID CANDIDATES

SEN. JOHN MCCAIN

EXPERTS

SEN. BARACK OBAMA

WITHDRAWAL FROM IRAQ

"I believe that...if we do set a date for withdrawal, al Qaeda will then win and we'll see chaos and genocide in the region."

—Feb. 3, 2008

Nearly **7 in 10** support a drawdown and redeployment of U.S. forces in Iraq.

"[W]e can bring our troops out safely at a pace of one to two brigades a month...[and] that pace translates into having our combat troops out in 16 months' time."

—July 3, 2008

THE SURGE

"The surge has succeeded and we are, at long last, winning this war."

—July 25, 2008

Almost **90 percent** believe the surge has had a positive effect on Iraq's security.

"President Bush [said] that the surge in Iraq is working, when we know that's just not true."

—Jan. 28, 2008

AFGHANISTAN

"Our commanders in Afghanistan say they need at least three additional brigades...[and they] must get them."

—July 15, 2008

Nearly **7 in 10** support a redeployment of U.S. troops from Iraq to Afghanistan.

"I will send at least two additional combat brigades to Afghanistan..."

—July 15, 2008

ENERGY SECURITY

"I believe it is time for the federal government to lift these restrictions [on domestic energy exploration] and to put our own [oil] reserves to use."

—June 17, 2008

Three in 4 do not endorse relaxing environmental standards for oil and gas drilling. Nearly **2 in 5** experts, however, support stricter fuel efficiency standards.

"[We] have to get serious about increasing our fuel efficiency standards and investing in new technologies."

—April 16, 2008



BORDERING ON NEGLECT

A year ago, the experts said Iraq was the mission most in danger of failing. Today, however, they have set their sights on the war in Afghanistan. Last year was the deadliest on record since the U.S. invasion in 2001, with a 33 percent increase in attacks since 2006. This spring, Taliban raids along the country's border with Pakistan jumped from 60 to roughly 100 a week.

It comes as no surprise then that nearly a third of the index's experts now sees the war in Afghanistan as having a negative impact on U.S. national security, up from 20 percent last year and a mere 4 percent in 2006. They grade the administration's policy decisions there at just 4.3 on a 10-point scale, where 10 represents the best possible performance. Iraq itself, the experts say, may be partially to blame for the troubles in Afghanistan. Eighty percent of the experts, including 63 percent of conservatives, believe that the

United States has focused too much on Iraq and not enough on Afghanistan. And nearly 70 percent would like to see a redeployment of U.S. forces from Iraq to Afghanistan (and other parts of the Persian Gulf) in the next 18 months.

The costs of the Afghan campaign are likely to extend beyond the sacrifices made by troops on the ground. Almost 1 in 3 experts believes that, in 10 years' time, the war in Afghanistan will have weakened the power and credibility of the United States. Nearly the same number, 32 percent, believes that the NATO alliance will be weaker as a result of the war.

One in 3 says that the war has already proven that NATO is obsolete. Asked how to turn the situation around, roughly 1 in 4 experts says more alliance troops must be deployed fast. As in Iraq, a surge in troops might be what Afghanistan—and NATO—desperately needs.

The U.S. should draw down forces in Iraq and redeploy to Afghanistan.

Disagree
31%

Agree
69%



PHOTO: TARIQ MAHMOOD AFFIGETTY IMAGES

THE BREEDING GROUND

Pakistan seems to be moving from bad to worse. With the assassination of former Prime Minister Benazir Bhutto, the ousting of President Pervez Musharraf's ruling party in the February elections, and a string of deadly terrorist attacks, the country has been beset with instability during the past year.

For a majority of the experts, that instability is making Pakistan a country fraught with risk. A large majority, 69 percent, of the experts considers Pakistan the country most likely to transfer nuclear technology to terrorists. A year ago, 35 percent of the experts said that

Pakistan was the country most likely to serve as al Qaeda's next home base. Now more than half share this fear.

The index's experts are not impressed with how the United States is attempting to address this challenge. They give U.S. policy toward Pakistan a score of just 3.7 on a 10-point scale. Sixty-six percent

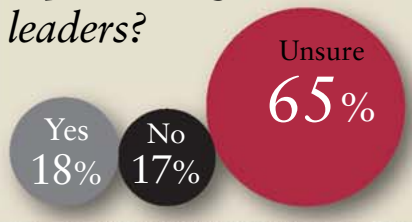
believe that U.S. policy toward Pakistan is having a negative impact on America's national security, an increase of 13 points from a year ago. The highest

percentage of experts says that, over the long term, correcting course will require the United States to support efforts to integrate the tribal areas into the rest of Pakistan, to increase U.S. development assistance, and to condition U.S. aid on Islamabad's willingness to confront militants.

But if the experts agree on what is needed in the long term, there is almost no consensus about what to do if the United States must act quickly. Asked if the United States should take

military action in Pakistan if there is a chance to capture or kill high-ranking members of al Qaeda, assuming Islamabad has not given the OK, 65 percent of the experts say they are unsure which course of action is correct. In a country so volatile, there appear to be more dangers than easy answers. **FP**

Should the U.S. military enter Pakistan without permission to capture al Qaeda leaders?



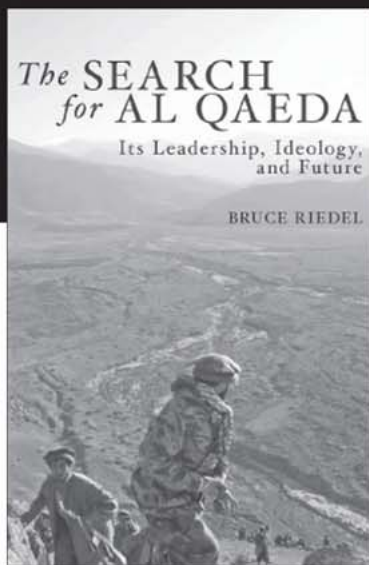
[Want to Know More?]

For complete results, a list of index participants, and details of the methodology used in the survey, visit ForeignPolicy.com and AmericanProgress.org.

Jane Mayer's *The Dark Side: The Inside Story of How the War on Terror Turned into a War on American Ideals* (New York: Doubleday, 2008) offers a definitive account of Washington's counterterrorism strategies since Sept. 11, 2001. For a fascinating glimpse into the infamous terrorist group by a jihadist spy, read *Inside the Jihad: My Life with al Qaeda*, by Omar Nasiri (New York: Basic Books, 2006). West Point's Combating Terrorism Center publishes a monthly newsletter, *CTC Sentinel*, which offers smart analysis of global terrorism trends.

Marc Sageman profiles the young wannabe jihadists who pose today's greatest threat in "The Next Generation of Terror" (FOREIGN POLICY, March/April 2008). Veteran counterterrorism intelligence officer Malcolm Nance explains why catching al Qaeda is about to get harder in "How (Not) to Spot a Terrorist" (FOREIGN POLICY, May/June 2008).

»For links to relevant Web sites, access to the *FP* Archive, and a comprehensive index of related FOREIGN POLICY articles, go to ForeignPolicy.com.



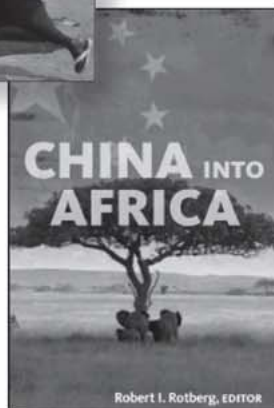
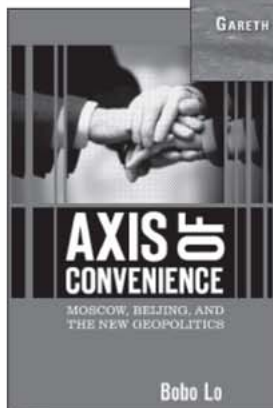
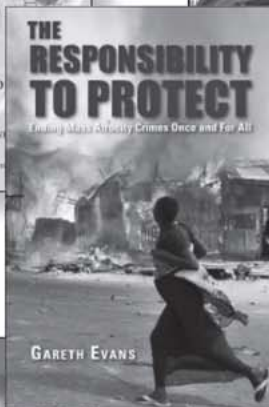
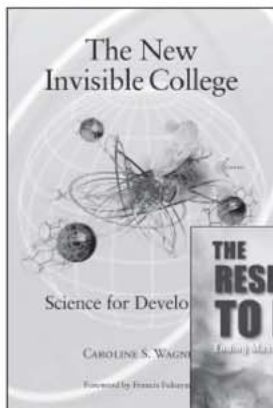
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SURPRISING KAZAKHSTAN

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Think you know Kazakhstan?

YOU MIGHT BE SURPRISED

THE SURPRISE ON THE STEPPE



The streets of Almaty, the commercial center, and other cities throughout the country are clogged with Mercedes, BMWs, and Porsche SUVs. At night, the cafés and restaurants are as full as those in any European capital, as well-heeled clientele sip white wine and cappuccinos. Throughout the land, and especially in the capital, Astana, steel and glass skyscrapers have shot up where once just arid grassland stood.

This is Kazakhstan, Central Asia's rising political and economic power. In just a few years, it will be a country for other nations in the world to pay heed to and reckon with. Kazakhstan will be a regional, commercial, and financial center along the lines of Singapore and Dubai, and a force that plays a decisive political and economic role in the post-Soviet sphere—and beyond.

Under the iron tutelage of President Nursultan Nazarbayev, the expansive ex-Soviet republic of 17 million—the size of Western Europe, stretching from the Caspian Sea to the Tien Shan Mountains

on the Chinese border—intends to become one of the world's 50 most competitive nations.

Oil and gas will be the primary drivers of this development. The country's hydrocarbon reserves are immense—estimated to have around 30 billion barrels of crude-oil reserves, which place it 11th in the world, representing some of the largest deposits outside the Organization for Petroleum Exporting Countries (OPEC). By 2015, the Astana government plans to triple production to close to 3 million barrels per day.

Already, Kazakhstan is considered by the World Bank to be one of the 20 best places for capital investment. Gross domestic product (GDP) has skyrocketed in recent years, foreign direct investment has topped US\$45 billion, and the country looks on track to join the World Trade Organization soon. Its banking sector is considered to be the most progressive in the former Soviet Union, able to adapt and learn from its mistakes and, for the moment, flexi-

ble enough to weather the world banking crisis. But it is not all about oil. Kazakhstan is an extraction powerhouse, also thanks to massive deposits of other major minerals, such as copper, gold, cobalt, and uranium. Kazakhstan's copper flagship, conducted a US\$1 billion initial public offering on the London Stock Exchange in 2005.

Ultimately, hydrocarbons are just a means to an end. Kazakhstan wants to develop a thriving, multifaceted economy and avoid the "resource curse" that haunts so many other commodity-based economies. The list of petro-states throughout the world that have reverted to authoritarianism, or whose economies have withered on the vine from corruption, inflation, and suffocating bureaucracies is depressingly long.

For this reason, President Nazarbayev has established an oil stabilization fund—now standing at US\$24 billion, where revenues can collect offshore, not disrupt the economy, and later can finance development—and a comprehensive "Kazakhstan - 2030" development plan to grow and diversify the econ-



Kazakhstan's economy is poised for breathtaking growth in the next decade, thanks to gargantuan hydrocarbon reserves and a prudent economic policy. Peninsula Press takes a detailed look at this emerging Central Asian tiger.



omy beyond the oil-and-gas sector. “Act as if there will be no oil tomorrow,” the Kazakh leader says.

The future looks very bright indeed. But some questions need to be answered first, not the least being what type of political structure the country will take, which will in turn influence its economic progress. Kazakh officials say that they are dedicated to the path of democracy, but political trends of the last 10 years have seen a steady march toward greater authoritarianism and control. Recently passed laws allow government officials the right to alter or cancel a natural resource contract unilaterally if they believe the conditions are not being met. President Nazarbayev has named himself leader for life and is backed by a one-party parliament.

The Kazakh statesman, on the other hand, is recognized as a stabilizing and quieting force in the country and region and has devoted his time in office to building bridges among nations and peoples. This is no small matter in politically turbulent Central Asia and racially diverse Kazakhstan, where more

than 120 different ethnicities reside. Kazakhstan has also played a delicate balancing act between its two massive neighbors, Russia and China, as well as the European Union and the United States.

With the oil wealth has come a newfound political weight, however, and the Astana government has taken tentative steps toward flexing its muscles in a variety of areas. In recognition of its growing foreign-policy clout, Kazakhstan was recently named to take over the annually rotating chairmanship of the Organization for Security and Cooperation in Europe in 2010. The appointment was strongly opposed by the Uni-

ted States in view of the country's political record and may weaken the OSCE's democratic credentials. But it may also spur democratic reform among the country's elite.

