

FINANCIAL TIMES

MONDAY 26 SEPTEMBER 2022

INTERNATIONAL NEWSPAPER OF THE YEAR

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Brazil's challenge
Whoever wins presidential poll will struggle to restore growth — PAGE 19



Getting a leg-up
Surgery to make you taller comes at a high price — PILITA CLARK, PAGE 14

Italy election Polls point to Meloni victory

A voter studies the list of candidates in a Turin polling station yesterday as Italians cast their ballots in the first autumn election for more than a century. The winner of the contest, triggered by the sudden collapse of Mario Draghi's national unity government this summer, must deal with surging energy prices, pan-European political tensions fuelled by Russia's invasion of Ukraine, and high levels of public debt. Opinion polls suggested that voters were likely to deliver a decisive mandate to a rightwing coalition led by Giorgia Meloni of the Brothers of Italy party. She would become the country's first female prime minister. Turnout was forecast to be low, with fewer than 65 per cent casting their votes.



Jessica Papajovic/EPA (left), Shutterstock

Briefing

- US and Philippines deepen military ties**
The US and the Philippines are increasing military co-operation, including a doubling of the number of troops involved in joint exercises next year, as Manila considers its role in any potential war if China were to attack Taiwan. — PAGE 4; US CONCERNS, PAGE 6
- UK chancellor stands by tax cuts**
UK Chancellor Kwasi Kwarteng has vowed to double down on his controversial tax cutting drive despite investors' jitters, leaving Conservative MPs and traders braced for further market turbulence.
- EU's LatAm trade pact sidelined**
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- Iran hijab protest deaths reach 41**
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Kyiv allies warn Kremlin over Putin's nuclear attack threats

● 'Catastrophic consequences' for Russia ● Vigilance stepped up ● Retaliation in kind unlikely

FELICIA SCHWARTZ — WASHINGTON
HENRY FOF — BRUSSELS
MAX SEDDON — MOSCOW

Western capitals are making contingency plans in case Vladimir Putin takes steps towards acting on his threats of nuclear attacks against Ukraine and has sent private warnings to the Kremlin of possible consequences, according to western officials.

The Russian president's nuclear warnings are "a matter that we have to take deadly seriously", White House national security adviser Jake Sullivan told television channel CBS yesterday.

"We have communicated directly, privately at very high levels to the Kremlin that any use of nuclear weapons will be met with catastrophic consequences for Russia, that the United States and our

allies will respond decisively, and we have been clear and specific about what that will entail," he said.

Kyiv's allies believe Putin's threats are unlikely to materialise and do not signal a formal shift in the Kremlin's nuclear strategy. But they are increasing nuclear vigilance and deterrence, according to five western officials who spoke anonymously because of the issue's sensitivity.

"If he thinks the threat is going to intimidate Ukraine into capitulating or giving up 20 per cent of its territory, or intimidate the rest of us away from helping Ukraine, the opposite has happened," one US senior official said.

Two other western officials said that a nuclear strike against Ukraine would be unlikely to spark a retaliation in kind but would instead trigger conventional

military responses to punish Russia. One of them said: "there are a lot of red lines and they are probably not in the place where [Putin] says they are."

"The west assesses that Putin's warnings are designed to regain momentum after setbacks on the battlefield. The threats came as Moscow prepared to annex occupied territories in eastern and southern Ukraine after referendums staged by Kremlin proxies. Putin is seeking to frame the war as a defensive conflict by claiming those regions as part of Russia, officials and analysts said.

The Russian president has accused the west of "nuclear blackmail" and claimed without evidence that Ukraine is developing weapons of mass destruction to threaten Moscow. Under Russia's



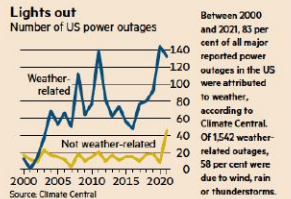
Bellinson: western officials believe Vladimir Putin's threats are not likely to materialise but do not want to leave anything to chance

nuclear doctrine, that could justify the use of nuclear weapons to protect the country's territorial integrity.

Officials and analysts said that if Putin resorted to nuclear weapons, the most likely scenario was that he would test or use a tactical nuclear weapon — a smaller, more targeted device designed for the battlefield. Three of the five officials said that Nato member states had privately highlighted to Moscow the scale of the response that any use of nuclear weapons would trigger.

"Putin would much rather threaten to use nuclear weapons and get concessions than actually use them," said James Acton, co-director of the nuclear policy programme at the Carnegie Endowment for International Peace. **Protests spread in Russia page 2**

Datawatch



IMF bailouts reach a record \$140bn as crises push poor countries to the brink

JONATHAN WHEATLEY — LONDON

The IMF's assistance to economically troubled countries has hit a record as the world's lender of last resort battles simultaneous crises that have pushed at least five countries into default, with more expected to follow.

The pandemic, Russia's attack on Ukraine and a sharp rise in global interest rates have forced dozens of countries to seek IMF assistance. A Financial Times analysis of IMF data showed that at the end of August the volume of loans disbursed by the fund amounted to \$140bn in 44 separate programmes.

The figure, which is expected to grow further in the coming months as borrowing costs soar, is already higher than the amount of credit outstanding at the end of 2020 and 2021, when levels reached record annual highs.

Some analysts say the IMF's lending capacity could soon be stretched to its limits, as further interest rate rises by the world's largest central banks lock poor countries out of international debt markets and force them to turn to the fund for support.

The IMF's total commitments, including loans agreed but not yet disbursed, already stand at more than \$268bn.

Kevin Gallagher of Boston University's Global Development Policy Center warned that "only so many countries" could receive IMF support without "snapping the IMF balance sheet".

Gallagher is co-author of a report published last week warning that 55 of the world's poorest countries face debt repayments of \$456bn between 2022 and 2028, with about \$61bn falling due this year and in 2023, and almost \$70bn in 2024.

But Bikas Joshi, division chief in the IMF's strategy, policy and review department, said the fund's total commitments were "still a fraction of the [almost] \$1tn that could be available".

"The amount of lending is rising commensurate with the increased risks faced by the countries turning to us for support," he said.

The IMF approved a \$1.1bn bailout for Pakistan in the end of August; Argentina is set to receive \$5.9bn in the next few weeks.

Zambia and Sri Lanka, which both defaulted in the pandemic, are negotiating IMF bailouts as part of efforts to restructure their debts.

China, Egypt and Tunisia are in early talks for similar support. Analysts at Goldman Sachs expect Egypt to receive a \$15bn package. **Opinion page 21**



Loyal aide who can say no to Son faces biggest test

Interview — PAGE 7

Australia	A\$7000c(GST)
China	RMB30
HongKong	HK\$33
India	₹p.220
Indonesia	Rp45,000
Japan	¥5000c(GT)
Korea	₩100
Malaysia	RM150
Pakistan	₹p.350
Philippines	₹p.140
Singapore	S\$5800c(GST)
Taiwan	NT\$90
Thailand	฿940
Vietnam	₫584,50

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World Markets

STOCK MARKETS				CURRENCIES				GOVERNMENT BONDS					
	23 Sep	Prev	%chg		23 Sep	15 Sep		23 Sep	15 Sep	15 Sep	Chg		
S&P 500	3682.50	3757.99	-2.01	S/E	0.971	1.003	E/E	0.917	0.875	US 2 yr	4.19	4.12	0.07
Nasdaq Composite	10947.96	11066.81	-1.06	S/E	1.096	1.143	K/E	1.123	1.140	US 10 yr	3.74	3.68	0.06
Dow Jones Ind	29817.86	30036.68	-1.96	E/E	0.836	0.877	N/E	138.066	143.376	US 30 yr	3.64	3.61	0.04
FTSE100	1545.21	1561.20	-2.28	M/E	143.285	142.540	E index	76.468	77.514	UK 2 yr	3.99	3.57	0.41
Euro Stoxx 50	3347.54	3427.14	-2.32	N/E	156.223	163.424	S/E	1.070	1.100	UK 10 yr	3.83	3.49	0.34
FTSE 100	7018.80	7150.52	-1.97	S/E	0.957	0.985				UK 30 yr	4.04	3.77	0.27
FTSE All-Share	3848.88	3924.91	-1.94	S/E	1.030	0.997				JPN 2 yr	-0.05	-0.05	0.00
CAC 40	5780.41	5918.50	-2.28							JPN 10 yr	0.24	0.24	0.00
Nikkei 225	12298.19	12531.83	-1.97										

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Nikkei	27153.89	27315.12	-0.58
Hang Seng	17283.27	18142.95	-4.18
MSCI World \$	2189.38	2516.96	-1.06
MSCI EM \$	822.01	822.00	-1.02
MSCI ACW \$	579.55	585.85	-1.07
FT Wshhrg 2500	4899.51	4942.72	-1.38
FT Wshhrg 5000	38192.99	39806.41	-1.39

COMMODITIES	Sept 23	Sept 16	%Week
Oil WTI \$	78.23	86.93	-9.85
Oil Brent \$	85.73	92.15	-6.87
Gold \$	1671.85	1689.10	-1.02

JPN 30 yr	1.31	1.31	0.00
GER 2 yr	1.90	1.83	0.07
GER 30 yr	2.02	1.95	0.06
GER 30 yr	1.87	1.87	0.00

Prices are latest for addition
Data provided by Morningstar

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INTERNATIONAL

Ukraine war

Unrest spreads over Russian mobilisation

Thousands arrested after Putin's military decree provokes popular anger

MAX SEDDON — MOSCOW

Protests against Russian president Vladimir Putin's decision to mobilise the armed forces' reserves continued over the weekend, in the starkest sign of popular discontent since he ordered the invasion of Ukraine in February. People in Dagestan, an impoverished, mostly Muslim region in the mountainous North Caucasus, blocked a highway and clashed with police as they chanted "No to war", according to videos posted on social media by local activists. The unrest, which comes as public

opposition to the war has been outlawed and is punished with up to 15 years in prison, points to widespread anger at Putin's decision to call up hundreds of thousands of men into the Russian army, its first military mobilisation since the second world war. Arson attacks were reported at army recruitment offices in 16 Russian regions in the days following Putin's announcement on Wednesday — nearly as many incidents as in the war's first six months. More than 2,240 people have been arrested for protesting against the mobilisation decree, according to rights monitor OVD-Info. Thousands of Russians attempted to flee the country amid unconfirmed reports from independent outlets that

the Kremlin is considering closing the borders for draft-eligible men. Almost all flights to the few remaining destinations available after western countries closed their airspace to Russia were sold out for days. Long lines of cars formed at Russia's borders with Georgia, Finland, Kazakhstan and Mongolia, prompting some people to attempt to cross on bicycles or buy places in the line on social media. The Kremlin has attempted to tame rising public anger at the mobilisation decree, which has shattered a carefully maintained equilibrium that allowed most Russians to go on with their lives largely as normal since the start of Moscow's full-scale invasion of Ukraine. Though Russia's defence ministry has

said it will draft only up to 300,000 men with military experience, local officials have issued summonses to a broad swath of people who do not fall under Putin's decree, according to lawyers and activists. Several people have claimed that they were drafted despite promises from defence minister Sergei Shoigu not to call up people with no prior military service or fathers of four or more children, as well as people older than the recruitment age or with chronic illnesses. Areas with large ethnic minority populations such as Dagestan, as well as Yakutia and Buryatia in eastern Siberia, have been particularly hard hit by the round-up. On Saturday, Putin signed a decree

exempting students from the draft. Yesterday, Dagestan governor Sergei Melikov admitted that "mistakes were made" and said anyone who was drafted despite not meeting the criteria should be sent home. Russia's two most senior lawmakers attempted to lay the blame on local officials, who are technically in charge of such efforts and are often used as scapegoats to shield Putin from unpopular decisions. "If mistakes are made, they must be corrected," wrote Viacheslav Volodin, Speaker of the Duma. Valentina Matvienko, chair of Russia's Senate, said that "going overboard like this is absolutely unacceptable" and "is meeting an absolutely justifiably harsh reaction in society".

Gas supply

Berlin strikes LNG deal with Emirates in effort to ease energy crisis

SIMON KERR — DUBAI

The United Arab Emirates has agreed a deal to supply liquefied natural gas to Germany as chancellor Olaf Scholz visited the Gulf state as part of a regional tour seeking to drum up alternatives to Russian energy.

Abu Dhabi National Oil Company will supply Germany utility RWE with 137,000 cubic metres of LNG later this year, which will be the first delivery to the under-construction import terminal on the north-west coast at Brunsbitel, RWE and the UAE state media said. Adnoc is expected to reserve another five LNG cargoes for German customers in 2023, a person briefed on the matter said yesterday.

Germany has been seeking to secure energy imports from sources outside Russia since the invasion of Ukraine began in February. The oil-rich UAE, while a relatively modest player in gas exports, has plans to double its LNG production to 12mm tonnes a year by 2026. "We need to make sure that the production of LNG in the world is advanced to the point where the high demand can be met without having to resort to the production capacity that exists in Russia," Scholz said before the deal was announced, according to Reuters.

RWE said the deal marked "an important milestone" in creating LNG supply infrastructure.

But the amount of LNG so far secured by Scholz during his visit to the Gulf — starting with just one tanker in December — is tiny compared to the quantities Germany needs to find to replace the natural gas Russia has stopped supplying, which before Moscow's invasion of Ukraine accounted for more than half of Germany's total supplies. Scholz, who met the Saudi crown prince, Mohammed bin Salman, in Jeddah on Saturday, headed to Qatar yesterday for meetings that could yet unlock larger gas supplies for Europe's largest economy.

Qatar, the world's largest exporter of LNG, has already signed a provisional LNG supply agreement with Germany, but talks over the contracts have run into difficulties over issues such as pricing and the length of contracts.

In Doha, the German chancellor met Qatari Emir Sheikh Tamim bin Hamad Al Thani, and said he wanted to "achieve further progress" in LNG deliveries to Germany, Reuters reported.

The bilateral deal with the UAE, signed with UAE president Mohammed bin Zayed al-Nahyan, also covered other energy agreements, including a deal with Germany's Steag and Aurubis for the supply of low-carbon ammonia to fuel hydrogen, with the aim of decarbonising industrial sectors.

Masdar, the UAE's renewables vehicle, will explore offshore wind projects in the North Sea and the Baltic Sea off the German coast in a bid to generate 10GW of renewable energy output by 2050.

In a statement, Robert Habeck, the German economy and climate minister, said companies and citizens urgently needed help to "survive the crisis caused by the Russian war of aggression".

Additional reporting by Martin Arnold in Frankfurt

France. Renewables

Macron struggles with resistance to wind farms

Country at odds over plans to speed up projects and ease reliance on nuclear power

SARAH WHITE — SAINT-BRIEUC

At the inauguration of France's first ever offshore wind farm last week, President Emmanuel Macron voiced his displeasure that renewable projects could be completed faster elsewhere in Europe. "Other countries that are no less respectful than we are of wildlife managed to construct offshore wind farms in five or six years," Macron said after touring the site off the Atlantic Coast port of Saint-Nazaire, where 80 turbines are finally turning after 11 years taken up mostly by planning and legal wrangles. As Europe confronts the urgent need to find alternatives to Russian gas, Macron wants to speed up development of wind and solar power and attract more investors into the sector. But he faces an arduous battle to secure passage of the planned legislation as opposition politicians criticise elements of the bill, while developers say more ambitious measures are needed. Normally reliant on its large fleet of low-carbon nuclear reactors, outages at a record number of plants this year have exposed France as a renewable energy laggard. With six proposed new reactors only coming on line by 2035 at the earliest, ramping up other forms of energy production has become inevitable.



"France became aware of the need to not lay everything on nuclear power the day after the Fukushima accident [in Japan in 2011]," said Raphael Lance, head of energy transition funds at Miravia, a French sustainable investment company that is part of financial group Natixis. But he added that there had still been "strong resistance to accelerating renewable energy". Macron's plan aims to end years of pushback against wind farms from a range of antagonists, from environmentalists wary of their potential harm to animals, to rightwing politicians decrying them as blots on the landscape. But getting the law through a fragmented parliament in which Macron's centrist coalition has lost its majority, forcing it to barter with opponents on the right and left, will be tough. "We have real reservations about it,"

said Olivier Marleix, head of conservative Les Républicains' parliamentary group, criticising what he perceived as a bid to encourage "anarchic" development of installations without building a consensus over what France's energy mix should be for the years to come. "Is it worth disfiguring all of France's coastline if in the end we need a little bit less wind power?" Marleix added. The government's target of developing 50 offshore sites with a total capacity of 40GW by 2050, which would provide a fifth of France's forecast power generation, is highly ambitious even if laws to promote swifter planning and development are passed, developers have warned. Meanwhile a recent edict urging regional officials to approve a backlog of onshore wind projects — amounting to some 5GW of capacity, according to lobby group France Energie Eolienne — will not solve any potential power shortages this winter or next. In contrast to

the more strategic approach taken by Germany or Denmark, wind power projects were treated on a case-by-case basis, meaning lengthy public debates and numerous authorisations for each project. The bill aims to encourage planning for multiple projects across broader maritime areas, which would allow some pre-approvals to be cleared for several projects at once. France was the only EU country to miss a Brussels-approved goal to increase gross energy consumption to 25 per cent from renewable sources in 2020, falling short at 19.1 per cent. It has nudged up to 19.3 per cent this year, according to France's energy ministry. "There's been virtually nothing happening over the past five years," said Anna Creff, a professor in climate economics at Paris Dauphine University. "Even countries that have fewer means than France have invested more." At an offshore wind farm under con-

struction off Saint-Brieuc on the north coast of Brittany, Spanish developer Iberdrola says the long planning procedures added excessive complexity to the €2.4bn project. Since the 2012 tender, the project has had to switch turbine suppliers after the first contractor ran into financial trouble. Brexit also hardened opposition from Breton fishing groups as France and Britain argued over fishing rights, said Emmanuel Rollin, Iberdrola's country head of renewables. "Time is not your friend," Rollin said. "When it goes on for too long, companies go through changes, society evolves." Lance said Miravia had begun to put more money into projects elsewhere in Europe in recent years, but removing some of the obstacles to development could woo back investors into French renewables. "Anything that contributes to an acceleration is a good thing," Lance said. "We need to go further, we're facing a climate emergency."

'Is it worth disfiguring all of France's coastline if in the end we need a little bit less wind power?'

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Mercosur pact EU fears losing influence in Latin America as trade deal falters

ANDY BOUNDS — BRUSSELS
MICHAEL STOTT — LONDON

European Commission president Ursula von der Leyen has promised a beefed-up trade policy to combat China's global influence. But in announcing her plans, she made no mention of the stalled pact with Latin America's biggest trade bloc.

sonaro, who has strained relations with most EU leaders because of his failure to rein in deforestation and support indigenous rights. But the lack of progress has worried Josep Borrell, the EU's foreign policy chief. In July, the Spaniard prepared a confidential paper for foreign ministers, seen by the Financial Times, which mapped out the need for a "qualitative leap in relations" with Latin America.

"want some adjustments" to the text of the pact and had concerns over areas such as intellectual property protection and government procurement. Any changes would need to be agreed by Brazil's Mercosur partners Argentina, Uruguay and Paraguay as well as the 27 EU member states. A Lula government, Amorim added, was open to changes wanted by the Europeans to strengthen relations on

to Brazil in some areas. But one EU official said reopening an agreement that took years to conclude would be a "nightmare", especially as many member states had become more sceptical about doing new trade deals since 2019. Pedro Miguel da Costa e Silva, Brazil's ambassador to the EU, said his country had signed up to all the relevant international treaties. "You should not take the agreement hostage because you have

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der Leyen said she would submit trade agreements with Mexico, Chile and New Zealand for ratification by the European Parliament and member states and pursue talks with Australia and India. But the sweeping 2019 pact with the South American Mercosur bloc was ignored. Mercosur includes Brazil and Argentina, two of the biggest economies in a region where Chinese trade and investment have grown dramatically over the past two decades.

While Lula generally favours closer ties with the EU, one of his close allies told the FT that a new Lula administration would try to renegotiate parts of the Mercosur deal. Lula, who was president for two terms from 2003-10, regards partnership with the EU as "strategic for Brazil and for Latin America", said Celso Amorim, his foreign minister during that time.

Ursula von der Leyen: ignored the stalled 2019 Mercosur trade pact



agreement because you have these other issues," he added. Brasilia could discuss a joint agreement to curb deforestation but it must be "balanced and equitable", he said, pointing out his country had other suitors. EU trade commissioner Valdis Dombrovskis is travelling to Latin America later this year.

INTERNATIONAL

Saudis fear being left behind by reforms despite oil price boom

Kingdom's poor feel pain as prince curbs public sector jobs and subsidies

SAMER AL-ATRUSH — RIYADH

Every evening in Hail, a Saudi city at the foot of a jagged mountain range, Mona heads out to her roadside tea stall, switches on the lights, and waits for customers to show up. She keeps a printed CV on hand, hoping one of them might offer her a better job. "It's worse now," said the former clerk, despite widespread reforms and an oil price boom that will make Saudi Arabia the world's fastest-growing economy this year.

cradle-to-the-grave government support in the form of public sector jobs and subsidies are increasingly expected to compete for jobs in the private sector. The reforms are "rebalancing the social contract. It's a necessary initiative, but it's causing some pain along the way", said Sanam Vakil, Chatham House's deputy director for the Middle East and north Africa. The economic reforms have been accompanied by social ones, including allowing women to drive and ending the role of religious police. Those have won Prince Mohammed praise among many young Saudis. But he has been criticised for his crackdown on critics, including journalists and bloggers, that most recently saw a PhD student and mother of two jailed for decades over her tweets. The reforms have affected much of the population. The government, which introduced value added tax in 2018 and tripled it to 15 per cent during the pandemic, has also cut electricity and fuel subsidies while raising living costs. Unemployment has fallen to 10.1 per cent this year, the lowest since 2008. Youth joblessness was 15 per cent in the first quarter of this year. More than 400,000 people entered the labour market last year amid the government's push for more citizens to join the private sector. Women's participation in the workforce has shot up to an all-time high of 55 per cent. "The issue of economic development and job creation and spurring investment throughout the country is the signature issue for the crown prince, and so



All change: a woman works in a Riyadh jewellery store where previously all staff were male. Below, an Uber driver in the city in traditional dress

that means that all citizens have to be in some way... touched by the transformation," said Karen Young, senior research fellow at Columbia University's Center on Global Energy Policy. The IMF has praised the reforms and advised further tax adjustments, while saying that the kingdom should step up targeted social spending. Saudi Arabia's gross domestic product rose 5.2 per cent in 2021 and because of the oil boom is forecast to hit 7.6 per cent this year. While previous oil bonanzas were followed by a rise in government spending, Saudi Arabia this time plans to use the windfall to shore up its reserves and

invest in its sovereign wealth fund, which is overseeing tens of billions of dollars worth of projects in the kingdom. Inflation this year was among the lowest in G20 countries, with the consumer price index rising to about 5 per cent last month. Saudis with qualifications and experience are in demand, but many other jobs are around the minimum wage of 4,000 riyals (\$1,000) a month, according to a working paper published by Harvard's centre for international development. Although well above the wages paid to migrants in the same jobs, some complain it is not enough and have two jobs. The mixed effects of the reforms can be seen in Hail, where new buildings have sprung up around the city as more Saudis purchased homes with government supported mortgages, in a housing drive that has increased home ownership rates from 47 per cent in 2016 to more than 60 per cent this year. "There are plenty of opportunities, you just need to want to work," said Ahmed, who drives an Uber and is saving up to start a restaurant franchise. But at a social gathering in Hail over coffee and dates, Omar, a socially conservative Saudi, could not hide his con-

'You have three-quarters of the world's oil, you have tourism. Where is the money going?'

tempt for the changes. It was not only men and women dancing together in Riyadh concerts, something unimaginable a few years ago, that upset him, he said, but the tougher living conditions. "You have three-quarters of the world's oil, you have tourism. Where is the money going?" said Omar, who did not want his real name to be published. "I hire a Saudi and pay him the minimum 3,000 riyals. What is he going to do with that? How can he live off it? The strong are eating the weak." Government officials say they are aware that some people and regions could be left behind. They plan to fill the gaps with regional development projects, vocational training and support for families to set up businesses. It will also expand its programme enforcing the hire of Saudis across an increasing number of sectors. Meanwhile many in Hail are travelling to the capital for employment. Some have come back, dissatisfied with the opportunities there. A young man, illegally selling cigarettes from the boot of a car in Hail, said he had returned from Riyadh after he found only restaurant jobs there. "I was unlucky," he said. Ruchir Sharma see Opinion



RIMOWA advertisement featuring a suitcase in a desert landscape with the text 'BORN IN GERMANY. ENGINEERED FOR THE WORLD.'