In the end, the country's future rests with its rapidly growing middle class. A popular theory of political progress holds that democracy can only develop—and thrive—once the population is materially enfranchised. Then people have a stake in the country's future, take an interest in which political decisions are made, and demand their electoral and civil rights. This well may be the case with Kazakhstan, where the population has seized the free-market opportunities now available. And for the moment, the silent majority seems satisfied with the direction the country is heading. ■

PRIME MINISTER KARIM MASSIMOV

STEWARD OF ECONOMIC GROWTH

As head of the Kazakh government since January 2007, Prime Minister Karim Massimov has overseen the country's economic development and charted its course through the choppy waters of the present international economic situation.

1. On the 10th anniversary of the 2030 Development Strategy, President Nazarbayev said Kazakhstan had gone from a period of chaos and confusion to a period of stabilization. What are your thoughts on the country's development during the last decade?

In the last seven or eight years, Kazakhstan has grown at about 9 percent or 10 percent annually, and it is now important for us to diversify in order to make our economy sustainable in the future and create the conditions to allow the non-oil economy to grow faster. The government is paying more attention to infrastructure development—investing more in roads, railways, power stations, and so on—to create an environment for the business community to invest more freely.

There are a number of obvious opportunities. One is geography; we should use our position to transport goods and services through our territory. There is fast growth in China, and the European markets need their goods—and the fastest way is through the territory of Kazakhstan—by rail and by road and by plane. Logistics services and infrastructure, particularly on our borders with China, the Caspian Sea, and Russia are an obvious opportunity.



Second, there is an increasing demand for quality foodstuffs on the international market, and 47 percent of our population lives in rural areas. Kazakhstan can play a bigger role in the supply of agricultural products to the international market. We should make Kazakhstan a hub in the region.

2. Why should Kazakhstan succeed in diversifying its economy and escape the “petrostate” trap when so many of its peers have failed?

Importantly, we've made the decision to separate the money from oil revenues from the state budget, and we keep this under the management of Western institutions. This money does not belong to us—it belongs to our future generations. I strongly believe that Kazakhstan can become a model economy. We should develop our oil industry and use the revenue to diversify the economy.

3. Kazakhstan has just been granted chairmanship of the OSCE in 2010.

Achieving the chairmanship of the OSCE is a very important victory for Kazakhstan and for the OSCE itself—as Kazakhstan is the first

country from the former Soviet Union to become a potential chairman. Kazakhstan must address how we move forward, what steps can be taken to make our society more democratic and to bring our political system closer to OSCE standards. I strongly believe that it is a big challenge for Kazakhstan to become an equal partner as a democratic society—not only economically, but politically as well.

4. Kazakhstan is progressing steadily toward World Trade Organization (WTO) accession. How quickly and to what extent will WTO membership alter the business landscape of the country?

Our economy is liberal, and because of this, the WTO accession will not create any difficulties for businesses here. We are already using the rules of WTO and OSCE countries. There is some concern about WTO accession because of the fear of a lot of goods from other countries competing with those produced in Kazakhstan, but domestic companies are prepared.

5. Kazakhstan has worked hard to craft a multidimensional foreign policy between Russia, China, the EU, and the United States.



Can you elaborate on how Kazakhstan plans to balance its future relationship with each of these four major powers?

This is a very important issue. Russia is a long-term partner; traditionally, we are close—for ages we were part of Russia, and we believe that a strong relationship with Russia is very important. Also, China is our neighboring country and is growing fast. It's important to create a good relationship with them, and it is pragmatic to get the benefits of the growth of this country. Western investment in Kazakhstan is also crucially important for us, and we are very proud that many large U.S. companies are here. It is also important to maintain good relationships with our neighboring countries and across the Caspian Sea to the Islamic world. This is a unique opportunity for our country to develop sustainability and protect the interests of Kazakhstan.

6. According to the U.S. Department of State, 27 percent of the total foreign direct investment inflows to Kazakhstan during 2006 had their origin in the United States. How would you describe the economic relationship between Kazakhstan and the U.S.?

The economic relationship with the United States started with the oil-and-gas sector and then developed in the transportation sector, where some U.S. companies, for example Federal Express, are using Kazakhstan as a hub. Companies from the United States in the communication sector have also expressed interest in Kazakhstan, and I will be going to the U.S. next year to hold a conference about the non-oil-and-gas industries. We hope that small and medium-sized enterprises from the United States will come to Kazakhstan to use the fast-growing market over here. The agriculture and food-processing sectors have fantastic opportunities—both for Kazakhstan and for companies from the United States.

7. Given the president's recent visit to Iran, what role do you feel Kazakhstan can play in promoting a better understanding between Iran and the international community?

You know that in 1991, Kazakhstan was the fourth-largest nuclear country in the world. The president himself made a decision to put a stop to it. We were the only Islamic country in the world that held nuclear weapons, so we are probably the only country who can tell the story to the Iranian government of how we peacefully got rid of them. We are the obvious country, and our president is the obvious person to deliver this message. ■

A QUESTION OF BALANCE

While enviably enjoying good relations both with its powerful Russian and Chinese neighbors as well being a trustworthy partner and ally to the United States, Kazakhstan understands that its position remains a delicate one. Its foreign-policy strategy blends pragmatism and ideology through skillful and sensitive management.

The Kazakhs have a tradition stretching into their nomadic past of welcoming all visitors. Guests on the steppe—often because they were such a rare occurrence—were treated to generous, effusive, and sometimes overwhelming hospitality.

In later years, this has translated into a foreign policy that receives and accommodates all comers. Russia, China, the European Union, the United States, Iran, Japan, Pakistan, India, and even Israel and South Korea have been greeted and now have extensive interests in the Central Asian state.

“Kazakhstan has a long tradition of hospitality to outsiders, creating a country where everybody lives in peace and harmony building the country together,” says U.S. Ambassador John Ordway. “You can see the results of this, a remarkably low level of ethnic tension. People of all races and ethnicities work together. Every foreigner gets the feeling of that pretty quickly,” he continues. “Public opinion and a remarkable number of statistics show how tolerant the people are and how open they are to all the different ethnic groups that live here.”

The policy is not just about being a good host—it is also an exceedingly smart strategy. The country needs as many friends as it can get. Kazakhstan shares lengthy borders with two of the world’s superpowers, Russia and China, and lives in an unstable neighborhood rife with ethnic tension, terrorism, and religious extremism. President Nursultan Nazarbayev has been a master at balancing interests.

Thanks to its oil-and-gas riches, Kazakhstan has become a point of focus for the world’s economic giants, each viewing the others jealously as they scramble to find new energy sources. The potential for friction among the world’s countries has been enormous. All want a piece of the Kazakh hydrocarbon pie.

The Kazakh leader has turned what could be a potentially contentious situation into a boon for his

country. All outside powers now have a stake here and are assiduously wooing the country for its strategic importance. China sent its Olympic torch first to Kazakhstan when it began its tour around the world. President Nazarbayev visited Washington, D.C., last year and met with President George W. Bush. Russia’s newly elected leader, Dmitry Medvedev, made his first stop outside the country to Kazakhstan, on his way to China. To be sure, all the former Soviet republics in Central Asia pursue an open and multi-vectored foreign policy, in recognition of their own fragile positions and their need to make as many allies as possible. They all tread a fine line between Russia, China, the United States, and the EU. But nowhere is this fine high-wire act performed more successfully than in Kazakhstan. “For a country like Kazakhstan, it needs a sober analysis of what the international interests are and how it can best pursue the international interests and seek partners on the international stage,” says U.S. Ambassador Ordway. “The U.S. is one these partners, and we can help Kazakhstan in a mutually beneficial fashion achieve goals and interests in both our countries. But it is not a market-exclusive relationship.

“It is important and makes Kazakhstan a valuable partner for us if it has good relations with Russia and China,” he adds. “We see benefits in

Kazakhstan having good relations with its two big neighbors and continuing to pursue equally good relationship with the U.S. and EU.” And now Kazakhstan is ready for its moment in the spotlight. During the last decade, the Astana government has quietly been assuming more and more influence in the region and beyond. Kazakh banks are an economic force throughout the former Soviet sphere, buying up property and investing in businesses in Central Asia, the Caucasus, and Russia. Kazakhstan is a leading member of the Commonwealth of Independent States, the successor organization to the Soviet Union, as well as the Shanghai Security and Cooperation Organization,

which unites Central Asia’s states with Russia and China. In recognition of the country’s newfound political clout, the Organization for Security and Cooperation in Europe, a 56-country grouping that promotes democracy and human rights, awarded the Astana government its rotating chairmanship in 2010.

Kazakh officials hailed the OSCE’s decision as acknowledgment of the country’s democratic progress. “This is a very important victory for Kazakhstan and for the OSCE itself,” said Prime Minister Karim Massimov. “Kazakhstan is the first country from the former Soviet Union to become a potential chairman of OSCE.”

Diplomats working with the Central Asian state, however, said that the honor was instead more for Kazakhstan’s growing economic and political might, and in hopes that the country will improve eventually its human rights record, which lags behind other ex-Soviet states like Ukraine and Georgia.

President Nazarbayev, who was recently named the country’s leader for life, dominates the political scene, while a parliament containing only his Nur Otan Party ratifies his decisions. Moreover, diplomats say that the country has yet to begin implementing political reforms that were strongly suggested by the OSCE prior to assuming the chairmanship.

Prime Minister Massimov recognizes that the country’s democratic development is a work in progress, though he dismisses any idea that Kazakhstan did not deserve the chairmanship. He says that the position is an opportunity for the OSCE to find common ground with the former Soviet republics.

This is a test—both for Kazakhstan and for the OSCE,” says the prime minister. “Kazakhstan must address how we move forward, what steps can be taken to make our society more democratic, and how to bring our political system closer to OSCE standards.

“Through adopting the reality of what is here in Kazakhstan, I think mutually we can find a solution,” he continues. “And this is very



important—both for the Western world and the old socialist part of the world.” For the Kazakhs, a particular point of pride is their voluntary renouncing of their nuclear arsenal nearly 18 years ago. At the time, the country was not in any condition to assume the massive political and financial burden of maintaining a stockpile of warheads. Other former Soviet states, such as Ukraine and Belarus, also took similar steps.

Nevertheless, the Kazakh decision is remarkable in a region bristling with nuclear powers like India and Pakistan, and nuclear-power wannabes like Iran and North Korea. Add to

this the country’s extensive cooperation on cracking down on trafficking of nuclear materials and other weapons of mass destruction, and you have a strong,

stable, and dependable partner in the region, and a shining example to other regimes.

Kazakhstan provides a very good model of how a country can enhance its security while giving up or renouncing nuclear weapons or other weapons of mass destruction,” says Ambassador Ordway. “President Nazarbayev said frequently that this decision made the country more stable and more secure.

“And this model and example is applicable in any part of the world where we are trying to prevent proliferation of weapons of mass destruction,” he adds. ■





FUELING THE FUTURE

While long-term strategy seeks independence from hydrocarbon revenues, for today, at least, oil is still undisputedly king.

President Nazarbayev's relentless insistence on diversifying the economy away from its dependence on hydrocarbon revenues gives some indication of just how important they are to the country; in Kazakhstan, diversification is policy, but oil is king. National oil production is the bedrock of the country's economy, accounting for around 30 percent of GDP and more than half of all export revenues. According to the latest fig-



ures, Kazakhstan's extractable oil reserves are estimated to be 39.8 billion barrels, equivalent to 3.3 percent of the global total, or half as much as Russia's. Kazakhstan produced approximately 1.45 million barrels per day (bbl/d) of oil in 2007 and consumed 250,000 bbl/d, resulting in petroleum net exports of around 1.2 million bbl/d. Production increases are planned for up to 3.5 million bbl/d, of which 3 million bbl/d are intended for the export market.

Production increases have grown continu-

ously during the last decade, as large-scale foreign direct investment (FDI) from practically all the oil majors has flooded into the country. FDI typically takes the form of a joint-venture agreement with KazMunaiGaz, the state-owned oil and gas company. Other channels, such as well production-sharing agreements (PSAs) and exploration concessions, have also proved popular. At projected exploitation rates, Kazakhstan's oil reserves will last for the next 50 years. Foreign investors are limited to a 50 percent participation in each offshore project with the remaining



share taken by KazMunaiGaz. Legal reforms in the energy-and-mineral sector allowing authorities to renegotiate concession contracts that sought to generate more revenue and diversify the sources of investment for the government have come under criticism from some international oil companies. These reforms and others assisted the government in its attempts to acquire part of British Gas' share of the Kashagan project and acquire a 33 percent share in Canadian-based PetroKazakhstan after it agreed to a takeover deal with China National Petroleum

Corporation. The government retorts that the original conditions were too favorable to the investors. Despite calls of foul play, these developments are not likely to affect the long-term investment climate.