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INTERNATIONAL

Security crackdown

Death toll from Iran protests rises above 40

Raisi to 'decisively deal' with unrest after woman dies in police custody

NAJMEH BOZORGMEHR

Forty-one people have died in the week-long protests that have erupted in Iran after the death in detention of a young woman accused of failing to wear the hijab, according to state television.

The death toll – which the broadcaster said was “unofficial” – is higher than the figure confirmed by the authorities and state-affiliated news agencies, which reported at least 16 deaths, including nine members of the

security forces, in the most violent unrest since 2019 protests over fuel prices.

Iran's president Ebrahim Raisi, speaking by phone over the weekend to the family of one of the security personnel who was killed, dismissed the demonstrations as “rioting and wickedness” and said he urged the authorities to “decisively deal with those who disrupt the country's security and peace”.

Amnesty International said there had been “a harrowing pattern of Iranian security forces deliberately and unlawfully firing live ammunition at protesters”.

The protests broke out across the country after a 22-year-old woman of

Kurdish ethnicity, Mahsa Amini, died following her arrest by the morality police for allegedly violating the Islamic dress code for women.

Many Iranians do not believe the official account of her death and claim she was beaten while in custody before falling into a coma and dying in hospital four days later. The authorities have denied the allegations and released CCTV footage showing Amini walking into the police station.

They said medical examinations showed no fracture to her skull. Her family doctor said surgery to her brain when she was eight could have made her vulnerable to stress. Her family say she was healthy when taken into custody.

Tasnim news agency, affiliated to Iran's Revolutionary Guards, said at least 1,200 protesters had been arrested. Domestic media said journalists, political activists and university students were among those taken into custody.

After the Iranian authorities cut access to Instagram and WhatsApp in an effort to prevent co-ordination between protesters, the US Treasury Department announced on Friday that it would allow technology companies “to offer the Iranian people more options of secure, outside platforms and services”.

While some of the protesters have called for regime change, commentators do not believe the latest unrest

poses a major threat to the government. “Iranians in general are not in that mood of regime change,” a reformist politician said.

But Iranians have been struck by the bravery of those who have taken to the streets, many of whom are women, either the same age as Amini or even younger.

A teenage girl in the northern city of Babol was shown, in a video that went viral, standing on a platform in the street, refusing to wear her hijab.

“I'm in shock and awe when I see these young girls and boys not scared of anything, even bullets,” said Ali, a 45-year-old businessman. “It is a new reality the Islamic republic is facing.”

Taiwan tension

Philippines and US boost military ties amid threat from China

KATHRIN HILLE — MANILA
DEMETRI SEVASTOPOULO — WASHINGTON

The Philippines and US are increasing military co-operation, including doubling the number of troops involved in joint exercises next year, as Manila starts to consider its role in a potential war with China over Taiwan.

The US and Philippines would next year send 16,000 forces to participate in Balikatan, their main annual bilateral military exercise, said Colonel Michael Logico, director of the Philippine military's Joint and Combined Training Center, which recently hosted a planning conference with US counterparts.

“We are going to do a full battle test for operating together, including in Northern Luzon” near the country's sea border with Taiwan, Logico told the Financial Times.

At annual bilateral defence talks that will be hosted by US Indo-Pacific Command in Hawaii next week, military leaders will discuss more than 500 bilateral activities for the coming year, an increase from some 300 this year.

US defence secretary Lloyd Austin and Filipino defence minister Jose Faustino Jr will meet on Thursday, the first time defence ministers from the allies will join the talks, according to two people familiar with the event.

The stepped up co-operation comes after China's increasing military activity around Taiwan unsettled senior Filipino officials and won their support for reinvigorating the country's alliance with

“We are a US ally, we are in a strategic location. If anything happens in Taiwan we will be involved”

the US, which was weakened when then president Rodrigo Duterte attempted a pivot to China in 2016.

In a meeting with President Ferdinand Marcos Jr in New York last week, Joe Biden said the relationship between the countries had “very deep roots”.

“We've had some rocky times, but the fact is it's a critical, critical relationship, from our perspective,” the US president said. “I hope you feel the same way.”

Gregory Poling, a south-east Asia expert at CSIS, a Washington think tank, said there was “a growing recognition of the role of the Philippines in a Taiwan scenario”. He said: “You're starting to see a consensus emerge within most of the Philippines' government that the Philippines does need to deepen the alliance with the US.”

Other US allies have also grown worried about the risks that a Chinese attack on Taiwan would pose for them. Japan has stepped up consultations and drills with the US for such a scenario.

“We are a US ally, we are in a strategic location. We are so near that if anything happens in Taiwan we will be involved,” said General Emmanuel Bautista, former chief of staff of the armed forces of the Philippines.

Pointing to waterways connecting the South China Sea and the Pacific through the Philippines – such as the Bashi Channel in the north and the Sibutu Pas-

East Asia. Ratings fall

Abe state funeral fuels dislike of Japan premier

Expensive ceremony and ruling party's links with Moonies weigh on Kishida

KANA INAGAKI — TOKYO

Within a week of Shinzo Abe's assassination in July, Japanese prime minister Fumio Kishida announced that a state funeral would be held for the nation's longest-serving elected leader. It was a decision, made without public debate, that showed Kishida in command of the political scene.

But while world leaders will gather to mourn Abe tomorrow at Tokyo's Budokan arena, analysts said Kishida's now deeply unpopular commitment to the ¥1.6bn (\$11m) funeral could prove disastrous for a prime minister whose approval ratings have fallen to dangerously low levels.

Kishida's woes have kindled concerns that his time as leader could be limited and Japan could return to an unstable period of revolving-door prime ministers. Kishida's predecessor, Yoshihide Suga, stepped down just after a year. Before Abe's record-breaking 2012-20 stint, Japan had 17 changes of prime minister since 1989.

It is a remarkable reversal in fortune for Kishida, who was elected prime minister in October last year. Defying initially low expectations, he has steered the ruling Liberal Democratic party to two election wins, surprised allies with a tough response to Russia's invasion of Ukraine, and signalled a big shift in Japan's long-paralysed energy policy.

Public approval for Kishida's administration hit a peak of nearly 70 per cent in May. But recent polls by Japanese media suggest it has since collapsed to about 40 per cent.

Takao Toshiyama, editor-in-chief of political newsletter TusiDefline, said there was no obvious rival or political faction within the LDP that could topple Kishida but his government was “in a very tough situation”, with no immediate prospect of a recovery in the prime minister's popularity.

“He has been extremely fortunate from the administration's launch, but it seems like luck is running out,” Toshiyama said.

Analysts said the political tide turned quickly after Abe's death, which



Drum of dissent: demonstrators march against the planned state funeral for Shinzo Abe. Below, Prime Minister Fumio Kishida raises his hand during a parliamentary debate on the controversy

known formally as the Family Federation for World Peace and Unification and commonly as the Moonies.

The suspect in the former prime minister's killing has said he was seeking revenge for the financial ruin his mother allegedly suffered because of her involvement with the religious group.

During an investigation by the LDP, nearly half of the party's 579 parliamentarians revealed some connection with the Moonies.

The uproar over the LDP's relationship with the church has fuelled anger at the decision to hold a state funeral for

Abe, which polls show a majority of Japanese oppose.

Thousands of people have joined demonstrations against the funeral, while a man in his 70s set himself on fire near the prime minister's office on Wednesday in what was reportedly an act of protest against it.

Critics have questioned the legal basis for a state funeral and have complained about the lack of debate before the decision to hold an event that will be funded with taxpayers' money. Japan has not held a state funeral since 1967 for former prime minister Shigeru Yoshida, one of the country's most important postwar leaders.

“After the elections were over, Kishida tried to portray himself as a decisive leader and it was a big decision he made to hold Abe's state funeral,” said Masatoshi Honda, a political analyst and academic. “But it has completely backfired.”

One western diplomat said Kishida had miscalculated the public response to both the LDP's links with the Moonies

‘[Kishida] has been extremely fortunate but it seems like luck is running out’

will provide a diplomatic opportunity to engage with leaders from countries and regions including India, Canada, Australia and the EU.

While US president Joe Biden will not attend Abe's funeral, Kamala Harris, the vice-president, will take part and is expected to hold meetings with representatives of Japan's largest chipmakers the next day to discuss economic security issues, according to two people with knowledge of the plan.

Analysts said the funeral would allow Kishida to meet at least briefly with a variety of global dignitaries, but that the prime minister had not made clear a specific foreign policy agenda.

Nor has Kishida followed through on plans announced last month to accelerate the restart of nuclear reactors shut down after the 2011 Fukushima crisis. He also faces increasing pressure to respond to public concern about the rising cost of living.

Honda, the academic, said part of the explanation for Kishida's falling public support could be the lack of passion

NORIO HAYASHI/SBORONANC KAZUHIRO NAGAI/APF Getty Images



prompted intense public scrutiny of close ties between the LDP and South Korea's Unification Church. Abe and his family had a longstanding association with the church, which is



and the funeral, even though his instincts about the popular mood had proved correct on other significant issues, such as the war in Ukraine. Kishida has argued that the funeral

with which he delivers speeches or news conferences. "He hasn't actually responded to the big question of what he actually wants to do as prime minister," Honda said.

sage in the south — Bautista said the Philippines was "key terrain" for US-China competition because control of the country could give either side a marked advantage over its adversary.

Zero-Covid rules

China's pandemic controls take their toll on Hong Kong's traditional cafés and restaurants

CHAN HO-HIM — HONG KONG

On a corner in Hong Kong's bustling Yau Ma Tei area stood the two-storey Mido Cafe, its blue and yellow window panes, mosaic tiles and ceiling fans creating a moody vibe typical of the city's old-school local diners.

The 72-year-old establishment, which served authentic Hong Kong dishes from baked pork chop rice to pineapple buns, was a magnet for tourists and film directors. But it closed its doors in July after suffering from Hong Kong's tough Covid-19 policies, including a three-month ban on evening dine-in services imposed this year.

The Mido Cafe is just one of a series of celebrated traditional eateries to have vanished from Hong Kong's world-famous culinary scene over the past year, losses that restaurateurs blame mainly on Covid controls.

The closures highlight the wider woes of the Chinese territory's pandemic-hit economy, which slipped into its second recession in three years in the second

quarter. Sectors including retail, food and beverage are expected to suffer in the third quarter, despite Hong Kong announcing on Friday that it would scrap quarantine rules for incoming travellers from today.

At least 12 historic Hong Kong eateries have shut since October last year, some of them once highly popular among tourists and even Hollywood celebrities.

Recent landmark casualties include the century-old Lin Heung Tea House, one of the city's oldest and most high-profile dim sum restaurants, and the 55-year-old Tai Wing Wah Village Cuisine, which served traditional local dishes such as lard rice to regular customers.

Restaurant owners say Hong Kong's stringent coronavirus restrictions, the result of alignment with mainland China's zero-Covid approach, have badly damaged domestic demand, while border controls slashed tourist numbers.

Lin Heung's owners pointed out that they were "regretful we could not

overcome the pandemic's impact". Simon Wong, president of the Hong Kong Federation of Restaurants and Related Trades, said businesses had been further hit by high rents, the soaring cost of ingredients caused by supply chain disruptions and labour shortage. Tung Po Kitchen, a lively venue in a municipal food market that served beer

in bowls, was visited by film stars such as Benedict Cumberbatch and Tilda Swinton and endorsed by the late celebrity chef Anthony Bourdain. It closed this month.

Tung Po, which had lost customers during the dine-in ban that was imposed during a surge of Covid cases early this year, shut after officials terminated its

licence over alleged violations of its leasing agreement.

"We have worked so hard to gain international prominence. There are just so many old memories here," said manager Robby Cheung as patrons packed into the restaurant for a last meal before its closure.

Vicky Lau, owner and chef of the two Michelin-starred Tate Dining Room, said it was "really sad" to see the closure of traditional eateries that represented the culture of Hong Kong.

"Once it is gone, it is very hard to rebuild it... [Their taste] and flavour is hard to replicate," Lau said.

Wong, of the trade federation, said some old restaurants relied on visitors for up to 80 per cent of their business. "A poor domestic economy also means residents are now spending less overall, further affecting the traditional restaurants," he said.

Total Hong Kong restaurant revenues fell to HK\$95bn (US\$12bn) last year from a peak of HK\$120bn in 2018, according to government data.

Still, the number of licensed restaurants in Hong Kong rose by almost 8 per cent between 2018 and 2021, official data showed, with more than 16,000 eateries recorded across the city.

While new coffee shops are popping up and the high-end dining sector has largely enjoyed continued domestic demand, with some restaurants fully booked months in advance, many mid-market and low-cost restaurants are being badly hit.

One senior executive at a Hong Kong-based restaurant chain described the ban on dine-in services as "disastrous". "The industry is having a really tough time," the executive said.

Sidney Cheung, an anthropology professor at the Chinese University of Hong Kong who has researched the territory's food and culture, said the closure of famous traditional restaurants was a loss for both locals and visitors.

"If Hong Kong is left with only the skyscrapers, luxury hotels and fine-dining restaurants, it will be way too homogeneous," Cheung pointed out.



Covid casualty: the Lin Heung Tea House in 2018 — Anthony Wallace/AF2/Getty Images

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Companies & Markets

Souki's US gas export venture falters despite huge demand

- Deals with Shell and Vitol scrapped
- Tellurian abandons \$1bn bond sale

JUSTIN JACOBS — HOUSTON

US energy tycoon Charif Souki's plans to build a \$2.5bn natural gas export plant are on the rocks after the project lost pivotal buyers and failed to raise funds despite rising global demand following Russia's invasion of Ukraine.

The setbacks are a big blow to Souki, a pioneer in the US liquefied natural gas business, and could signal trouble in the effort to expand the US's capacity to ship more energy to Europe. They came as European officials pressed the US to send more LNG to relieve countries on the brink of recession after supplies of Russian gas were squeezed by Moscow.

'If Driftwood can't make it now, under what circumstances could it?'

Clark Williams-Derry, analyst

Shares in Souki's company, Tellurian, tumbled about 40 per cent last week as investors lost faith in his ability to deliver the massive Driftwood LNG project on the Louisiana coast, designed to liquefy up to 27.6m tonnes of American gas a year.

Tellurian disclosed on Friday that oil supermajor Shell was pulling out of a gas sale agreement with the company and that it had to terminate a similar deal with Vitol. The long-term contracts, each for 3m tonnes a year, were crucial financial underpinnings for Driftwood.

YouTube that the inability to raise cash "set us back definitely" and added that he would turn to trying to sell equity in Driftwood LNG to a "strategic partner".

Analysts said Souki risked missing a golden opportunity as global demand for LNG soared.

"If Driftwood can't make it now, under what circumstances could it?" said Clark Williams-Derry, analyst at the Institute for Energy Economics and Financial Analysis. "If they're losing banks' interest and they're losing their customers' interest right now, that says something pretty fundamental."

Driftwood's troubles are all the more significant as it was Souki who pioneered seaborne exports of US gas, capitalising on rising production from shale drilling when he converted his former company, Cheniere Energy, from an importer to exporter of LNG.

Cheniere later ousted Souki just weeks before its first cargo in a boardroom coup orchestrated by activist investor Carl Icahn. It is now the largest US exporter of LNG by far, with more than half of total capacity.

Souki returned to the industry in 2016 with the launch of Tellurian, using his star power in the business to raise capital and sign initial deals with majors. But he has struggled to maintain momentum as others, such as Cheniere and Venture Global, have moved ahead with new projects in Texas and Louisiana.

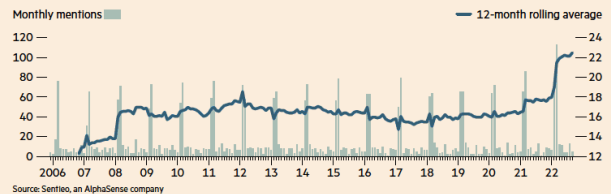
Analysts still expect a few projects in the next couple of years. But problems at Driftwood, coupled with the reality that

High tension US business concerns mount regarding risks posed by China on Taiwan



Billy H.C. Kwok/Bloomberg

Corporate America's concern with Taiwan
Number of mentions of 'Taiwan' in 10-K risk factor sections



FEDERICA COCCO — LONDON

Executives at publicly traded US companies are becoming increasingly worried about the spectre of a further escalation of tensions over Taiwan, a big supplier of crucial components such as semiconductors.

The number of annual regulatory filings citing Taiwan as a risk factor has risen significantly over the past 12 months, according to Financial Times calculations based on Senteio data.

In March, a popular time for releasing so-called "10-K" reports, 116 companies mentioned Taiwan as a risk

This is because Taiwan, which is the biggest producer of the most advanced chips, is rapidly becoming one of the world's most dangerous geopolitical flashpoints.

The fear is that in the event of a conflict with China, US firms will be unable to get the microchips needed to make smartphones, electric cars, new weapons, computers, industrial machines and even medical devices. Healthcare is the second-most concerned sector.

"A 'de facto' blockade by mainland China's regular military exercises would create bottlenecks in fact

In a sign of the potentially wide-ranging effects, a clutch of chief executives at big US banks told Congress last week they would comply with any US government demand to pull out of China if Beijing were to attack Taiwan.

The remarks came days after president Joe Biden said the US would defend Taiwan from a Chinese attack. The median US company only had five days' worth of chip inventories in 2021, down from 40 in 2019, according to a study by the Department of Commerce. In August, Biden signed the Chips Act, which will provide \$38bn in funding to speed up and

EY shake-up will boost audit quality, says UK chief

MICHAEL O'DWYER
ACCOUNTANCY CORRESPONDENT

The boss of EY's UK business has rejected claims that the firm's audits would be weakened by a separation from its consulting arm and signalled that the group will break up regardless of a forthcoming partner vote.

Spinning off the consulting and deal advisory arm would free up staff and capital to focus on audits, said Hywel Ball, EY's UK chair and managing partner. "Audit quality is going to be better," he told the Financial Times.

EY's top leaders have approved the flotation of the firm's advisory arm, responsible for \$25bn in revenues last year, in an attempt to boost growth by freeing the consultants of conflicts that prevent them working with the firm's audit clients.

The plan would trigger the most radical reshaping of the accounting industry in two decades and deliver windfalls for partners. But it has sparked warnings that audit quality could be negatively affected if the standalone audit business cannot attract and retain skilled staff.

EY also plans to retain some non-auditors in the audit business and deploy their expertise in areas such as tax and asset valuation. "The design of the whole business separation was based on 'audit gets what audit needs,'" said Ball.

Being in an audit-dominated business would allow these specialists to focus more on audit work, said Ball. "At the moment, they get pulled in all sorts of ways by the other businesses," he said.

The non-auditors would also be encouraged to build new advisory practices within the audit-dominated business. EY's plans assume that most of the firm's growth would come from expanding its advisory practice.

Ball said the money raised from spinning off the advisory division would enable more investment in the audit business by reducing competition for capital internally from fast-growing advisory service lines.

EY expects the advisory unit to raise about \$11.5bn by selling a 15 per cent stake to an initial public offering and

MINING UNDERPERFORMERS FOR LITWOOD. The deals were scrapped days after Tellurium had to abandon a \$1bn bond sale in which it offered investors a yield of more than 12 per cent, signalling it was not going to be able to raise financing for the project any time soon. Souki said in a video posted to

LITWOOD suggested the reality was difficult, given doubts about fossil fuel demand, Williams-Derry said. "What I see is an end to the euphoria and a grounding of the hype about US LNG and a re-evaluation of which of these projects is really going to be financially viable for the next 20 years."

panies mentioned a way as a risk to their business, and the rolling 12-month average this month reached its highest level in at least 16 years. Technology companies represent the sector that is most concerned, with those in the semiconductor industry raising the loudest alarm.

would create bottlenecks in fast-growing sectors dependent on semiconductors, such as high performance computing, internet of things, data centres and electric vehicles," Alicia Garcia-Herrero, chief Asia-Pacific economist at French bank Natixis, said.

\$250M in running to prop up and kick-start domestic semiconductor manufacturing and research. "The US will put more pressure on key suppliers to ban exports to China and develop production in its own market with industrial policy tools," Garcia-Herrero said.

stake in an initial public offering and to borrow another \$18.7bn, much of which would be used to pay off existing debt and pension obligations and to fund payouts of up to four times annual salary for audit partners. EV partners will vote on whether to proceed with the break-up by early next year.

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Industrials. South Korea

Battery recyclers energise Seoul drive to list

Aggressive sourcing of waste and a push to avoid China has given three groups an uplift

SONG JUNG-A AND CHRISTIAN DAVIES — SEUL
HARRY DENNEY — LONDON

A group of leading South Korean battery recycling companies have made strong stock market debuts as they target overseas expansion during a global scramble for electric vehicle metals.

Shares of SungEel HiTech and rival Sebit Chem have more than tripled since their listings in late July and early August respectively.

WCP, the country's second-largest battery separator maker, is to go public at the end of this month with a Won433bn (\$306m) listing.

Home to three of the world's 10 biggest battery makers—LG Energy Solution, Samsung SDI and SK On—South Korean recycling companies have easy access to the scrap from battery cell manufacturing and customers to buy the recycled material.

The companies are capitalising on a push from battery players around the world to reduce their reliance on China and other challenging countries, such as Democratic Republic of Congo and Indonesia, for key materials.

"Battery recycling is becoming more important in terms of energy security as battery makers are keen to reduce their dependence on China in securing key materials," said Yoon Chang-bae, an analyst at KB Securities.

Recycling companies have been a rare bright spot for investors in South Korea's sagging stock market, as

automakers speed their transition to greener cars.

"Investors are betting on the growth potential of these 'city mines' as metal prices are surging again amid strong EV sales in China," said Yoon Hyuk-jin, an analyst at SK Securities.

The offerings of SungEel and Sebit were oversubscribed, with their subscription rates beating that of LG Energy Solution, the world's second-largest EV battery maker, which raised Won12.8trn (\$9.8bn) in the country's largest initial public offering in January.

Founded in 2000, SungEel grew its recycling expertise on a deluge of used portable electronics to become one of the world's most advanced collectors and processors of old and defective lithium-ion batteries, which it now sources from the country's leading automakers and battery makers.

The company plans to triple capacity by 2024 using its IPO funds. It already has nine recycling plants—three in South Korea and the rest in China, India, Malaysia and eastern Europe.