If oil is king in Kazakhstan, then the jewels in its crown are the four massive oil fields—Tengiz, Karachaganak, Kurmangazy, and Kashagan—that make up 70 percent of total production. Each presents its own unique set of considerations.

Located along the northeast shores of the Caspian Sea, the Tengiz field is the largest source of oil production in the country. It has been de-

veloped since 1993 by the TengizChevrOil joint venture, lead by Chevron. Production averaged almost 280,000 bbl/d during 2007, and recoverable crude oil reserves have been estimated at 6 billion to 9 billion barrels. According to the consortium, Tengiz could potentially produce 700,000 bbl/d by 2010. Most of the oil from the field is being sent through the Caspian Pipeline Consortium pipeline to the Russian Black Sea port of Novorossiysk.

The Kashagan field is the world's fifth largest

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in terms of reserves and the largest single field outside the Middle East. Located off the northern shore of the Caspian, the field is operated by Agip Kazakhstan North Caspian Operating Company, which estimates the field's recoverable reserves at 13 billion barrels. According to KazMunaiGaz sources, full-scale commercial production is not expected to commence until 2013. The Kashagan deposits contain a high proportion of natural gas under very high pressure, while the oil itself contains large quantities of sulphur. Extreme weather conditions in the northern Caspian also require special equipment.

In the north of the country, near the Russian border, the Karachaganak oil and gas/condensate field is the only onshore site among the big four. In 2007, the field produced more than 250,000 bbl/d of natural gas condensate. Karachaganak is being operated by Karachaganak Petroleum (KPO) consortium. KPO estimates the field holds reserves of up to 8 billion to 9 billion barrels of oil and gas condensate and 47 trillion cubic feet (Tcf) of natural gas. Plans are to triple output within six to eight years, requiring an investment of US\$10 billion. The least developed of the big four, the

Kurmangazy field, is located on the maritime border between Russia and Kazakhstan. The two nations signed a US\$23 billion production-sharing agreement for the estimated 7.3 billion barrel reserves. So far, the field has yet to yield significant returns.

Massive in their volumes, Kazakhstan's abundant riches are not without challenges. It is far from the main energy markets, and with no external ports of its own, the development of Kazakhstan's energy policy pivots crucially on the development of transportation routes that provide access to the markets. Kazakh crude is transported from the country in all directions, traversing Russian soil via the Caspian Pipeline Consortium to the Black Sea and northward by train and pipeline into the Russian heartland, to the south by way of oil swaps with Iran, and finally to a lesser but increasing degree eastward to China. Most important of these routes by far is the Caspian Pipeline Consortium, which in 2007 transported more than half of the total 1.2 million bbl/d production. The 980-mile long pipeline connects Kazakhstan's Caspian Sea-area oil resources with the port of Novorossiysk

on Russia's Black Sea coast, and from there, critically, to open-sea access. The CPC project was developed by the governments of Russia, Kazakhstan, and Oman in conjunction with a consortium of international oil companies. The consortium has plans for a US\$1.5 billion expansion project to increase the pipeline's peak capacity to 1.34 million bbl/d, a vital step if Kazakhstan is to be able to continue to expand its production as planned.

While in terms of upstream production Kazakhstan is a big hitter, the country's downstream refining capacity is notably less impressive. It has provoked little interest from foreign investors due to the low domestic prices for refined products and remains largely in the state's hands. As demand for refined fuels grows in line with economic expansion, the nation's three major oil refineries at Pavlodar in the north, Atyrau in the west, and Shymkent in the south will not provide enough capacity. Indeed, rumours suggest that the government increasingly favors bundling an obligation to build and operate oil refineries as a condition of future hydrocarbon exploration deals with foreign investors. At the same time, KazMunaiGaz has announced its intention to acquire refining ca-



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capacity outside Kazakhstan, along with a retail network of petrol stations, although attempts in 2006 to buy a stake in the Lithuanian Mazeikiu Nafta (Mazeikiai Oil) were frustrated.

Kazakhstan's total proven natural-gas reserves were revised upward to 100 trillion cubic feet (Tcf) in 2007. Natural-gas production in 2007 in Kazakhstan was estimated by the Kazakhstan Energy Ministry at 1,037 billion cubic feet (Bcf), of which more than 70 percent was produced by international consortia at the Tengiz and Karachaganak fields. Karachaganak, which is the largest commercial extraction operation in the country, is estimated to contain more than 47 Tcf of natural gas—25 percent of proven reserves—and produced 503 billion cubic feet during 2007, half of the total national production. Natural-gas in Kazakhstan is almost entirely “associated” gas. At several fields, including Karachaganak, gas is reinjected back into the ground to maintain crude wellhead pressure for liquids extraction. This gas can be recovered later when the liquids are exhausted. Export potential has barely been exploited, and Kazakhstan currently produces only about as much natural gas as it consumes domestically. The official gas production target for 2015 is 1,270 Bcf, with anticipated exports of around 880 Bcf.

As with oil, one of the biggest issues in the development of Kazakhstan's natural-gas export market is transportation, especially to Europe, a huge consumer of Central Asian gas. New gas pipeline routes under the Caspian Sea

are under development, while the Central Asia Center (CAC) gas pipeline, which serves as the main artery gas export from Central Asia into Russia, passes through Kazakhstan, providing a potential transit outlet.

Although coal is often overlooked as hydrocarbon's poor relative, Kazakhstan contains Central Asia's largest recoverable coal reserves, with more than 30 billion metric tons. Less exotic than its liquid cousin, the coal sector has still excited investors. In 2007, the ArcelorMittal Group committed US\$500 million to increase coal production in the Karaganda region by around 5 million tons. Equally, Bogatyr Access Komir, Kazakhstan's largest coal producer with accounts of around one third of all the nation's coal output, is in turn a subsidiary of Access Industries Incorporated (U.S.). Kazakhstan exports almost 16 million tons to power plants north of the border every year, and the Russians themselves are active participants in Kazakhstan's coal industry.

Undeniably, oil, and to a lesser extent gas and coal, have helped put Kazakhstan on the map and given the country the economic and political weight to make its voice heard on the global stage. Ultimately, whatever their form, hydrocarbon resources will continue to dominate Kazakhstan's economy and in turn orient and inform its foreign-policy decisions. President Nazarbayev may dream of a future independent of oil revenues, but for now he is surely thankful for his nation's buried treasures. ■

Q & A

SAGAT TUGELBAYEV
President

Anaco

Pioneers in Oil Services

What inspired you to go into business for yourself, and how have you diversified your activities?

We came from the government sector with empty pockets but big ambitions. Anaco was the first private oil company in Kazakhstan, in 1994. In the beginning, we just had a license and a contract with the government, then a European bank backed us. Two or three years later, we started investing in service contracts and created our own servicing company, Zaman Energo.

What have been the most important milestones in the development of the company?

Now we are producing products for the oil-and-gas sector that we created ourselves. We have patents in Kazakhstan, in Russia, and our sales volume is increasing. Last year, we sold seven oil heaters that are being used in the Kazakhstan-China pipeline, and we are negotiating new contracts with some other very big companies.

What is your growth strategy?

In Kazakhstan, capital has become very expensive, so that's why we are looking to attract strategic partners—not just for money but with good technology, management, and global experience. We are now at a stage where I feel that we are interesting for serious partners, financial groups.

What message would you send to potential foreign investors?

Middle-size American companies are afraid because of the different legislation. But as an entrepreneur, I'm ready to work together with American companies. But Kazakhstan is “hungry” for these oil-and-gas field services. There's a lot of money to be made. Let's earn it together!



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SAT & COMPANY

Opportunity Knocks in Central Asia



KENES RAKISHEV

Even for experienced Western investors, the growth of SAT & Company since its inception in November 2000 has been truly astonishing. From an original share capital of around \$10,000 in 2000, the company aims to turn over more than US\$500 million in 2008. A difficult company to conceptualize in traditional terms, SAT & Company is, broadly speaking, an industrial holding arranged into three principal areas of activ-

ity: mechanical engineering, the petrochemical industry, and infrastructure, with special projects treated as separate entities. Each business division has evolved according to the opportunities in its particular sector, and their profiles are constantly changing along with their sectors. Many of SAT's activities in its mechanical engineering division, for example, have their roots in the heavy industrial complexes inherited from the Soviets, though many plants are adapting to emerging market forces. One such project is the KazTrubProm plant in Uralsk, already in operation, which will supply both national and foreign oil-and-gas companies with casing pipes, tubing, and valves for oil-field construction. Indeed, within the engineering sphere, the huge development of the oil-and-gas fields is providing much of the stimulus for SAT & Company's growth.

More recently, petrochemical projects have been identified as areas of enormous potential growth. As SAT & Company's chairman of the board, Mr. Kenes Rakishev puts it "one of our biggest projects is a new petrochemical plant. Starting from this year, we signed a major 18-year contract with TCO (TengizChevrOil)—the biggest producer of oil and gas in Kazakhstan—to purchase natural gas from them, which we will use to produce around 1.5 million tons of products, such as polyethylene and polypropylene." The investment required will be about US\$6 billion. SAT & Company will partner with KazMunaiGaz E&P—the huge state-owned oil-and-gas giant—and LyondellBasell Industries and receive additional support from the government in terms of infrastructure development. Mr. Rakishev, an Oxford Business School graduate, aims to raise most of the funds for the project in London's capital markets. He is representative of the new breed of dynamic young managing directors in Kazakhstan, unencumbered by the old ways. "Younger managers perhaps don't have as much experience, but we also don't have the mentality from the Soviet period. We have a new mentality and new visions, and in this case it's a good fit since our company is also very young," he states, adding, "I think that in a period like this—at a time of liquidity crisis—it's a good opportunity for us and for our country because now we understand how to move in these conditions." It's hard to imagine such financial literacy and optimism in the face of a global crisis from many of the old guard. The mining sector has also proved to be a fertile hunting ground, and the company has mining interests in Turkey, Moscow, Dubai, and Jordan, as well as closer to home. "We have some gold reserves here in Kazakhstan. There are not large reserves, but we are trying to consolidate the mining companies here, to buy some small companies—and maybe in the future create one medium-sized company with a view to issuing an IPO later down the line," adds Mr. Rakishev. SAT & Company is clearly a company to watch. ■

Q & A

DAVID STURT
CEO

Kausar Oil and Gas

Kazakh Investors Go Multinational

How has the company evolved since the beginning?

Since Kausar was formed, within only two years, we have been able to expand very aggressively, acquiring a total of 21 exploration and production licenses. In addition to these Russian assets, we also now have assets in Kazakhstan and Oman. In the middle of last year, we also branched out into the oilfield service business. An initial entry position was taken when we purchased a local drilling company. At that time, the company only had five rigs providing service almost exclusively to KazMunaiGaz. Since this first acquisition, we have formed a separate company, the ProTECH Oilfield Services, which now has a total of 19 rigs in Kazakhstan with plans for further significant expansion in the near future. We raised the purchase capital, invested in new rigs, and six months after we started, it was valued at 20 times our investment. That kind of growth would be very hard to achieve in the U.K. and clearly demonstrates the enormous opportunities within Kazakhstan.

What do you see as the most significant challenges for your company in the future?

The biggest limitation at the moment is the lack of personnel with strong technical skills. In terms of finance, legal, and IT services, it's hard to justify hiring an expatriate as there are some very talented local personnel. The reason for the lack of skilled technical personnel is that after the Soviet era, young people did not want to go into engineering disciplines; they all seemed to want to work within the financial sector. So now, the big challenge is finding good technicians. We are already planning for the future and have established good links with universities. The

company actually has a structured graduate training program with three students currently progressing through it.





**You just imagine,
and it's there.**

Q & A

ANVAR SAIDENOV
Governor

National Bank of Kazakhstan

From Scratch, a Post-Soviet
Financial Sector Emerges

Can you say more about the foreign direct investment in the financial sector?

The regulatory environment in the financial sector has always been friendly to foreign investors. There have been very few limits or restrictions. We have a number of leading banks in the country. The first one was ABN AMRO. Since then, we have had the arrival of Citibank, HSBC, and a number of banks from countries with which we have very close relations—two Chinese banks, four Turkish banks, and Sberbank [of Russia].