"Demand for battery recycling is growing fast as ESG [environmental, social and governance] becomes more important," said a SungEel executive. "We need to build a new plant this year to meet surging demand."

Battery recycling can ease potential supply shortages and cut prices of key metals such as nickel, cobalt, copper and lithium as they can be reintroduced into the supply chain, reducing dependence on raw materials from mines. Scrap for recycling can come from cell production and end-of-life batteries.

SNE Research forecasts the global EV battery recycling market, which was estimated at just Won400bn (\$300m)

in 2020, to grow to Won21trn in 2030. That expected growth is underpinned by the EU and US introducing powerful legislative tools to bolster recycling to secure supplies of strategic minerals, as domestic mining projects stumble over permits.

Korean battery makers are positioning themselves to benefit from incentives contained in US president Joe Biden's flagship economic package, known as the Inflation Reduction Act, for local carmakers to decouple from Chinese supply chains.

Under the act, automakers receive tax credits on EVs if a certain threshold of materials are sourced from the US, free trade partners or recycling.

EVs with minerals and components from foreign entities of concern will be ineligible for those credits from 2025.

In July, SK On launched a \$7.5bn joint venture with Ford to build three battery plants in the US.

In May, Hyundai announced a \$5.5bn investment to build its first dedicated

EV plant and battery manufacturing facility in the US state of Georgia, while LG Energy Solution and GM announced a \$2.6bn investment this year to build a third plant as part of their joint venture in Michigan.

Analysts expect Korean battery recycling companies to expand their overseas presence gradually to be closer to the battery makers building plants in the west. "Interest in recycling companies has surged as investors are concerned about battery metal sourcing since the IRA passage," Yoon of SK said.

Korean recycling companies are competing with nascent western rivals such as Glencore-backed Li-Cycle, Redwood Materials, which was set up by former Tesla chief technical officer JB Straubel, and Australia's Neometals as they expand their overseas director.

Hans Eric Melin, managing director of Circular Energy Storage, a consultancy, said the Koreans' success lied in their close relationships with the battery cell makers and their aggressive sourcing for waste to recycle.

SungEel and Sebit are undervalued compared with western battery recycling upstarts, said Melin. Glencore-backed Li-Cycle has a market capitalisation above \$1bn but made a \$23m earnings before interest, tax, depreciation and amortisation loss in the third quarter as it scales up, compared with SungEel's market cap of \$1.2bn on 2021 operating profits of Won16.5bn.

"We have totally missed that a lot of material for a long time has mainly been processed in other countries, mainly Korea and China," Melin said. "All of the Americans and Europeans are far behind as SungEel has processed batteries for recycling for over 10 years."



SungEel HiTech's factory: shares have more than tripled since listing

COMPANIES & MARKETS

The financial guru who says 'no' at SoftBank

Goto tells of challenges in staying true to founder Son's vision at debt-laden conglomerate that has plunged into a \$23bn loss

KANA INAGAKI — TOKYO

Minutes into conducting a job interview for SoftBank's finance head in the summer of 2000, founder Masayoshi Son made a characteristically quick decision: "I like the look of his eyes. Let's hire him."

He had chosen to hire Yoshimitsu Goto, his fiercely loyal finance guru who is now at the centre of SoftBank's grueling battle against the global tech rout that has plunged the conglomerate into a \$23bn loss.

Over the past 18 months, Son has lost three of his key aides and potential SoftBank heirs, including chief operating officer Marcelo Claure and strategy chief Katsunori Sago. Rajeev Misra, head of SoftBank's \$100bn Vision Fund and the architect of the group's complex financing engineering, has also stepped back to set up his own fund.

Though not a candidate to take over Son's investment empire, Goto is an exception to that revolving door of executives. He has become indispensable as the link between the highly leveraged group and the world's biggest banks. SoftBank's planned US listing of UK chipmaker Arm is just one of his challenges, with Son announcing this week that he is exploring tie up talks with Samsung regarding the company.

The future of the Vision Fund has come under scrutiny following its dismal performance and a historic sell-down of its Alibaba stake. But Goto insisted in an interview with the Financial Times that Son was likely to stay the course even as the fund goes on "a defensive mode" to cut costs.

"I won't be surprised [if Son changed his mind] but I don't think that's likely. Investment firm is this company's ultimate style," he said. But he added: "The basis of Mr Son's thinking is that change is the best growth strategy to avert risks."

The straight-talking 59-year-old Goto is far from an ordinary finance head. His public duty is to persuade investors to scrap what he describes as the misleading image of the deal driven, debt-saddled group as "fascinating but reckless".

People close to SoftBank said that a



Indispensable: Yoshimitsu Goto, chief financial officer, is at the centre of SoftBank's grueling battle against the global tech rout that plunged the conglomerate into a \$23bn loss

and that's when I say we should not do this. Mr Son is rational so he gets it right away."

The one line he does not cross is doing anything that will damage what he calls an "absolute relationship of trust" SoftBank has built with its biggest banking lender Mizuho.

"It takes a long time to build a relationship of trust but when it crumbles, it happens with the blink of an eye. I have never broken my promise with the banks in the past 20 years," he said.

Japan's third-largest bank is SoftBank's biggest lender and the most heavily exposed to its fortunes, having

'When an executive in charge of financing and cash flow says no, that's the end of the story'

Son's finance chief and right-hand man until he died in late 2013.

Eventually he would double as CFO and head of Son's baseball team, while overseeing SoftBank's evolution into Japan's third-largest mobile phone carrier and world's largest tech investor.

Kiyoshi Miyake, the former deputy president of Mizuho bank who is now president of real estate developer Chuo-Nitcho Group, said Goto brought a sense of stability to a dynamic but chaotic group. "The ideas flow like water for Mr Son, and it was Mr Goto who said

which of those can be done and which cannot be done," he said, having known Goto since 2008 both as a client and a drinking companion.

Investors still find it difficult to get a full picture of SoftBank's liabilities in part due to Son's debt-fuelled dealmaking, but also because of the complex financial instruments employed by Misra.

Goto has attempted, not entirely successfully, to simplify SoftBank's layers of debt, pledging to keep the company's loan-to-value ratio below the 25 per cent

Timeline

Executive exodus

- Dec 2020** Gary Ginsberg, global head of communications
- Mar 2021** Katsunori Sago, chief strategy officer
- Jan 2022** Marcelo Claure, chief operating officer
- April 2022** Akshay Nahata, ran hedge fund SB Northstar
- Aug 2022** Rajeev Misra, still head of the first Vision Fund, but has stepped down from other roles at SoftBank

threshold. The metric showing its net debt compared with the value of its holdings stood at 14.5 per cent at the end of June, down from 21.6 per cent at the end of last year. SoftBank has ¥3.1trn (\$22bn) in net debt, but the overall group has interest-bearing debt of ¥17.9trn.

Many investors like Goto for his energetic style, but one longtime shareholder questioned how long the group could continue turning to radical asset sales such as the Alibaba sell-down to bolster its balance sheet every time it faces a downturn. "It's impressive how Mr Goto handles each of Mr Son's impossible tasks but I fear that the company is reaching a limit," the Hong Kong-based investor said.

But whatever the company's future, very few expect Goto to join the string of recent departures. "I think Mr. Son places an absolute faith in Mr Goto that he will not walk away under any circumstance," Fujiwara said.

Goto says he will remain as long as Son needs him: "I always tell him to replace me without any hesitation if he thinks there is a better person for my role."

Additional reporting by Antoni Slodkowski in Tokyo

crucial part of Goto's job was to convert Son's ideas into comprehensible pitches to its lenders. When even his finance team cannot find a way to deliver on the founder's vision, Goto is one of the few who can say no to Son.

"When an executive in charge of the company's financing and cash flow says no, that's the end of the story so I know the weight of my words when I say no," Goto said in an interview at the company's head office in Tokyo.

But his rule of thumb is to exhaust all the options by being creative. "I tell my team not to search for reasons why they can't do it, but to think of ways that can be done if they were to try it. When it's really impossible, there is no answer

financed Son's biggest deals involving US wireless carrier Sprint and British chip designer Arm.

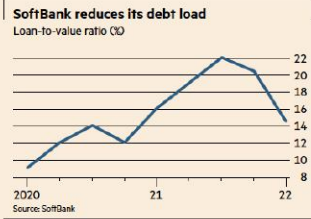
"The current relationship between Mizuho and SoftBank Group would have been unthinkable without Mr Goto. That's how important he is," said Koji Fujiwara, senior adviser at Mizuho Financial Group and former chief executive of Mizuho Bank.

The relationship has been tested after the implosion of high-profile bets made by the Vision Fund, including WeWork and the collapsed Greensill Capital, raised serious governance concerns.

When SoftBank bailed out WeWork in 2019 to avert a cash crunch, Mizuho issued a warning to Son and Goto that there would be no additional bailouts.

As the performance of Oyo, a SoftBank-backed Indian hotel chain, slipped in 2020, Goto arranged dinners between Mizuho executives and Ritesh Agarwal, Oyo's founder, to address their worries. "We have expressed concerns many, many times but each time, Mr Goto gave us a prompt and precise response," Fujiwara added.

As a former banker at Mizuho Trust & Banking, Goto has a clear understanding of what the company's lenders want. He joined SoftBank in 2000, at the urging of his mentor Kazuhiko Kasai, another former banker who served as



Financial services

Carney's green alliance hit as two funds quit

CAMILLA HOOGLSON

Pension funds Cbus Super and Bundespensionskasse have become the first institutions to leave a financial alliance on tackling climate change spearheaded by former Bank of England governor Mark Carney.

Australia's Cbus left the Net Zero Asset Owner Alliance in recent months citing resourcing problems, while Austria's Bundespensionskasse left the Paris Aligned Asset Owners group this year, also due to a lack of internal resources, the PAAO said. The coalitions form part of the Glasgow Financial Alliance for Net Zero (Gfanz) that was launched with great fanfare last year.

Members of the seven subgroups under the Gfanz umbrella must comply with complex data-tracking and reporting requirements that they say consume significant amounts of time and personnel, something that banks in the alliance have also complained about.

Financial institutions are also facing a growing list of environmental disclosure requirements from regulators worldwide. A\$70bn (US\$46bn) fund Cbus, which joined the NZAOA in 2020,

said it left the alliance in order to "focus our resources on our internal climate change activities," adding that it had not altered its net zero emissions by 2050 target.

Bundespensionskasse, a €1.3bn fund, declined to comment on why it left the alliance but said its "long-term goal is a climate-neutral investment approach".

Mark Carney, members under his Gfanz umbrella must comply with complex requirements



The group has pledged to reach net zero emissions across all its assets under management by 2040. Gfanz declined to comment.

One of the Gfanz subgroups, the Net Zero Investment Consultants Initiative that was launched with 12 members a year ago, did not disclose whether any companies had left.

Gfanz was designed to bring together as many financial institutions as possible and encourage action on climate. But some US banks have threatened to

leave the alliance, citing concerns that the commitments leave them open to legal challenges, the Financial Times reported last week.

The objections have focused largely on whether a co-ordinated restriction of support for the fossil fuel sector could fall foul of competition law.

The UN Race to Zero Initiative, which sets the standards for Gfanz membership, subsequently issued revised guidance on Friday, dropping a stipulation that "no new coal projects" should be supported.

Critics, meanwhile, say that voluntary, private sector-led initiatives will not deliver the pace of change needed to avoid catastrophic warming.

Nigel Topping, co-leader of Gfanz, was among those to call for more robust climate-related regulation last week. "We cannot rely on voluntary action alone," he said.

Governments, regulators and the private sector must work together to "correct market failures and provide enabling regulatory environments to dramatically accelerate transformation to a 1.5C-aligned economy". Additional reporting by Simon Mundy

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COMPANIES & MARKETS

Financials

China's Maiké Metals hits liquidity crisis

Chair says trading house will sell assets and equities in effort to cut debt

CHENG LING — HONG KONG

Maiké Metals International is selling assets and studying a broader restructuring as it battles to survive a liquidity crisis, according to chair He Jinbi in an interview with the Financial Times.

The final plan could involve "shareholding restructuring, asset restructuring and debt restructuring", said He, illustrating the extent of the difficulties at one of China's biggest commodity

trading houses. Maiké, which handles a quarter of the country's refined copper imports, is an important intermediary between Chinese metal consumers and global merchants such as Glencore and Trafigura.

The possibility of extensive restructuring at Maiké shows how China's economic slowdown, fuelled by Beijing's crackdown on the property sector and its rigid anti-Covid policies, is translating into a liquidity crisis at highly leveraged companies in the private sector.

Maiké was discussing an investment with state-owned groups in the northeastern city of Xian, said He, but the government had told him to scale down

the business first. "We're actively selling assets and equities to replenish our liquidity and reduce debt," said He. The company was "breaking arms to survive", an expression meaning sacrificing parts of the business in order to save it.

Maiké was founded 29 years ago and grew to become one of the largest trading houses in China. The company is noted for its heavy reliance on short-term finance, raising money against its stocks of copper metal.

Maiké and He have also invested heavily in Xian's property sector and in the construction of its own bonded warehouse for metals trading. But a resurgence of Covid cases this year,

combined with Beijing's restrictive policies, have hit property demand and commodity prices hard.

The combination of Maiké's short-term debts and illiquid property assets has plunged it into crisis. In recent weeks, the company has said it is meeting with various bankers and local government officials.

"I believe China's economy is still resilient, and there is plenty of room to let the market play all the roles it should play. But in the current economic environment, we need more participation from the government and state-owned enterprises to help us," He said. Maiké's chair said he had been asking

banks to extend their loans to give the company some breathing space.

Market participants say Maiké will struggle to maintain its dominant role in the Chinese copper market even if it can secure support. But He was philosophical. "The market will naturally right itself via the invisible hand," he said. "The back wave of the river will push the front wave, and one wave is stronger than the other. I'm just a passer-by in China's non-ferrous financial market."

Asked whether he will stay on as chair, He said: "I can't tell what will happen after the restructuring. But hope I shall still be a professional manager and of course an investor [in Maiké]."

Equities

Investors pile into insurance against falls in stock prices

ERIC PLATT AND NICHOLAS HEGAW NEW YORK

Investors are buying record amounts of insurance contracts to protect themselves from a sell-off that has already wiped trillions of dollars off the value of US stocks.

Purchases of put option contracts on stocks and exchange traded funds have surged, with big money managers spending \$3.3bn on the options in the four weeks to September 25, according to Options Clearing Corp data analysed by Sundial Capital Research. The total was the largest on record in data going back to 2009, and four times the average since the start of 2020.

Institutional investors have spent \$9.6bn in the past week alone. The surge underscores the extent to which big funds want to insulate themselves from a sell-off that has dragged on for nine months and has been supercharged by central bankers across the globe aggressively raising interest rates to tame high inflation.

"Investors have realised the [US] Federal Reserve is very policy constrained with inflation where it is and they can no longer count on it to manage the risk of asset price volatility, so they need to take more direct action themselves," said Dave Jilek, chief investment strategist at Gateway Investment Advisers.

Jason Goeplert, who leads research at Sundial, noted that when adjusting for growth in the US stock market over the

"Investors have realised

Market questions. Week ahead

Eurozone inflation expected to reach fresh high

MARTIN ARNOLD, VALENTINA ROHEI AND ALEXANDRA WHITE

Has inflation in the eurozone shot even higher?

Can inflation maintain its record-setting pace in the euro area even though the economy seems to be contracting already and economists are widely predicting a recession this winter?

The latest test will come on Friday, when the European Commission's statistics arm will release eurozone inflation data in September.

Economists polled by Reuters expect consumer price growth to have hit 9.6 per cent on an annual base in September, up from the all-time high of 9.1 per cent set in August.



Prices of oil, steel, wood and many other commodities have fallen for several months. But this is being offset by persistently high energy costs, which are hitting both manufacturing and services companies and prompting them to raise prices.

Another factor likely to lift inflation is the expiry of Germany's temporary measures that cushioned the impact of high prices, such as a fuel duty cut and subsidised monthly train tickets.

Deutsche Bank economists forecast last week that eurozone inflation would peak at the end of the year around 9.5 per cent. Price pressures also keep rising as European wholesale natural gas prices remain about two-and-a-half times higher than a year ago, even after a recent dip.

The European Central Bank, which has already raised interest rates 1.25 percentage points over the summer, will be watching the latest data carefully as it considers how high to lift borrowing costs to bring inflation back to its 2 per cent target.

Isabel Schnabel, an ECB executive board member, underlined its concern last week, saying "what we are seeing is that the inflationary pressures have become much more broad-based. They have somehow crept into all parts of the economy." Martin Arnold

How have higher interest rates affected the UK mortgage market?

Rising interest rates are expected to continue to take the wind out of the UK housing market's sails, as they make mortgages more expensive.

Those increasing costs come just as the average house price has reached an all-time record high, following the pandemic-induced housing boom, and against a backdrop of falling real (inflation-adjusted) income.



On the up: shoppers in Detroit, Michigan. US consumer spending is forecast to have increased in August

Martine Feltner/Blomberg

The Bank of England releases its latest credit and mortgage data for August on Thursday. Economists polled by Reuters forecast that UK mortgage approvals dropped to 62,000 last month from 65,770 in the month before and down from their peak of more than 100,000 in November 2020.

Last week the BOE announced another 0.5 percentage point increase in its key policy rate to 2.25 per cent, the highest since 2008, marking its seventh consecutive rate rise. Mortgage rates have risen as a result.

"We expect that the sharp move higher in mortgage rates fuelled by the Bank of England tightening monetary policy will continue to weigh on mortgage approvals," said Ellie Henderson, economist at Investec.

In contrast, house price growth has remained solid, supported by a limited stock of properties.

The downward trend in mortgage approvals will probably be affected by the stamp duty cut announced by the government on Friday, with no stamp

to be paid on the first £250,000 of a property's value, up from £150,000. The threshold is increased to £425,000 for first-time buyers. Rightmove housing expert Tim Bannister said that activity had been softening but Friday's announcement could "lead to a big jump in prospective buyers competing for the constrained number of properties for sale", resulting in higher house price growth. Valentina Rosnet

Did US consumer spending rise in August?

US consumer spending is expected to have increased in August, with the commerce department's personal consumption expenditures index forecast to post a monthly increase of 0.2 per cent, according to a Reuters poll. That follows a 0.1 per cent bump, which missed economist expectations of 0.4 per cent, July's cool spending reading was driven by a reduction in consumption and a modest increase in spending on services.

The shift towards spending on services could reverse a trend throughout

Inflationary pressures 'have become much more broad-based. They have somehow crept into all parts of the economy'

much of the pandemic that fuelled price inflation for goods. That would be a welcome development for the US Federal Reserve as it attempts to tame inflation that has been hovering around its highest level in four decades.

LPL Financial chief economist Jeffrey Roach said the Fed, through its primary monetary policy tool of interest rates, was targeting aggregate demand. "The Fed has zero power over any supply components of inflation," he said.

Recent data showed US retail sales in August unexpectedly increased 0.5 per cent, surpassing economist expectations for a flat reading. The figures are not adjusted for inflation, but it suggests consumers are still spending.

However, the retail control group, which excludes purchases of petrol, motor vehicles, building materials and food services, was flat. This group feeds into the official gross domestic product calculation. The soft figure resulted in Atlanta Fed cutting its GDPNow tracking estimate for third-quarter GDP growth to 0.5 per cent from 1.5 per cent.

they can no longer count on [the Fed] to manage the risk of asset price volatility'

past two decades, the volume of equity put option purchases was roughly equivalent to the levels reached during the financial crisis. By contrast demand for call options, which can pay out if stocks rally, has tumbled.

While the sell-off has wiped more than 22 per cent off the benchmark S&P 500 stock index this year - pushing it into a bear market - the slide has been relatively controlled, lasting months, not weeks. That has frustrated many investors who hedged themselves with put options contracts or bet on a surge in the Cboe's VIX volatility index, but found the protection did not act as the intended shock absorber.

This month, the S&P 500 suffered its biggest sell-off in more than two years but the VIX failed to breach 50, a phenomenon never before registered, according to Greg Buttle, a strategist with BNP Paribas. Generally large drawdowns pushed the VIX well above that level, he added.

Over the past month money managers have instead turned to buying put contracts on individual stocks, betting that they can better safeguard portfolios if they hedge against large moves in companies such as FedEx or Ford, which have slid dramatically after issuing profit warnings.

Investors and strategists have argued that the slow slide in the main indices has been driven in part by the fact that investors had largely hedged themselves after declines earlier this year. Long-short equity hedge funds have also largely pared back their bets after a dismal start in the year, meaning many have not had to liquidate large positions.

Industrials. Corporate results

Wall Street blames errors at FedEx as parcels service fails to deliver

Markets had feared earnings miss at bellwether business

STEVE CHAVEZ - CHICAGO ANDREW EDGECLIFFE-JOHNSON NEW YORK

Rajesh Subramaniam's credibility has been on the line as the FedEx chief executive tries to project confidence that he can correct the US parcels group's course after failing to deliver on the forward forecasts he made just three months ago.

The company has long been seen as an economic bellwether, so when it previewed a substantial earnings miss last week, it not only sparked the largest daily drop in its shares but also sent a shudder through the wider market.

Now, though, Wall Street is asking whether FedEx's own errors were more to blame than slowing demand.

Subramaniam took a beating from

Wall Street analysts on an earnings call on Thursday when they grilled him on FedEx's new cost savings plan, asked why its peers had not reported a similar downturn and questioned whether it had the right leadership.

On September 15, the Memphis-based parcels service announced that its revenue for the three months to August would fall roughly \$800mn short, driven by an unexpectedly large drop in global demand. The resulting guidance affected earnings per share of \$3.44 was far below Wall Street estimates of \$5.34. Net income dropped more than 20 per cent to \$875mn.

"How did it catch you so off guard?" one analyst asked on the call, sceptical of FedEx's claim that such a sharp fall-off was largely due to a changing global economy.

After riding a wave of pandemic demand for package shipping as people ordered more online, FedEx is now contending with a supply chain that is shifting back towards more normal volumes. Demand had been hit hardest in Asia

and Europe, Subramaniam said, predicting a global recession. But analysts asked whether mismanagement had played a part. "Do you feel like you've got the right senior team in place to lead FedEx into the future?" a second analyst asked pointedly. Subramaniam ignored another analyst's question on whether FedEx had made any "management mistakes".

Subramaniam took over FedEx only six months ago, when founder Frederick Smith stepped down. Three weeks ago Smith's son, Richard, became head of FedEx Express, a controversial move as the division has been hit hardest by the drop in demand. "We're not screaming negotiation, but one could come to that conclusion," Barclays analyst Brandon Ogleski said in an interview.

FedEx's operating income dropped by 70 per cent in the quarter to August as shipping volumes fell 11 per cent. FedEx this week announced plans to slash \$2.2bn-\$2.7bn from costs this fiscal year, primarily by cutting flights, parking aircraft, suspending

some Sunday service and closing some locations. It withdrew its full-year guidance, citing "uncertainty".

Subramaniam said that "what really got us" was "tremendous" unanticipated cost inflation. In response, FedEx announced it would raise its delivery prices by 6.9 per cent from January, along with surcharges for delivering to



Drop-off FedEx cited a large decline in global demand for its revenue fall

remote areas and "peak residential pricing" in the US. A fourth analyst asked how the company could push through its largest-ever price rise after volumes took a double-digit hit. "Isn't that going to exacerbate the volume decline?" he asked.