What is the situation in the country right now?

After a period of turbulence and then a period of stabilization, we started to lay the foundation for sustainable growth. But the law of economic development states that you can never benefit from past achievements. The environment changes rapidly, and you should always be ready for new challenges. I think in 2005–2006 these new challenges showed themselves quite openly.

What were they?

The rapid growth and the financial system's expansion has a side effect of the economy overheating. The economy was benefiting not only from high world oil prices but also from metals and a number of other Kazakh export items. In this situation, when the economy was still in transition, a bubble started to emerge. The most obvious bubble was in the real estate sector, but we also can name trading activity and services. That was a new challenge.



GUARANTEERING CONTINUED GROWTH



1998 saw Kazakhstan's fledgling economy contract 1.7 percent as the weight of a poor harvest, the East Asian financial turmoil, and the nation's oil reserves selling at under US\$20 a barrel took its toll. By the following year, however, a strong economic recovery had taken root that ushered in seven years of continual growth at a bracing 10 percent underpinned by sound macroeconomic policies, an expansive financial system, and foreign direct investment that poured into oil and gas and mineral sectors. A friendly investment environment in the financial sector brought big-name multinational banks to the country, the first being a pioneering ABN AMRO, followed by Citibank, HSBC, and a number of banks from neighboring countries such as China and Turkey. Rising oil, gas, and mineral prices swelled government coffers and entrenched the sense of

well-being, paid for social initiatives, and consolidated economic stability. Even the "curse" of mineral wealth couldn't derail the development script; a wise decision to set up a national fund in 2001 to collect booming oil revenues to be invested abroad helped general macroeconomic stabilization by sterilizing these huge revenues from the domestic economy.

At the time, this measure was sufficient to generate sustainable growth, but by 2005–2006, new challenges began to appear on the financial landscape. Today, Kazakhstan's financial sector is much more tightly integrated into the global financial system, rendering it vulnerable to the current market volatility. As the economy showed signs of overheating, fueled by easy access to cheap credit, real estate prices have ballooned. There is now a consensus that it is time for the government, mone-



Successful reforms 10 years ago paved the way for a decade of rapid and unprecedented growth in Kazakhstan. Further reforms should ensure many more good years.



tary authorities, and financial regulators to introduce a second wave of restructuring to ensure the continued health of the financial sector for the future. One of the key objectives on the path to sustainable growth continues to be the creation of a diversified economic structure, which would serve to dampen the effects of oil-price fluctuations on the broader economy. Greater competition also needs to be encouraged through the reduction of administrative barriers, thus enabling the development of small and medium enterprises.

In the short term, however, the Government has implemented a policy of soft lending to alleviate the effects of the current credit volatility, on the principal that an economy in recession would destroy so much of the positive momentum built up over the previous years of

progress. Initially, US\$4 billion has been set aside from the current budget revenues to provide loans to the construction sector, small-and medium-size enterprises, and the agricultural sector, i.e., where the real economy and jobs are threatened. The government has categorically stated that national fund assets—which are to be employed only in investment projects and strictly in accordance to a Parliament-backed program—will not be used. Further measures to cushion the economic downturn include the postponement of the introduction of higher reserve requirements for banks, the redemption of short-term bank bonds before maturity, and allowing banks to borrow against the reserve accounts of the National Bank. With these measures in place, the economy should manage a respectable 6 percent growth in 2008, heralding another decade of opportunity. ■

PROFILE

AZAMAT IBADULLAYEV
Chief Executive Officer

KAZAKHSTAN
MORTGAGE COMPANY

Making the Kazakh Dream
Home a Reality

One of the priorities of the government's 2030 Strategy has been to promote access to better quality housing for Kazakhstan's people. The solution to this challenge, in large part, has been met by the Kazakhstan Mortgage Company (KMC).

KMC provides refinancing to banks and non-bank organizations by purchasing mortgage borrowers' loans. It then provides a sale-of-asset liquidity facility by signing an agreement with the partner bank to securitize their mortgage loans.

Yet there have been some difficulties. Critics point to distortions in the housing market and the emergence of speculative investors. Furthermore, with its primary objective having been achieved, there is now some debate about the future of KMC, with calls for it to be dissolved, amalgamated into the Kazyna fund, or even privatized. However, the success of the scheme is palpable: During the last six years, mortgage interest rates have dropped from 20 percent in 2001 to below 14 percent in 2007, loan terms have increased from three years to 20, and access to affordable housing loans has risen notably. By 2007, the total volume of outstanding mortgage loans was worth KZT 60 billion, and bonds were issued for the total amount of KZT 53 billion where income on the bond is exempted from taxation—making them particularly attractive to institutional investors. In the first quarter of 2008, KMC issued common shares that are listed on the Regional Financial Center in Almaty. Furthermore, a second stage of activity has begun with the formation of the State Program for Developing Housing, trusted with finding solutions to development issues in the housing sector.

Whatever the final fate of KMC, it has certainly played an important role in providing ordinary people with affordable homes all across the country.



CEOS' VERDICT

Peninsula Press posed the CEOs of three of the country's leading banks the following question:

“How is your bank positioned to weather the current credit crisis in Kazakhstan?”



ANDREY TIMCHENKO, Kazkommertsbank

Kazkommertsbank is in a pretty strong position. We have increased profits by 20 percent in the year to April, driven by widening the net interest margin. Our cost of funding has not yet increased substantially, and due to the shortage of financing, we managed to increase lending interest rates so that the net interest margin has widened more than 1.2 percent. We have more than enough liquidity (about US\$5 billion of liquid assets) on the balance sheet to cover our exposure. This year, we'll need to pay roughly US\$1.5 billion and another US\$1.3 billion next year. We expect to see some rise in non-performing loans, but our bad loans to total investment portfolio will still be relatively low, rising perhaps from something like 2 percent to 3 percent or from 3 percent to 3.5 percent max.



GRIGORI MARCHENKO, Halyk Bank

Several banks in Kazakhstan have been borrowing too heavily from the international capital markets, some with as much as 62 percent to 72 percent of their overall liabilities in foreign debt. In our case, it's below 30 percent. Many were also lending heavily to the construction sector in Almaty and Astana. We stopped lending to this sector in April 2006 because we saw the crisis coming. We didn't get involved with unsecured consumer lending, which, although it's very profitable, is at the same time a very risky business. So, our exposure to unsecured consumer loans is zero. Last year, the growth of the country's banking sector was around 30 percent; our growth was 61 percent. So, we are quite confident with the way things are developing. We have 20 big customers in Kazakhstan, and the economy is still growing strongly.



SIMEN MUNTER, HSBC

HSBC is such a tremendously large and successful institution that the situation specifically in Kazakhstan affects us less than many of our competitors. We aim to be seen as the best bank for businesses, and especially for international business. We are very good at helping people on their way into Kazakhstan or helping Kazakhs looking to do business abroad. It is clear that the challenge is on the credit side here at the moment. They are having a difficult time because of their need to find funding to meet these challenges, and that will for remain for some time. No one disagrees that there was a property bubble. At HSBC, we don't have much capital deployed in the country this year, but hopefully next year we will. I think it's very difficult not to see a future in which Kazakhstan is rich and successful, and we will be here with them.



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KAZAKHSTAN 2030

WEANING A COUNTRY OFF OIL

President Nazarbayev's affirmation that Kazakhstan needs to act today in the certain knowledge that there will be no oil revenues tomorrow could not be clearer. Perversely, sky-high oil prices—themselves a function of high demand for a scarce commodity—often provide both the capital for such visionary schemes and act as a disincentive for their own execution.

Kazakhstan makes no secret of the fact that it aims to become not just a regional, but a global, economic force. The president has continually reiterated his aim of transforming Kazakhstan into one of the world's 50 most competitive countries. In the medium term, there is no escaping the fact that extractive industries are and will continue to be the motor that drives this ambition. Nevertheless, ideas of economic sustainability have taken root in the nation's psyche. For these dreams to become a reality, the government knows that a full-scale economic diversification program must be adopted and implemented to create favorable economic and institutional conditions. Infrastructure modernization and industrial revitalization are at the heart of this policy, as are increased cooperation between the public and private sectors. The country's legal infrastructure has been reinforced and modifications made to the tax code, transferring a greater part of the tax burden to the oil and gas companies. This, it is hoped, will provide extra resources to de-

velop the small-and medium-size businesses that have thus far benefited disproportionately little from the booming economic climate.

On the face of it, there is room for measured skepticism. With the possible exceptions of Norway and more recently the UAE, grand plans to diversify "hydrocarbon" economies have all too often seen empty cities built in inhospitable deserts. However, the European Bank for Development, which focuses on private-sector financing in the country, sees real commitment. "Progress has already been made," they claim. "President Nazarbayev himself has been willing

to take on board a lot of experiences from other places, be it the Norwegian example for the oil fund, or the Singaporean example for the Temasek or Samruk holdings in Kazakhstan." Unfortunately, Kazakhstan has not been immune to the ill winds of the global credit crisis; tighter lending policies have risked dampening growth in the non-oil economy, thereby jeopardizing the diversification plan targets, despite quick government intervention. It is at such times of difficulty that key policy initiatives such as Kazakhstan's strategy for accession to the World Trade Organization, serve to focus efforts and mobilize all quarters of the economic panorama. It is vital that the country does not lose sight of the target.

Yet, despite the inherent difficulties of the diversification program, many companies have successfully made the transition to a competitive market economy and stand as testament that it can be done. Byelkamit, once a Soviet

defense production facility now produces vessel equipment for the oil-and-gas, nuclear, metallurgy, and building industries. It was the first company in Kazakhstan to get an International Standards Organization qualification in 1997, and the first company in Central Asia to receive Associate of the American Society of Mechanical Engineers qualification. Today, it is a supplier to TengizChevrOil, the multinational oil-sector consortium headed by Chevron and the largest foreign-investment project in the country. With only 8 percent of oil equipment currently needed by oil companies being produced in Kazakhstan, there is ample room for further growth.

The Kazakhstan Kagazy paper plant is another example. Prior to construction of the plant in 2001, 100 percent of national paper consumption was imported from Russia and China. Despite a lack of raw timber input materials, the company estimated that it had huge stocks of used paper that were at that time being exported to Uzbekistan and Kyrgyzstan. The project has been a success: the plant's location in the south of Kazakhstan allows the company to cover the whole national territory as well as serve as a base for exports. Today, Kazakhstan Kagazy has 25 percent of the Central Asian market in Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan. Both these examples showcase the government's policy of replacing imported goods with domestically manufactured ones and overcoming the legacy of Soviet-era production models.



Kazakhstan's first private oil company

established in 1994

Deposit mining was started in 1997.

Daily output is 270 - 280 tons

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Officials hope that “Kazakhstan – 2030,” the country’s long-term development program, will turn the Central Asian state into a multifaceted economy that avoids the problems faced by other natural-resource-rich nations.

Arguably, the most important element of the diversification strategy, however, is infrastructure. Neither Byelkamit nor Kazakhstan Kagazy would have stood a chance without the means to receive raw materials or get their products to the market. So far, 80 key transport infrastructure projects have been earmarked for more than US\$30 billion of financing. From 2009, work will begin to construct toll highways in Kazakhstan, a first in the CIS and a good example of increasing private-sector investment in public schemes. Indeed, 70 percent of all infrastructure investments come from the private sector. International companies are also showing signs of interest in the non-oil and gas sector. American giant General Electric has jointly set up a locomotives factory in Astana with local firm Kazakhstan Temir Zholy to construct trains and wagons. It is hoped that the presence of a prestigious household name such as GE will encourage greater participation from abroad.

Attention is also being given to potential economic hot spots. The Special Economic Zone in Shymkent aims to create a textile cluster in the south of the country close to the Uzbekistan border. Greater integration of regional industrial centers to the Caspian Sea is also of paramount importance for political as well as economic reasons. For landlocked Kazakhstan, the Caspian is a vital artery to Europe. Indeed, it is the only way west without crossing Russian territory. With huge oil reserves located beneath its waters, there are still some unresolved sovereignty issues in the Caspian involving Azerbaijan and Russia. A project to double the capacity of Kazakhstan’s most important port in the area, Aktau, are under way and should be completed by 2012. Aktau is the country’s most important terminal, processing about 10 million tons of oil and about 2 million tons of dry cargo a year.