As the world's largest cargo airline, FedEx is more exposed to global macroeconomic changes than its competitors, making it a pointer to where economic growth is headed. Other logistic industry barometers do point to slowing demand. According to Freightos, a logistics booking service, the cost of shipping from Asia to the west coast has fallen by 80 per cent from a year ago, when US retailers were scrambling to secure goods for the holiday season.

The lower ocean freight prices have also cut demand for air freight, an expensive alternative for companies hurrying to secure supplies. Air rates this September were half what they were this time last year, Freightos said.

Some supply chain executives question whether FedEx's troubles should be

seen as a sign of worse to come, however. Its warning had "caused quite a stir", Mario Cordero, executive director of California's Port of Long Beach, told the Financial Times. But he doubted that it heralded "the worst scenarios" some analysts saw for the domestic economy. "The supply chain was simply 'normalising' after the pandemic drove an extended surge in demand, he said.

Analysts acknowledged in interviews that economic changes certainly played a role, but thought that FedEx had created some problems for itself, including "decisions to clog up the network with a bunch of lower yielding commerce", according to Bernstein's David Vernon.

US stocks also signalled a more difficult environment, but in more tranquil language and with confidence that its network could weather the storm.

Ogleski echoed long-held concerns expressed on the call about how FedEx measured up to its closest rival. The company had also half the operating profitability of UPS, he said, "because FedEx is much less efficient".

Monday 26 September 2022

FINANCIAL TIMES

MARKET DATA

WORLD MARKETS AT A GLANCE



Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison

Table with multiple columns for different regions (AMERICA, EUROPE, ASIA, OCEANIA, etc.) and indices, showing current values, changes, and historical performance.

UK MARKET WINNERS AND LOSERS

Table with columns for Country, Price, Change, and various market indicators. Includes sections for FT 500: TOP 20 and FT 500: BOTTOM 20.

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SUMMARY

Summary table with columns for Fund Name, 1st Return, 3rd Return, 5th Return, 10th Return, and 20th Return. Includes sections for Winners - Europe ex-UK Equity, Losers - Europe ex-UK Equity, Morningstar Star Ratings, and Global Broad Category Group - Property.

Table with columns for Sector, Weighting, and various market indicators. Includes sections for Advertising Fee, Performance, Weighings - As of 20/02/2022, and Top 10 Holdings - As of 20/02/2022.

Year	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Value	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000



	1Yr	3Yr	5Yr	10Yr	15Yr	20Yr
Alpha	-16.6%	-8.5%	-4.7%	-1.8%	-1.4%	-1.7%
Information Ratio	1.26	1.09	1.03	0.99	1.04	1.04
R Squared	82.71%	85.93%	85.61%	85.97%	85.59%	88.01%
Shrinkage Ratio	-1.71	-1.52	-1.51	-1.52	-1.47	-1.47
Tracking Error	22.17	22.17	22.17	22.17	22.17	22.17

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Fund	Bid	Offer	+/- Yield	1Y	3Yr	Fund	Bid	Offer	+/- Yield	1Y	3Yr	Fund	Bid	Offer	+/- Yield	1Y	3Yr	Fund	Bid	Offer	+/- Yield	1Y	3Yr	
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Consistent Unit Tr Mgt Co Ltd (1200F)	Bid	Offer	+/- Yield	1Y	3Yr
Consistent Unit Tr Mgt Co Ltd (1200F)					

Dragon Capital	Bid	Offer	+/- Yield	1Y	3Yr
Dragon Capital					

EdenTree Investment Management Ltd	Bid	Offer	+/- Yield	1Y	3Yr
EdenTree Investment Management Ltd					

James Henderson Investors	Bid	Offer	+/- Yield	1Y	3Yr
James Henderson Investors					

Algebris Investments	Bid	Offer	+/- Yield	1Y	3Yr
Algebris Investments					

Blue Whale Growth Fund ICAV	Bid	Offer	+/- Yield	1Y	3Yr
Blue Whale Growth Fund ICAV					

CP Global Asset Management Plc Ltd	Bid	Offer	+/- Yield	1Y	3Yr
CP Global Asset Management Plc Ltd					

EdenTree Investment Management Ltd	Bid	Offer	+/- Yield	1Y	3Yr
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EdenTree Investment Management Ltd					

James Henderson Investors	Bid	Offer	+/- Yield	1Y	3Yr
James Henderson Investors					

The Antares European Fund Limited	Bid	Offer	+/- Yield	1Y	3Yr
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Brown Advisory Funds plc	Bid	Offer	+/- Yield	1Y	3Yr
Brown Advisory Funds plc					

CP Global Asset Management Plc Ltd	Bid	Offer	+/- Yield	1Y	3Yr
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James Henderson Investors	Bid	Offer	+/- Yield	1Y	3Yr
James Henderson Investors					

Artemis Investment Managers Ltd (1200F)	Bid	Offer	+/- Yield	1Y	3Yr
Artemis Investment Managers Ltd (1200F)					

Brown Advisory Funds plc	Bid	Offer	+/- Yield	1Y	3Yr
Brown Advisory Funds plc					

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EdenTree Investment Management Ltd	Bid	Offer	+/- Yield	1Y	3Yr
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EdenTree Investment Management Ltd					

James Henderson Investors	Bid	Offer	+/- Yield	1Y	3Yr
James Henderson Investors					

Ashmore Investment Managers Ltd (1200F)	Bid	Offer	+/- Yield	1Y	3Yr
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Brown Advisory Funds plc	Bid	Offer	+/- Yield	1Y	3Yr
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James Henderson Investors	Bid	Offer	+/- Yield	1Y	3Yr
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Authorized Investment Funds
Balanced 273.20 19.30 -0.30 1.18 -0.87 1.83
Bond Income 38.23 28.83 -1.10 1.36 -1.20 -0.51

Orbis Investment Funds (UK) (ICVC) (UK)
Authorized Investment Funds
Orbis Global 284.14 28.14 -0.30 1.00 -0.59 3.98
Orbis Global Inc 139.60 38.00 -0.30 2.63 -0.50 3.17

Marwyn Asset Management Limited (UK)
Authorized Investment Funds
Marwyn Value Investors 1,229.12 -6.14 0.00 -7.17

McHenry & Wood Portfolio Limited (UK)
Authorized Investment Funds
Global Growth 11.30 1.30 3.25 5.70

Mitlton International Managed Investments (CAV) (IL)
Authorized Investment Funds
MIF Global 2,127.32 -2.00 0.00 1.41

Mitlton International Managed Investments SPC (UK)
Authorized Investment Funds
MIF Global 2,127.32 -2.00 0.00 1.41

Ministry of Justice Common Investment Funds (UK)
Authorized Investment Funds
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Ministry of Justice Common Investment Funds (UK)
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Guide to Data
The fund prices quoted on these pages are supplied by the operator of the relevant fund. Details of funds published on these pages, including prices, are for the purpose of information only and should only be used as a guide.

Platinum Capital Management
Ruffer LLP (UK)
Stonehage Fleming Global Best Ideas Equity Fund
Zafiq Gestion (Meehan Fund) (UK)
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L I N D B E R G 



Management Stop obsessing over leadership at the expense of governance WORK AND CAREERS

Men who get their legs broken to gain height are not entirely mad



Pilita Clark Business Life

If you work at a place like the Financial Times, you tend to hear a lot about bond yields and Fed rates and what the dollar is doing. Last week, however, a non-trivial number of FT staff were talking about something else: a GQ magazine article about leg-lengthening surgery to make yourself taller. This grisly cosmetic procedure costs tens of thousands of pounds and involves getting one's legs broken, having metal rods screwed into the thigh bones and learning to walk again with months of rehabilitation. Potential complications include nerve injuries, blood clots, excruciating pain and the chance that the bones don't fuse back together as planned. Survivors, with luck, end up a whole three inches taller, or up to six inches if they get their shins extended as well as their thighs. Astonishingly, the procedure is said to be flourishing. Hundreds of people around the world have it done each year. I say "people", but the evidence suggests they are mostly men. Many are from the tech industry, according to the GQ story, which was written by a FT journalist in the US



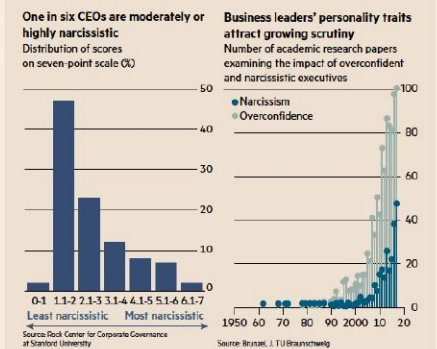
who watched a surgeon perform the operation at a clinic in, where else, Las Vegas. Readers learn the surgeon uses a device like a cordless drill called a "reamer" to hollow out the patient's bone and when the gadget is pulled out, "a warm, bloody slurry of liquefied bone and marrow and fat begins to ooze out of the hole with horrifying speed and volume". The idea that anyone would willingly undergo such an ordeal, let alone pay the £56,000 to £210,000 that the BBC says the surgery can cost, is baffling — except if you look at the data. For well over a decade, study after study has shown that it pays to be taller than average, especially if you are a man. A fit tall person typically earns nearly \$166,000 more over a 30-year career than a fit 5in person, US researchers found in 2004. Research may show taller people are more successful but the risks of leg-lengthening surgery outweigh any benefits

Australian scientists concluded a few years later that every extra 10cm of height added 5 per cent to hourly wages for men, and 2 per cent for women. Tall people seem to do better in business and politics, too. In US elections, the taller candidate won 58 per cent of presidential races between 1789 and 2008. Chief executives in Sweden and the US have been shown to be about 5ft tall, higher than average in both places at the time the research was done. Then there is love. Despite decades of feminism, studies show height is still a big factor for women when it comes to choosing a partner. It is not entirely clear precisely why we discriminate against the less lofty. Some psychologists think it might go back to early human instincts to ascribe leaderly qualities to tall people deemed to be better protectors. Others think tall people themselves have more confidence and self-esteem, which in turn makes them more likely to succeed. Either way, men who pay to have their legs broken for a few more inches in height are not being entirely irrational. But nor are they being

remotely sensible. The cost and risks of leg-lengthening far outweigh the probable benefits of being slightly taller. Also, speaking as a person of above average height, I can say with certainty there are downsides to being tall. Flying in economy is horrible. Lower back pain is a risk, especially for women. Also, at some point in your career, you will almost certainly come up against a shortish male boss and, regardless of what he feels about being closer to the ground, you will find it awkward to peer down at him or worse, lower your head to hear what he is muttering. This is not just a tall female problem. Lanky male friends tell me they suffer it too. Finally, statistics do not tell the whole story. History is full of leaders who achieved much, despite being of average height. So if you ever come across anyone thinking of getting their legs lengthened, tell them to sit down, sober up and think of Winston Churchill. pilita.clark@ft.com

Lex.

CEO narcissism: mirror writing



Using handwriting analysis as a recruitment tool — as some City banks once did — is out of fashion. Yet judging company bosses by how they write their names is surprisingly common in academic circles. Scrutinising signatures is a ploy used by the swelling ranks of academics researching the link between corporate performance and leaders' personality traits. The latest such study suggests chief executives with sprawling sign-offs are particularly likely to announce big share repurchases, which they do not necessarily implement. An earlier paper made a link between large autographs and poor performance, including overspending on acquisitions. Leaders with extravagant signatures were more lavishly paid than those with smaller scribbles. They are also likely to talk up their commitment to corporate social responsibility. Saving the world is an attractive platform for self-aggrandising CEOs, critics might say. Researchers argue that the size of signatures — available from annual reports — is a proxy for narcissism. That trait is characterised by attention-seeking, lack of empathy and an inflated self-image. They established the link by comparing volunteers' signatures with their scores on personality tests. Other clues to a chief executive's personality are how often they say "I", the size of their photograph in an annual report and where their quotes are placed in a press release. Another approach is to ask fellow directors to assess a CEO. When Stanford University researchers took that tack last year, they concluded that one in six chief executives displayed moderate to high narcissism. That makes narcissism about three times more prevalent among CEOs than in the general population. This should occasion CEOs an uncharacteristic moment of introspection. They will bounce back with the news that the Stanford researchers found chief executives have a fairly healthy personality profile, on average. Even the narcissists were found to have some saving graces including — surprisingly — a greater likelihood of running companies with good governance features. Narcissists can make inspirational leaders. Self-confidence and risk tolerance help take executives to the top. But there is growing recognition that they can damage a business's performance and culture. Bosses with toxic personalities should watch their step.