Power generation and transmission projects are also being favored. Kazakhstan

Development Bank is currently involved in the construction of the Moinak hydropower station in the south of the country and the modernization and extension of the Ekibastuz power station in the north. The construction of a new power station project in Balkhash in the east is much needed to alleviate chronic power shortages in the region. Balkhash is one of Samruk Holding’s “breakthrough” projects, requiring US \$4.7 billion in investment. Other investments under review include metallurgic works for aluminium and steel production, petrochemical plants, and investments in the agriculture sector. If even half of these projects come to fruition, they will constitute a significant step toward President Nazarbayev’s Kazakhstan – 2030 objectives. The risk is that if oil and gas prices stay at current levels for a sustained period or rise—as they are expected to do—the government may fall into complacency or become distracted. That to date it has shown no signs of doing so is worthy of admiration. ■



**Development Bank
of Kazakhstan**



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Engineering the new economy

KAZYNA

Planning for When the Wells Run Dry

Kazakhstan's Sustainable Development Fund is a key stabilizer in the country's economy and a main driver behind the government's diversification strategy

A major implication of economic globalization is that if developing countries rely heavily on natural resources, they are destined to become trapped in low-value-added activities. Such is the premise for the foundation of Kazakhstan's

Sustainable Development Fund,

Kazyna. It's objectives are clear: to

raise productivity by diversifying the economic base away from oil; to enhance education and industry-specific skills; to promote innovation, research, and creativity; and to support entrepreneurship.

To achieve this, Kazyna brings together the



ARMAN DUNAEV

country's many established development institutes to better coordinate their efforts of supporting and facilitating sustainable growth. Previously, each of these agencies filled a gap that the private sector was unable or unwilling to occupy in an economy transitioning from communism.

Under Kazyna, they work in harmony to launch "breakthrough projects" that will have sustainable long-term impacts on the economy. Such projects broadly fall into two categories: infrastructure and the creation of export-oriented goods and services. Naturally, Mr. Dunaev, the chairman, is upbeat


about the current investment environment. "There are many opportunities today in Kazakhstan.

Territorially, Kazakhstan is a huge country, and it is situated between two giant global markets, China and Europe, and Russia as well, of course."


Integrated transport infrastructure projects aim to create the conditions to facilitate East-West trade passing from China through Kazakhstan to deliver goods to Europe; in essence a revival of the historic Silk Road. The results so far add credibility to his optimism; Kazyna's investment portfolio grew from US\$1.2 billion at the beginning of 2005 to US\$3.5 billion by the start of 2007. By 2008, total investment is expected to surpass US\$6 billion, rising to US\$10 billion by 2009. ■

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Q & A

ZHANAT ZHAKANOV
President

Development Bank of Kazakhstan

Using Oil Revenue to Diversify away from the "Hydrocarbon Curse"

What is the DBK's mandate?

The bank was founded to diversify the economy. This year, we plan to invest about US\$3 billion in sectors that are not related to oil, gas, and mining. We have already allocated US\$1 billion to 150 investment projects, mostly in infrastructure and industrial sectors: processing, the petrochemical industry, machinery, metallurgy, agribusiness, etc. We also have some large-scale power stations and power-transmission projects, which are a priority for us right now.

What are your investment criteria?

Our ideal investment structure for domestic projects is to have a local investor, a strategic foreign investor, and a large foreign company with brand, experience, and technology. A good shareholder structure would be 20 percent to 30 percent of equity to which we would then provide 70 percent to 80 percent of debt. We also invest in projects abroad if they help the development of Kazakhstan's economy. Each dollar that we put into the project attracts about US\$3.50 from other sources, including investors and co-lenders. In these terms, DBK is a very powerful tool to attract investors.

How is the DBK perceived internationally as an investment partner?

We are a quasi-sovereign institution. We are fully owned by Kazyna, which is in turn fully owned by the state. This is very important for investors because we have all the necessary support in terms of capitalization and budget finance, yet the bank is independent in operating and business decisions.



INTERVIEW

VEYSEL ARAL
Chief Executive Officer

K'cell

Dialing into the Global Village

With more than 7 million subscribers, GSM Kazakhstan—or K'cell as it is commercially known—has been the leading player in Kazakhstan's mobile communications sector since its creation in 1998.

"Telecommunication is like breathing; you'll only know about it when it's cut off." Such statements give a good insight into the thought patterns of Veyssel Aral, who in November of last year was appointed CEO of GSM Kazakhstan, the country's largest mobile telecommunications provider, with more than 7 million subscribers in a country of 15 million citizens. Established in 1998, GSM Kazakhstan—or K'cell, as it is commercially known—has been the leading player in Kazakhstan's mobile communications sector since its inception. With this precedent behind him, the new CEO is very clear about how he sees the company's future: "Telecommunication will continue to play a key role in the diversification of the economy in Kazakhstan, with its huge potential of creating added value for the country."

On closer examination, the colorful, Turkish-born Mr. Aral is somewhat of a natural choice to head such a pivotal position in Kazakhstan's multicultural environment. Encouraged by his father from an early age to "learn English and become an engineer," he is infused with a passion for Turkish Ottoman history. Initially trained as a telecommunications engineer with the Turkish National Railway, he then cut his teeth with Ericsson in prickly markets such as Iran, Turkey, Pakistan, and Azerbaijan before taking up the post in Kazakhstan. That experience has left him in no doubt about the importance of the sector. "Today, anyone who is not connected to some means of telecommunication is isolated from the rest of the world," he reflects. Luckily, K'cell can call on a strong shareholder and management structure behind it. It is part of the TeliaSonera family of companies, Scandinavia's largest telecommunications operator, which through its

affiliates and investments is successfully operating in rapidly developing countries across the region. Mr. Aral was also quick to recognize Kazakhstan's own special set of conditions.

"Geographically, Kazakhstan is a huge country, and technically this makes our work more challenging."

The importance of K'cell to the country's prosperity cannot be underestimated. In this regard, K'cell's objectives and President Nazarbayev's vision for the country are well in step. "One of the president's most important statements is that he wants to diversify the economy, and telecommunications play an important role in that. At K'cell, we believe that communication is one of the main needs of a social individual and for the prosperity of our people." K'cell is committed to providing high-quality cellular communication available to all of Kazakhstan's citizens. It also aims to provide 100 percent coverage on highways and trunk railways of national and international importance. In order to achieve this, K'cell invested more than US\$200 million in the telecommunications sector in 2007, putting up 961 new communication sites, and has set an aggressive target of 1,300 more by the end of 2008. "By 2007, we had covered all cities with more than 5,000 in population, and now we will concentrate on giving coverage to settlements of 2,000 or more citizens," explains Mr. Aral, declaring with pride that K'cell's number of subscribers has reached 7 million and will surpass 8 million before the end of 2008.

Mr. Aral's experience in the region also gives him an insight to the opportunities. "Kazakhstan is among those countries where there are more mobile subscribers than fixed-line subscribers. The population is young, open to technology, and very quickly integrating into the globalized world." In 2007, the mobile penetration level was 80 percent. By the end of 2008, Mr. Aral expects it to exceed 100 percent. These figures, he insists, show that Kazakhstan is now a mature market, yet he underlines constant innovation as the cornerstone of the company's ability to add value. Currently, the company is preparing for the implementation of a third-generation cellular network—3G. "With this new technology, we will be able to offer 3G services based on high-speed data transfer methods like video call, mobile TV, video channel, and the mobile Internet. We believe that this technology will be very useful, especially for the businesspeople and entrepreneurs of our country."



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ATAMEKEN A Unifying Force

Azuat Peruashev, head of the Atameken National Union of Entrepreneurs, says that his organization is more than a business group.



AZUAT PERUASHEV

Mr. Azuat Peruashev, the chairman of the powerful Atameken National Union of Entrepreneurs, explains the role of the organization. "Because businesses are sometimes tempted to behave badly with competitors in order to maximize short-term profit," he says, "the first aim of the union is the revelation, formation, and expression of the consolidated interests of Kazakhstan's business community." Effectively, Atameken views business as a social movement of consolidated interests in which all businessmen have common fundamental tasks. "One of our objectives is to form and bring to light those tasks, where there is a misunderstanding and reluctance in participating in this process," he elaborates. Other objectives include the protection of the interests of private business from external threats; to help Kazakh businesses become members of the world's entrepreneurial communi-

ty through active participation in international forums and associations; and, lastly, to establish principles of corporate social responsibility. More than just a traditional defender of social economic values, Atameken is concerned with challenging the way its citizens fundamentally think.

"I met politicians from different countries, and they couldn't recognize Kazakhstan today. Not in terms of buildings, but in terms of how people think. A rapid improvement of the culture has taken place; styles of dressing and behavior have changed." Mr. Peruashev believes that it is ultimately more important to transform the way of thinking in the country than any one specific project. "If we form the right way of thinking, building roads is not a big deal. We have almost reformed our consciousness. This country has a market economy, which becomes stronger after the crisis." On a recent trip to the United States, Mr. Peruashev was fascinated by the "direct link between managers' and ordinary workers' salaries with company's overall profitability." He will be a vocal campaigner for progress for many years to come. ■

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SEMBOL

Building New Oases out on the Steppe

Aytekin Gultekin, chairman of the Turkish firm Sembol Construction, is a man who not only overcomes difficulties, he welcomes them.



AYTEKIN GULTEKIN

"My partner and I don't like routine things," he says. "We like challenges. Feeling that you are doing something, adding and creating value, is more important than money." In Astana, Gultekin has found his ideal canvas. The capital on the steppe allows the Turkish-born Gultekin to test his abilities in an ever-changing environment and to help forge Kazakhstan's identity and its image in the world abroad. In addition to building and operating the Rixos Hotel, one of the capital's flagship establishments, Sembol was the lead firm in the construction of the Pyramid of Peace—Astana's 30,000-square-meter meeting center and monument to international understanding, designed by inter-

nationally renowned British architect Norman Foster. Gultekin says that despite such logistical challenges as needing 20 days to bring in materials overland from Istanbul, the project was completed in record time.

Now Sembol has embarked on another historic undertaking: the gargantuan "Khan Shatyry," or "Khan's Palace"—a Norman Foster-designed glass and steel "city under a tent," with apartments, office space, shops, restaurants, sports facilities, and even a sand beach. "I think Astana is one of the fastest-growing cities in the world. We are happy to participate in this growth," Gultekin says. "When we open the project, it will be another promotion for Kazakhstan. It will show that there is this kind of knowledge in Kazakhstan, and people are trying to build something different from anything done before." ■



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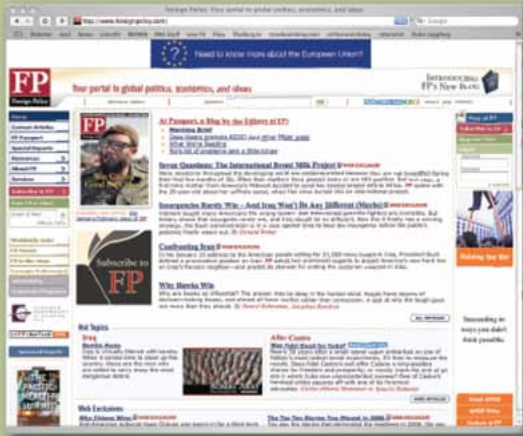
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IN OTHER WORDS

[REVIEWS OF THE WORLD'S MOST NOTEWORTHY BOOKS]

A Brief History of the Next War

By Camille Pecastaing

Iran, *Les Choix des Armes?*
(Iran: The Choice of Arms?)

By François Heisbourg

174 pages, Paris: Stock, 2007
(in French)

Forecasting the next war is always fraught with difficulties. Cassandra's curse was to be ignored by her fellow Trojans, despite the strength of her gift. Her heirs, on the other hand, are too readily believed by anxiety-ridden audiences but generally rendered fools by the unpredictability of history. François Heisbourg, chairman of the London-based International Institute for Strategic Studies and author of *Iran, Le Choix des Armes?* (*Iran, The Choice of Arms?*), a comprehensive new analysis of the Iranian nuclear program, hedges his bets by offering three scenarios of possible Western reactions to Iranian enrichment efforts. First, he imagines a grand bargain between Tehran and Washington (which he favors); second, a military strike against Iran's nuclear installations (the second best); and third, neglect, possibly leading to Iran's acquisition of nuclear weapons by the decade's end, with tragic consequences.

Camille Pecastaing is assistant professor of Middle East studies at Johns Hopkins University's School of Advanced International Studies.

This diversity is disingenuous: It gives the appearance of objectivity, but underneath it lie untested assumptions about the fallout from a nuclear Iran. Not only does the author expect proliferation across the Middle East, but he also envisions an Iranian bomb finding its way into Israel sooner rather than later. The wild assumption here is that the Islamic Republic will be collapsing on itself, giving rogue, nihilistic elements—most likely within its Revolutionary Guards—the opportunity to let Hezbollah operatives sneak in and detonate a weapon in Haifa. To the thousands of immediate casualties are added

Heisbourg's position is representative of the new mood: Opposed, like many European security analysts, to the 2003 invasion of Iraq, he would in this case support a U.S. strike if that were the only alternative to the Iranian bomb. The book builds its argument in three movements: a historical review of Iran's nuclear program, an account of the so-far unsuccessful international efforts to stop the momentum, and, lastly, the three scenarios for the future.

The Choice of Arms opens by tracing Iran's nuclear aspirations to the time of the shah, a ruler with an inflated notion of both Persia's grandeur and his own. A large

Attacking Iran would disrupt a volatile global economy. In truth, Washington can afford a strike even less than Tehran.

the victims of Israeli nuclear retaliation. That reads better as a spy novel than as a security analysis.

For reasons that are not always solid, a nuclear Iran has become the litmus test of collective security, the line in the sand that, if crossed, would threaten world peace. It is a dogma embraced by both U.S. presidential candidates along with many European leaders—starting with French President Nicolas Sarkozy.

civilian nuclear program would provide electricity for a growing population and free up hydrocarbon resources for export revenues. Military applications would give Iran the regional supremacy it believed it deserved. But the program was shelved in the first decade of an Islamist revolution too absorbed in an existential war with Iraq to devote resources to long-term planning. The Iranians learned

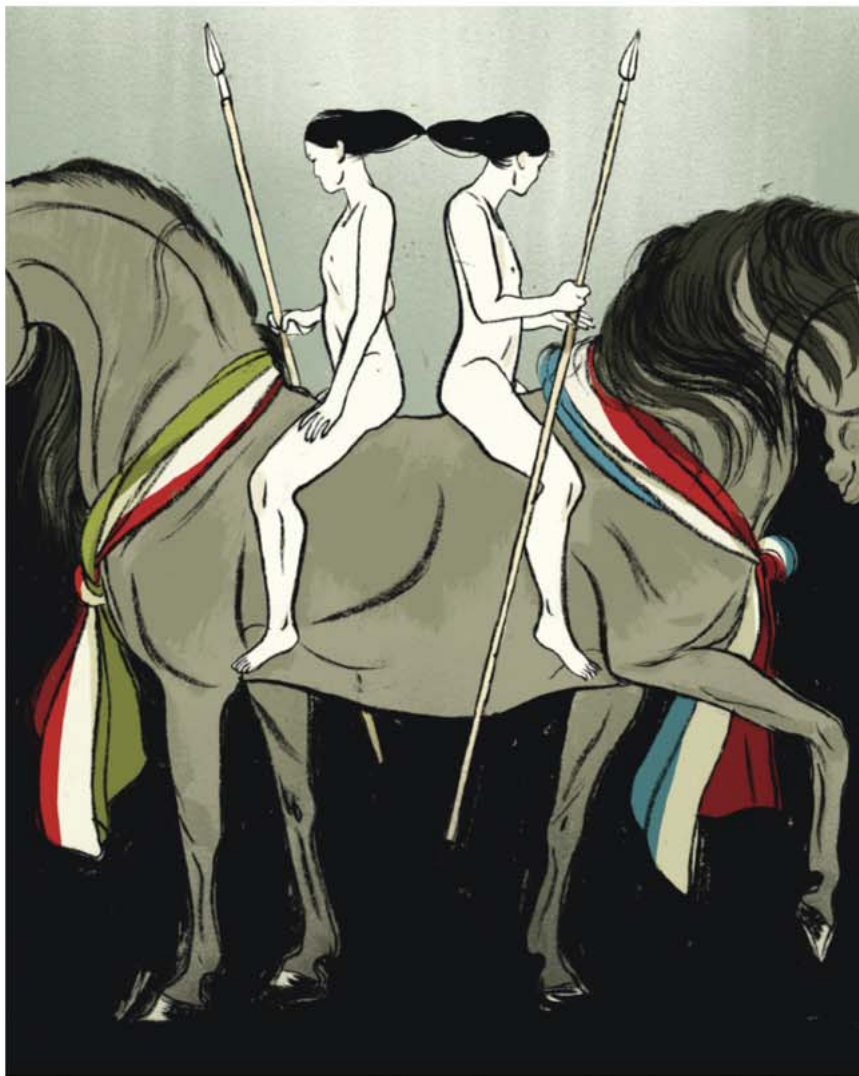


ILLUSTRATION BY JILLIAN TAMAKI FOR FP

lessons from that ordeal, though, in particular from the international embargo that followed. For one, Heisbourg argues, Iran knows it will never be able to rebuild conventional capabilities because no one will sell it the tanks, aircraft, or ships it would require. Offensively, Iran can therefore only project power through irregular proxies—that is, terrorist outfits such as Hezbollah’s armed units. Defensively, it must protect itself through the ultimate deterrence—a nuclear shield.

Those unique circumstances justify a grand bargain with the United States. Iran would renounce military nuclearization in return for U.S. support for a civilian nuclear program, investments of much-needed capital

in decaying oil and gas industries, and, more generally, normalized relations. Here, Heisbourg lays the blame for the current impasse at the door of the United States. Tangled up in its “Axis of Evil” paradigm, Washington rejected Iranian openings in May 2003. The window for accommodation closed when the world’s new provocateur in chief, Mahmoud Ahmadinejad, was elected two years later. Iranian domestic political circumstances and U.S. intransigence set both countries on a collision course. And though they have not yet passed a point of no return, with U.N. Security Council resolutions and sanctions accumulating on one side, and the number of operational centrifuges growing on the other, it

is only a matter of time before arms do the talking.

Heisbourg acknowledges there would be no happy ending. Short of a ground invasion, a preemptive U.S. military strike would only postpone Tehran’s acquisition of nuclear weapons by a few years and galvanize Iranian public opinion against the United States. Still, he would support the strike, as he sees in a nuclear Iran an apocalyptic scenario best delayed as long as possible. It is not clear why he argues that to be the case—unless he hopes Iranian leaders will read his book, become convinced of an imminent attack, and voluntarily suspend their enrichment program.

What makes the tragedy exquisitely Greek are all the complex, unforeseen consequences of a strike that Heisbourg chooses to downplay. For one, the United States is bogged down in both Iraq and Afghanistan, where Iran has played its cards methodically and economically, to great effect. Second, any attack against Iran would further disrupt a volatile global economy in which the dollar has lost so much ground against oil and in which Iran could choke the petroleum gateway of the Strait of Hormuz. That is why we hear saber-rattling one week and talks of a grand bargain the next. In truth, Washington can afford a strike even less than Tehran.

If the grand bargain is not in the cards, the odds are that nothing much will happen—whether there is a strike or not, and whether Iran develops a nuclear weapon or not. However unpleasant, the principle of deterrence that applied during the Cold War applies here as well. If anything, a nuclear Israel and a nuclear Iran must face each other and assume their new responsibilities, as India and Pakistan have come to realize.

As for the regional proliferation Heisbourg envisions, it is unlikely.

Egypt, Saudi Arabia, and Turkey have extensive ties to the West, and none has the autonomy to provoke its economic and military partners with weapons programs of its own. Iran has been a complete pariah since 1979, and few states have that kind of experience at self-reliance—not even North Korea, which has somehow managed to get by thanks to reluctant Chinese patronage. At most, Washington would be forced to deploy antimissile units to reaffirm its commitment to regional stability.

Heisbourg's work is detailed, methodical, and dispassionate, which makes it all the more difficult to notice its transition from fact to speculation. The threat of a nuclear Iran that he lays out seems hyped up, yet most European reviewers

have accepted his general premise. Ultimately, the real significance of the "crisis" might not be the imminent danger to global security, but the opportunity to repair frayed trans-Atlantic relations. For Europeans, it serves as the moment to indulge what they see as U.S. war-mongering and cleanse themselves of the label of anti-Semitic appeasers, wimps who give in to radical Islam. For Americans, a united front against Iran artificially re-creates the World War II-era alliance and presents an opportunity to once again lead the West.

Heisbourg adds a typically cautious, European logic to the strident warnings of Washington officials, pundits, and journalists such as *The New Yorker's* Seymour Hersh that something big is in the works

against Iran—a message punctuated by the Israeli bombing of a Syrian facility last fall and more recent military exercises in the Mediterranean. The only intended audience for such maneuvers is Tehran itself, which must be warned that it had better negotiate or else. But what about the "else"? A one-time strike against Iran without an ensuing ground invasion would probably have no effect either way. But the economic fallout ought to be considered carefully. A preemptive attack could tip the scales for already nervous investors, triggering a chain reaction that would lead to a run on the dollar and U.S. sovereign default, turning the global economy on its head. Right now, there are simply too many fumes in the air to strike a match. **FP**

The Church's Cycle of Scandal

By John L. Allen Jr.

Confronting Power and Sex In the Catholic Church

By Geoffrey Robinson
(with Chuck Sudetic)

307 pages, Melbourne: John Garratt Publishing, 2007

Bishops named Robinson are causing considerable heartburn in Christianity these days. The Episcopalians famously have Bishop Gene Robinson, the openly gay prelate in New Hampshire whose 2004 ordination is threatening to split the worldwide Anglican Communion. Now, the Catholic Church has Geoffrey Robinson, an Australian

John L. Allen Jr. is the senior correspondent for the National Catholic Reporter and senior Vatican analyst for CNN.

bishop whose incendiary new book, *Confronting Power and Sex in the Catholic Church*, calls for sweeping reforms in the wake of the church's sexual abuse scandals.

Christianity is a complex global family of faith, and the issues of power and sex are not necessarily of universal interest. More than two thirds of the world's 2.3 billion Christians live in Africa, Asia, and Latin America, where battles over sexual ethics or the authority of the Vatican are not generally top-shelf concerns. Yet in "the West"—and for the purposes of Robinson's book, Australia may be counted as part of the West—sex and power form the front lines of Christianity's most agonizing debates. *Confronting Power and Sex in the Catholic Church* is therefore an

important book, because it opens these debates to full public view.

More precisely, Robinson gives voice to one side of the conversation—the liberal Catholic perspective that Rome is far too powerful, and that Catholic theology is unhealthily obsessed with what critics mockingly call the "pelvic issues," meaning sexual matters such as birth control, abortion, and homosexuality. Other constituencies in the church, such as those who find the late Pope John Paul II's "theology of the body" a persuasive account of human sexuality, or

For More Online

Read John Allen's interview
with Bishop Robinson at:

ForeignPolicy.com/extras/robinson.

those who believe a strong papacy is essential to protecting Catholic identity in a secular world, find little echo in his account.

Such one-sidedness, however, cannot be considered a defect, because *Confronting Power and Sex* is not really designed to be dispassionate analysis. Instead, the book amounts to a *cri de coeur* from a spiritually sensitive soul who has been deeply shocked by the sexual abuse crisis. Robinson is determined that something—indeed, one could have the impression that almost anything—must be done to clean house.

Robinson reveals early on that he, too, was sexually abused as a young man, though not by a priest or anyone connected to the church. Later, when he was placed in charge of the Australian bishops' response to the sexual abuse scandals that erupted there in the early 1990s, his long-suppressed memories came flooding back. Initially, Robinson writes, he hoped that the church would respond to the crisis with compassion and vigor. When that didn't happen, in his view, keeping silent about the church's failures essentially revictimized those already abused.

"I eventually came to the point where I felt that, with the thoughts that were running through my head, I could not continue to be a bishop of a church about which I had such profound reservations," Robinson writes. So in July 2004 he resigned as auxiliary bishop, meaning an assistant to the archbishop of Sydney. Official Catholic theology still considers him a bishop of the church, albeit without office.

Of course, passion and good intentions do not always make for compelling logic, and there are times when Robinson's outrage appears to lead him into self-contradiction. For example, he argues that since

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the 19th century, the pope has become too strong a leader, yet in almost the same breath, he complains that the pope failed to exercise strong leadership on the sexual abuse crisis. Likewise, Robinson claims that Catholicism has become too hierarchical, yet at one point he proposes instituting “presidents of regions” in the Western church, tantamount to patriarchs in the East, which would inevitably create a new layer of hierarchy.

Robinson is also prone to wielding clichés that cry out for nuance. For example, he writes that instead of following timeless rules, the aim of Christian morality ought to be for people to “grow to become all they are capable of being.” But, of course, people are not merely capable of love and generosity, but also of being murderers, thieves, or, for that matter, sex offenders. Some criteria are required to distinguish

healthy growth from the destructive and disordered sort, and Robinson is not terribly clear what those criteria might be.

For some 300 pages, *Confronting Power and Sex in the Catholic Church* scatters proposed reforms like buckshot. They range from relatively small matters (a five-year performance review for parish priests) to dramatic moves such as ordaining women as priests and revising traditional doctrines such as original sin. At one point, Robinson casually states that he would even take a red pencil to the Nicene Creed, the fundamental statement of beliefs that Catholics recite each Sunday at Mass. (He says a “few phrases” need revision, without specifying what they are, and proposes a new, “more positive” preface.) However liberally one construes the requirements of membership in the Catholic

Church, assent to the creed would be seen by most reasonable believers as a *sine qua non*.

Given all that, it isn’t difficult to understand why Robinson is no longer in the Vatican’s good graces, or for that matter, those of many of his fellow Catholic bishops. During a recent speaking tour of the United States to promote his book, Robinson was pointedly asked by several American bishops to stay out of their dioceses, and more often than not he ended up speaking in non-Catholic venues.

Unlike his Episcopalian counterpart, however, this Bishop Robinson is unlikely to cause a serious fissure in his church. Catholics have the pope to offer a firm “yea” or “nay” to proposed innovations, whereas the archbishop of Canterbury can at best offer gentle advice. For their part, even moderate Catholics, who generally share Robinson’s shock

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about the sexual abuse crisis, will likely see some parts of *Confronting Power and Sex* as a bridge too far.

Nonetheless, it would be a mistake to dismiss the book completely. For one thing, Robinson's quarter century as a prelate has given him keen insight into the inner workings of the church. He observes, for example, that for all its defects, the Roman Curia, meaning the administrative bureaucracy of the Vatican, acts as a brake on unfettered papal power—preventing a pope from straying too far from tradition, or acting out of personal caprice.

For another, Robinson's gut instincts are often quite wise, however debatable his theology or structural analysis. His warning that "spiritual power is arguably the most dangerous power of all" has been dramatically borne out by recent experience. The sexual abuse of minors in the Catholic Church is indeed an abomination, and it's far from clear that the church has taken all the necessary steps to set things right. Most notably, even though it has adopted draconian measures for dealing with abusive priests, there is little accountability for bishops who fail to protect their flock.

Taken less as a platform for church reform, and more as an index of the emotional and spiritual toll wrought by the sexual abuse scandals, *Confronting Power and Sex* thus offers a powerful reminder: The corner has not yet been turned.

Robinson's book probably won't lead to deep changes in the church, at least under the current pope, but it will keep an important conversation alive. If nothing else, it should at least do well in the literary marketplace; Vatican censures have a dubious track record when it comes to changing hearts and minds—but they almost infallibly boost sales. **FP**

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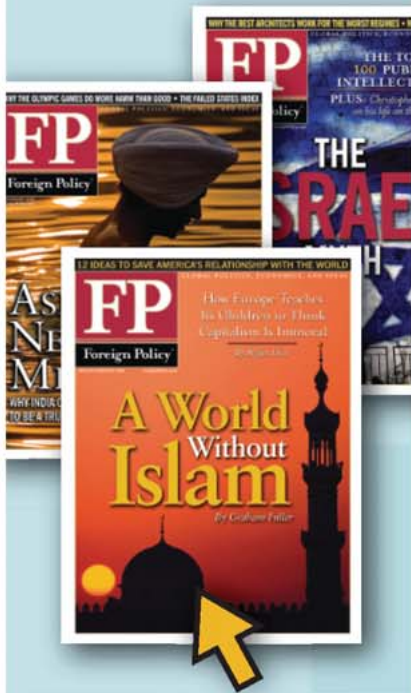
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What happens to a society's literary culture when its politics turn conservative? Indonesian writer, filmmaker, and founder of the Khatulistiwa Literary Award Richard Oh explains.

FOREIGN POLICY: How would you describe the reading habits of Indonesians?

Richard Oh: There is a generalization that people here don't like to read or only like lighter fare. I find these notions not only inaccurate but condescending.

Indonesians do like to read, and it is not limited to urban or educated people. Many writers come from rural areas. The problem is that there is just no incentive [to buy] books. When one book costs around \$5—while millions of Indonesians still earn \$3 a day—you have to have priorities. English books are even more expensive. There are not enough libraries, either. So, it is not about poor reading habits, but economics.

FP: If purchasing power is an issue, how do you explain the aggressive expansion of several bookstore chains in Jakarta?

RO: Those stores are owned by giant businesses and foreign publishers that have huge capital. And even they do not have a wide range of



books. Middle-to upper-class Indonesians prefer to buy books abroad or through the Internet.

If you are just a local businessman with a passion for books and want to provide more English books in Indonesia, you will find it very difficult to make a profit. I opened a bookstore myself and had to close my business.

FP: What are they reading in Indonesia?

RO: After the Suharto regime stepped down in 1998, there was a rise of women writers who were considered very daring due to the sexually explicit content in their books. Their works received a warm welcome from readers here.

In the past couple of years, however, there has been a shift

in taste following the rising Islamization of the country. There are groups of readers who suddenly embraced things that are politically correct.

Bestselling books here include *Khadijah: The True Love Story of Muhammad*, by Abdul Mun'im Muhammad, or novels like *Ayat-ayat Cinta (Verses of Love)* by Habiburrahman El Shirazy, which touches upon aspects of Islam and is set in Cairo and Indonesia. The novel was made into a movie and is one of the biggest box-office hits to date.

FP: Indonesian filmmakers still suffer from censorship. Are authors facing the same obstacles?

RO: The government no longer censors every book like it

used to. But writers are facing increasing challenges from conservative groups, [even those that] are not necessarily hard-line Muslim. Senior writers and academics are criticizing younger writers for not upholding morality in their works. [They act] as though the contemporary literary scene merely focuses on romance and eroticism.

On one hand, writers are asked to make a breakthrough in their work. But on the other hand, there are also [social] boundaries coming from a so-called public consensus. The society is moving backward with this whole morality issue. I find it very hypocritical. It feels like Europe in the 16th century all over again.

Interview: Hera Diani is a freelance writer living in Jakarta.



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NET EFFECT

[HOW TECHNOLOGY SHAPES THE WORLD]

Special Ops

You're probably accustomed to pulling out your insurance card when you visit the doctor. Pretty soon, you may be reaching for your passport.

At least that's what PreviMed, a new Silicon Valley start-up aiming to be a kind of Priceline for medical care, is banking on. "Our idea is to give patients, their insurance companies, and home doctors a choice," says CEO Atul Salgaonkar. "We want them to be able to say, 'I can get my procedure done in India for one price or Thailand for another price.'" Beachside Botox clinics this is not: PreviMed will only handle nonelective procedures.

The potential savings from traveling abroad for surgery are huge. An aortic valve replacement that costs \$100,000 in the United States would cost \$38,000 in Latin America, and

only \$12,000 in Asia, according to a recent report by consulting firm McKinsey. But because patients find it difficult to learn about foreign hospitals and understand what the risks are, people have been reluctant to travel overseas for medical procedures.



Patients without borders: Medical travel could save big bucks.

Bridging this information gap is PreviMed's mission. If you need a particular procedure but can't afford an insurance payment, the insurance company can submit your medical

information to a secure server on PreviMed's Web site. Prescreened hospitals from around the world can bid for the job by suggesting a course of treatment and price. Ideally, you can then choose from a variety of offers.

Salgaonkar acknowledges the danger that unscrupulous hospitals might try to game the system, or that insurance companies might pressure patients into going overseas for cheaper treatment. For him, the benefits outweigh the risks. "We like to think that by introducing a small level of transparency, we're making a small change for the better," he says.

So, when hospitals compete, do patients win? We may find out soon enough: PreviMed has already signed agreements with 14 hospitals in Costa Rica, India, Panama, and Thailand. —Joshua Keating

For More Online 

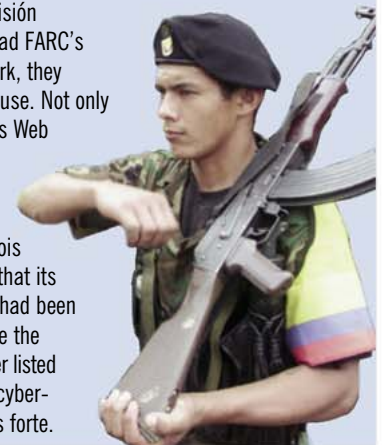
For the top 5 places for medical travel, visit ForeignPolicy.com/extras/medtravel.

Crash of Civilizations

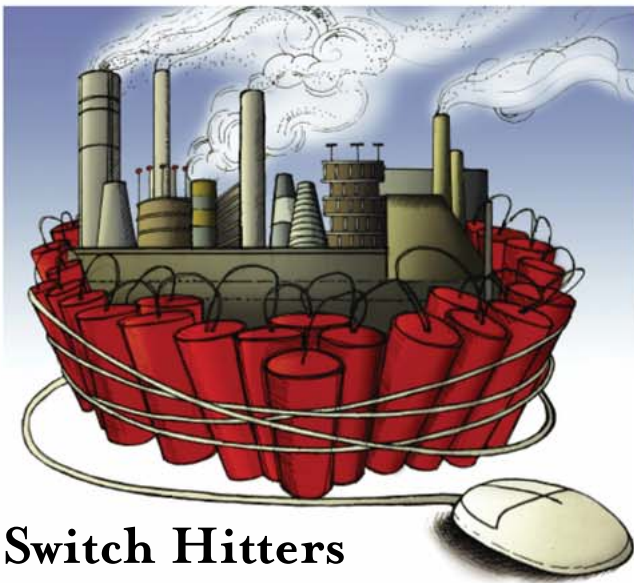
Like any French or Japanese chef, cybercriminals apparently have specialties, too. Researchers at Verizon spent four years examining 500 cases of corporate data breaches and found that different regions are developing different types of hacking expertise. Attacks traced to Asia, for example, tend to target personal information in common software applications. Eastern Europe, with its entrenched organized crime networks and a technically skilled, yet often underemployed populace, is a hotbed for lucrative identity theft. Middle Easterners often deface Web sites, fighting the Israeli-Palestinian conflict online. To Carnegie Mellon University expert Nick Ianelli, the parallels to the real world are clear. "If you look at the backgrounds of the respective regions," says Ianelli, "it . . . reflect[s] what is going on in the physical side." Still, says Bryan Sartin, Verizon's director of investigative response, understanding these regional patterns hasn't made solving crimes any easier. For investigators, that's enough to ruin any meal. —Patrick Fitzgerald

Caught in the Net: **FARC**

When the Colombian military pulled off its successful sting operation against the Revolutionary Armed Forces of Colombia (FARC) in July, rescuing French-Colombian politician Ingrid Betancourt and 14 other hostages, its operatives posed as members of a fictitious Spanish humanitarian organization named Misión Humanitaria Internacional. Had FARC's guerrillas done their homework, they might have easily foiled the ruse. Not only were parts of the fake group's Web site lifted wholesale from a real nongovernmental organization called Global Humanitaria, but a quick Whois search would have revealed that its domain name (misionhi.org) had been registered just six days before the raid, and the telephone number listed was 000000000. Of course, cyber-savvy has never been FARC's forte.



TOP: PCWWW, INC./CORBIS; BOTTOM: REUTERS/CORBIS



Switch Hitters

When a massive blackout struck Nigeria's largest city this February, officials suspected any number of causes, from simple negligence to sectarian rebels. But some analysts have since come to believe that Lagos was the victim of a sophisticated cyberattack.

Indeed, developing countries are increasingly being shaken down by highly organized, well-financed criminal gangs operating in cyberspace. In just the past year, intensifying attacks have been lodged against banks, government agencies, and utility companies in India, Nigeria, Vietnam, and across the Middle East. Hackers have turned out the lights in at least three known attacks on utility sectors outside the United States, says Alan Paller, research director at the Maryland-based SANS Institute, which oversees an early warning system for the Internet. For security reasons, he declined to name the countries, but noted that two of those attacks occurred in developing countries. In all three cases, the aim was to extort money. So far, no country has publicly admitted to paying up.

The cybercriminals' weapon of choice is "distributed denial of service," or DDoS, attacks. DDoS attacks occur when computers operating together in giant "botnets" (short for robot networks) are weaponized by criminals who remotely control hundreds of thousands of computers unknowingly infected with malicious code. Connected globally by high-speed broadband, these botnets yield the power of a supercomputer. The danger of DDoS attacks was revealed in 2007, when a massive botnet of up to 1 million computers targeted Estonia, shutting down the country's government ministries, parliament, and largest bank. Criminals like such attacks because they are nearly impossible to trace; they appear to come from thousands of separate IP addresses scattered across the globe. "DDoS has emerged as an incredibly powerful tool for organized crime," Paller says.

Freelancing cybercriminals are beginning to lease their massive botnets to the highest bidder, often larger criminal groups. In turn, these groups carry out attacks in the hope of wringing money from their victims. Early targets for cyberextortion included online gambling sites and other businesses that were dependent on the Web. Now, utility companies appear to be Target No.1, especially

Expert Sitings

Mark Frauenfelder, a writer and illustrator living in Los Angeles, is the cofounder of BoingBoing.net, one the Internet's most popular blogs.



predictify.com

Will Radovan Karadzic be convicted of war crimes? Is Moqtada al-Sadr going to maintain his cease-fire in Iraq? What will a barrel of oil cost on November 1? Predictify crowdsources the dark art of prognostication, allowing news junkies to pose questions, make predictions, and develop a potentially lucrative reputation for accuracy.

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animationarchive.org

The ASIFA-Hollywood Animation Archive posts high-quality scans of out-of-print books, magazines, and ephemera from the world's great illustrators, such as Mexican artist extraordinaire Ernesto Garcia Cabral or Ukrainian-born *Time* cover artist Boris Artzybasheff. The archive's best feature is its director, Stephen Worth, a knowledgeable animation scholar whose entertaining introductions put the scans into their proper historical context.

kk.org/cooltools

Kevin Kelly, cofounder of *Wired*, is also a serious tool junkie. Cool Tools is his mailing list and blog of recommendations written by his site's readers from around the globe. Whether it's a high-end Japanese toilet seat or access to the 57,000 library catalogs you need, Kelly's got you covered.

those in poor countries. They make easy prey because their software often relies on commercially available Web applications that lack robust security features. "Developing-world countries are so far behind in terms of Web security that it's frightening," says Mandeep Khera of the cyber-security firm Cenxic. If they don't catch up soon, it could be lights out. —*Greg Grant*

Joshua Keating is an editorial assistant and Patrick Fitzgerald is a researcher at FOREIGN POLICY. Greg Grant is a freelance reporter based in Washington, D.C.



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Answers to the FP Quiz

(From page 30)

1) **A, France.** According to the WHO, France boasts the world's best health-care system, thanks to its universal coverage, overall quality of care, and efficient medical spending. The state provides basic insurance to all of the country's 64 million residents, with health expenditures equal to 11 percent of GDP. By comparison, the U.S. healthcare system, which the WHO ranks 37th, gobbles up 15 percent of GDP.

2) **C, Japan.** At 40.7 percent, Japan's corporate tax rate is the highest among developed countries, according to accounting firm KPMG's annual tax survey. Most national corporate tax rates have been slashed in recent years as countries compete for foreign investment. In 1997, Germany's corporate tax averaged 57.5 percent; a decade later, it stood at 38.4 percent. Most drastic is Ireland, which has nearly halved its 2000 corporate tax rate to 12.5 percent.

3) **B, 50,000.** According to the blog-tracking Web site Technorati, about 50,000 blogs are created each day around the world. The rate has slowed in recent years as spam blogs are filtered out of official counts and the number of Web users interested in generating online diaries levels off. Generally, the vast majority of blogs, once created, go unused. Only about 10 percent of the world's estimated 75 million blogs have been updated in the past 90 days.

4) **B, Qatar.** Qatar's oil-and-gas-dependent economy grew an astonishing 14.2 percent in 2007, the fastest rate in the Middle East, according to estimates. The International Monetary Fund expects the country to perform equally well through the end of the decade. The growth has already propelled the tiny emirate's annual per capita GDP to \$80,900, the highest in the world.

5) **B, Pakistan.** With nearly 7,500 prisoners awaiting execution, Pakistan maintains the world's largest death row. Thousands may soon have their sentences commuted to life imprisonment, however, under a plan approved by the country's parliament in July. The United States, with nearly 3,300 death row inmates, comes in a distant second. The fact that China, which refuses to release such statistics, carries out executions fairly swiftly suggests that its death row is comparatively small.

6) **B, 23.** On Jan. 1, 2009, Norway will become the sixth country to allow same-sex marriage, alongside Belgium, Canada, the Netherlands, South Africa, and Spain. Seventeen more countries, most of them European, have legalized civil unions. Same-sex partnerships are also legally recognized in some areas of Argentina, Australia, Brazil, Mexico, and the United States.

7) **C, 99 percent.** "Innocent until proven guilty" doesn't have quite the same ring in Japan, where prosecutors are rewarded for guilty verdicts and maintain a heavy reliance on confessions over evidence, resulting in an incredible 99 percent conviction rate, the highest in the developed world. A jury system for criminal cases goes into effect next year, which could result in fewer guilty verdicts.

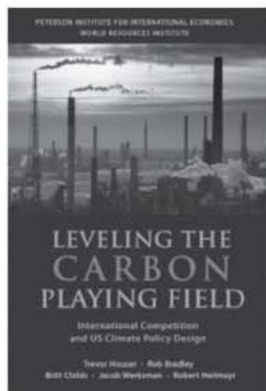
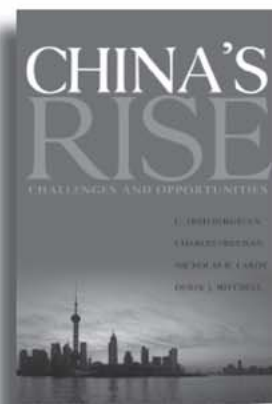
8) **B, 15 million.** Last year, U.S. military tanks, aircraft, and ships consumed more than 132 million barrels—about 5.6 billion gallons—of gasoline, diesel, jet fuel, and other petroleum-based fuels. The Pentagon, the United States' single largest oil consumer, has actually cut back slightly on its fuel consumption, with 10 million fewer barrels of petroleum used last year than in 2003. But as the price of oil has soared, so have fuel costs: The Department of Defense spent \$12 billion in 2007 on fuel, more than twice its 2003 bill.

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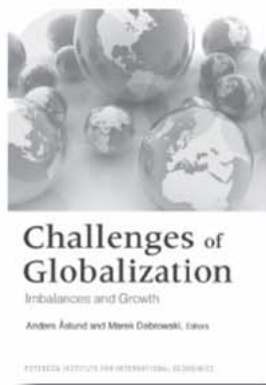
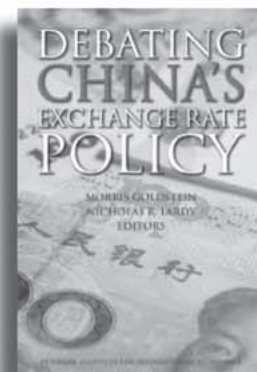
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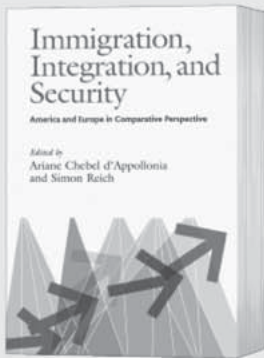
Anders Åslund & Marek Dabrowski, editors

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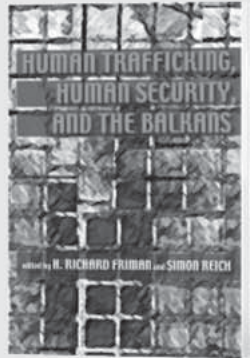
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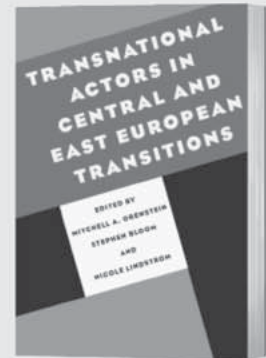
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Continued from page 128

protection of human rights has less to do with global messiness than with hypocrisy.

Indeed, the inconsistency most anti-American critics cherish regards the dictators the superpower chooses to hate and those it befriends. Why is the United States such a close ally of an oil-rich, Islamist monarchy in the Middle East that was home to almost all the 9/11 hijackers—Saudi Arabia—while remaining the sworn enemy of Iran, another oil-rich, Islamist nation in the same neighborhood? When Gen. Pervez Musharraf came to power, the United States regularly denounced his authoritarian rule while

world. One obvious example is the U.S. embargo of Cuba; the policy's failure is now even accepted by a growing segment of Cuban exiles in South Florida. Why should the United States keep a useless embargo and stubbornly refuse to engage a regime while happily trading with Vietnam and even talking to North Korea and Syria?

Those are just a few examples, but there are many others. How many? Enough to deserve more scrutiny than they have received in decades. There are many reasons for scrutinizing American double standards, including the broad consensus that repairing the world's respect for the United States is now a top priority. According to

Some double standards will be untouchable (Saudi Arabia).

Others will be revealed in all their obsolescence (Cuba).

Hopefully, some of them will be eliminated.

imposing sanctions on Pakistan for becoming less democratic. Until 9/11, that is. Then, almost overnight, the United States dropped the sanctions and started calling Musharraf one of its closest allies.

The rationale behind each one of these double standards is well known and some are perfectly justified. And it is true that a superpower with so many competing interests is bound to respond to a messy and volatile world in contradictory ways. The fact that the United States' dependence on Saudi oil muffles its criticism of that regime does not mean that the United States should feel constrained from pressuring the tyrants of Burma to abandon their murderous ways. Unfortunately, the valid argument that U.S. double standards are not only inevitable but sometimes even desirable has led to a dangerous complacency. Not all double standards and contradictions in U.S. foreign policy are inevitable, necessary, or beneficial. Some are obsolete and greatly damage America's reputation in the

a recent survey by the Pew Research Center for the People & the Press, more than 7 in 10 Americans think that the United States is less respected by other countries. And, for the first time, a majority of Americans now see the country's loss of international respect as a major problem.

Therefore, here is one suggestion for the next president of the United States: Ask for an audit of America's foreign-policy double standards. Just producing such a list will be a salutary exercise. It will not only show how long the list is, but it will also open the official explanations commonly used to rationalize the contradictions to renewed scrutiny and, in the process, reveal the economic interests or political passions behind them. Understanding the logic that sustains each of the double standards now in place will help in deciding which ones should be jettisoned. Some will emerge as untouchable (Saudi Arabia), while others will be revealed in all their obsolescence (Cuba). Hopefully, some of them will be eliminated.

Of course, reducing U.S. foreign-policy inconsistencies and contradictions will not eliminate the powerful waves of anti-Americanism that have always existed and that have crested in recent years. But it will certainly reduce the rhetorical ammunition available to America's critics. For free. **FP**

Moisés Naím is editor in chief of FOREIGN POLICY.

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Which double standard in U.S. foreign policy bothers you the most? Send it to letters@ForeignPolicy.com, and we'll post the best on October 1 at:

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The Hypocrisy Audit

Double standards have always been a part of U.S. foreign policy. It's time to figure out how many should no longer be tolerated.

By **Moisés Naím**

T

he official position of the United States is that Europe should allow Turkey to join the European Union. Turkey's entry would give its citizens the right to travel freely to any other EU member state. This prodding to Europeans to embrace Turkey comes from the same country that is building a 700-mile-long wall along its border with Mexico.

When the South Korean government bailed out Hyundai Electronics Industries in 2001, the U.S. Senate passed a resolution urging the Bush administration "to assure that the unlawful bailout by the Republic of Korea is stopped." This July, the U.S. Congress approved a far larger bailout of Fannie Mae and Freddie Mac, the two mortgage giants. The U.S. government has often pressured poor African countries ravaged by HIV/AIDS into not buying the cheaper generic drugs offered by manufacturers in Brazil or India. Yet, when the United States faced a potential health crisis during the anthrax attacks in 2001, Tommy Thompson, then the secretary of Health and Human Services, announced that the United States was ready to

buy generic versions of Cipro, an anti-anthrax drug owned by Bayer, from manufacturers in India if the German drug company refused to drop its price.

These are just a few examples from a long list of contradictions, inconsistencies, and double standards that are all too common in the way the United States interacts with the world. U.S. officials usually justify the double standards by arguing that the world is too messy and that there is no one-size-fits-all foreign policy. Different situations demand different responses, they say. Perhaps so, critics argue, but cozying up to oil-producing tyrants while trumpeting the spread of democracy and the

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