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WORK & CAREERS

We must stop obsessing over leadership at the expense of governance



Andrew Edgecliffe-Johnson
Management

Bill George thinks that we can attribute everything from George Floyd's murder to Vladimir Putin's invasion of Ukraine to failed leadership. That is a provocative assertion from the former Medtronic chief executive turned Harvard business school professor who has spent 20 years advising everyone from CEOs and generals to ambitious middle managers on how to lead.

George, who has sat on the boards of Goldman Sachs and ExxonMobil (among others), has just put out the latest in a series of books in which he has tried to guide those in authority to embrace "authentic leadership" to inspire and empower those they oversee.

In *True North: Emerging Leader Edition*, he and co-author Zach Clayton call on a new generation to find their "North Star" — their purpose — and to bring values and moral courage to the challenges they face.

It is the kind of thing that countless careerists browsing airport bookstores will lap up, and from which many more will recoil. There's a market for quotes from Gandhi, Churchill and basketball coaches, or diagrams of suited figures climbing mountains while arrows point to words such as "crucibles", but they are not everybody's cup of tea.

What is notable about George,

though, is how alert he is to the downsides of putting managers on mountaintops. After a recent conversation with him, what stuck with me is the need to give as much thought to how to build effective governance in organisations as we do to what makes an individual a leader worth following.

George agrees without hesitation, for example, that our obsession with leadership risks creating all-powerful bosses unchecked by meaningful governance.

The "adulation" of CEOs was already a problem back when Jack Welch was running General Electric, George notes.

George worries about "cults" forming around business leaders, especially when it comes to founders such as Elon Musk or Mark Zuckerberg. "Leaders get caught up in money, fame and power," he warns.

We are fascinated by corporate leadership. But does that obsession come at the expense of corporate governance, the less exciting business of ensuring that there are checks on any one individual's power in a company, and different, challenging opinions around the boardroom table?

Governance is the G in ESG, but it is hard to argue that environmental, social and governance investing has killed off the cult of the CEO.

The age of ESG has certainly pushed boards to review their composition and monitor a wider array of risks. But it has not changed the imbalance of power between directors and the chief executive.

Particularly in the US, too many CEOs also chair the board, letting them pick the supposedly independent directors who will determine their pay and their longevity.

Board members, in turn, still spend too much time worrying about earnings, George argues. They should instead be asking more questions about company culture and whether the CEO is surrounded by "yes men".

George was once threatened by a Theranos executive after he questioned Elizabeth Holmes's leadership before the collapse of her blood-testing company. It reminded him of the dangers of leaders having too few "truth tellers" on their teams.

The prolific publisher is arguably a contributor to our leadership obsession but George is also a critic of corporate megalomania. His studies of other CEOs persuaded him that their performance deteriorated after the first decade, so he set himself a firm 10-year limit while at Medtronic, and he thinks many boards have been too weak in enforcing such limits.

The age of ESG has not changed the imbalance of power between directors and the chief executive

We also need diverse boards with strong lead directors (including former chief executives) who pay attention to whether their CEO is listening to critics and developing the next tier of executives, he argues. Authentic leaders do matter to organisations — but so do structures that prevent them from believing the sycophants or staying too long.

It's easier to sell a book on leadership than a book on governance: we all aspire to bring out our inner Ernest Shackleton but few of us want to read about corporate checks and balances.

It is too much to ask for George's prescription to prevent the next police killing or revanchist war. But there are lessons in it for CEOs, boards and the people who advise them.

There is also a reminder that leaders who stay too long may be driven as much by insecurity as by megalomania. Asked about how difficult his peers find it to stop being the boss, George returns to the image of the executive mountaineer.

"I think for a lot of CEOs you've reached the mountain top, you're at the pinnacle of your power and it looks like a long way down the other side. It looks like a cliff."

andrew.edgecliffe-johnson@ft.com

Recruitment

Talent wars: businesses battle to hire the best



Despite surging inflation and recession fears, every UK sector is facing a fight for the top candidates, writes *Anjli Raval*

Fraser Gough could not believe his luck. Earlier this year the 23-year-old, who works in digital marketing in London, was contacted by a recruiter on the professional networking website LinkedIn to see if he would be interested in a job at Clearpay, a payments company. It was an offer he could not turn down. He got a 40 per cent pay rise to £35,000, equity in parent company square and a series of perks. This included free gym membership, money for bills to help him manage his working from home costs, and opportunities to work in San Francisco.

"I don't even have a degree. I'm self-taught," says Gough, who joined in March and has been working long hours and going to great lengths to build up his knowledge in the sector. "I'm now trying to go for another raise, and I think I'll get it."

Despite surging inflation and fears that the UK will be heading into a prolonged recession, unemployment has stayed low and companies have continued to hire, often paying bumper wages. Even as some observers expect businesses to scale back on spending and recruiting in response to a looming slowdown in demand for goods and services, every sector — from technology to hospitality, construction and life sciences — is still experiencing a talent crunch.

"It doesn't feel like anyone is preparing for a recession. The perks are still there and nothing seems to have changed," says Gough.

The UK labour market revival since the height of the pandemic has resulted in unemployment at its lowest levels since 1974. The worker shortage has forced many companies to increase pay, hand out bigger benefits and offer huge flexibility, which is reinforcing inflationary pressures.

A recent poll of 1,043 managers by the Chartered Management Institute (CMI) showed that nearly 90 per cent said their organisation was recruiting in July

Rahul Sharma says The Regency Club has raised wages by 15% to prevent staff being poached. Below, Fraser Gough, 23, got a 40% pay rise when he changed job after he was approached by a recruiter

CHRISTOPHER BRAY/FT

attracted to more flexible working that can be done from home. All of this has led to more than 1.2m vacancies in the UK, according to government data.

"We are coming out of an unprecedented period with the pandemic. But we are still sitting with a lot of these issues," says Owings, speaking about the climate-facing hiring managers.

The trend is global. The number of unemployed people in the eurozone has fallen below 11m for the first time — an all-time low of 6.6 per cent of the workforce. Meanwhile, Australia has said it will allow tens of thousands more immigrants into the country to ease labour shortages. In the US, while the unemployment rate has edged up, there are still roughly two vacancies per unemployed worker. Wages are rising as companies compete for staff, prompting businesses to charge more for their products which in turn is pushing workers to demand pay rises.

Employers are also paying out bonuses, offering greater flexibility and career development opportunities while also giving employees more of a say in how their workplaces are run, in recognition of the time and money

needed in the next six months according to a global survey of 7,000 deskless workers. This has potentially dire consequences for industries such as construction, manufacturing, healthcare, retail and transportation.

For Chris Timmins, managing director at property developer Jessup Partnerships in the East Midlands, the shortage of surveyors, land managers and estimators is an ongoing problem despite the construction sector forecasting a dip in the market.

"For every one individual there seem to be 10 roles available. They have a pick of jobs and we're all trying to get the same people," says Timmins. Not only are they hiring to fill vacancies, they are also recruiting to fill roles they may

need in the future. "When the right person is there we need to try and get them."

again when the pandemic forced universities to shut down, prompting many part-time student workers — the backbone of this industry — to go back to their countries. In recent months, he says, men have waited outside his premises at closing time hoping to lure staff away to work at other restaurants.

Staff are also being attracted by less physically taxing, higher-paid jobs, such as virtual assistants, that they can do from home.

"The current situation is worse than during Covid, and this time there is no help from government," Sharma says.

Some observers, however, have pointed to a time lag and labour market tightness inevitably easing. Liam Reynolds who runs Silicon Milkroundabout, a twice-yearly job fair for technology professionals in London, says there was a correction taking place in parts of the sector. Larger tech companies were hiring less while funding was not flooding into start-ups. "For a lot of these companies there was just so much money around that they overhired," says Reynolds. "Looking forward, there is more uncertainty." In the US, many big tech companies in Silicon

Business books

How to work with anyone — and nurturing innovation beyond Silicon Valley

September's recommended reads from FT Journalists

'Getting Along: How To Work With Anyone (Even Difficult People)', by Amy Gallo



Amy Gallo, a contributing editor at Harvard Business Review, has a long record of writing accessibly about workplace dynamics. Her new book, *Getting Along: How to Work With Anyone (Even Difficult People)*, came from her frustration with existing advice on dealing with friction at work.

"Proposed solutions are often neat and tidy, one-dimensional, oversimplified, whereas real life is often messy and complicated."

Gallo's book is divided into chapters corresponding to different types of tricky colleague you may encounter. There's *The Victim*, *The Insecure Boss* and *The Blasted Co-worker*. Particularly apt for modern workplaces is Gallo's nailing of *The Tormentor*, "a senior person ... who has earned their way to the top, typically making sacrifices along the way, and then mistreats others below them". These people ought to be mentors but instead undermine others.

Gallo suggests what might be motivating such behaviour: lack of empathy, envy and the more nuanced "social identity threat". This happens when you are both members of a disadvantaged group and the senior person believes that being associated with that group will harm them. As Gallo writes: "A female co-worker may distance herself from other women as a way of increasing her chances of getting ahead."

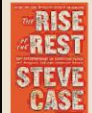
'The Rise of the Rest: How Entrepreneurs in Surprising Places are Building the New American Dream', by Steve Case

Between 2014 and 2020, Steve Case, an American entrepreneur and co-founder of internet pioneer AOL, took a bus with his team on eight tours across the US. The goal? To prove US entrepreneurship can thrive beyond the tech hotspots of California and New York.

In a manner akin to a political campaign, at each stop the bus engaged with local start-ups and communities, inviting entrepreneurs onboard to talk to high-level investors.

At the end of each tour, start-ups were invited to pitch, with the chance to win a \$100,000 investment. This is all part of Case's "Rise of the Rest" initiative developed by Revolution, his investment firm.

Whereas at AOL the main objective was to give everyone access to the internet, with "Rise of the Rest" it's to help more people benefit from the



rewards technology can bring. The initiative, and this book, push against the notion that to be successful as an entrepreneur in the US you have to move to one of the big coastal cities.

America is also at risk of losing its status as a world leader in innovation, Case argues. To remedy this means lifting the prospects of those outside California, New York and Massachusetts — which receive three-quarters of all venture capital for start-ups. Driving creativity throughout the country will create new jobs and opportunities for the many who feel left behind by the

2022. Looking ahead to the next six months, almost 40 per cent said they would increase hiring, while a third said their company would continue to hire as normal.

"In the UK we have lost quite a big part of our labour force," says Christin Owings, a managing director and partner at Boston Consulting Group, observing that it was still a jobseekers' market.

In the past couple of years, a drop in the self-employed workforce coincided with many people retiring early, and others leaving jobs after being forced into out-of-work benefits by long-term, Covid-related health issues. The pandemic also changed perceptions around work with a lot of staff embarking on new career paths, often



involved in having to not only secure new staff but also train these people to fill frequent vacancies. The pressure is so severe that one recruiter said 15 per cent of his fees were in question as many individuals who accept offers do not ultimately take them, while adding that others just "ghost" employers entirely if they choose to take up employment elsewhere.

The rise of remote working has had a knock-on impact on so-called "deskless" workers – those who need to be physically present to do their jobs – who make up more than three-quarters of the labour force in most countries. More than a third of these workers, BCG found, are at risk of quit-

Even if there is a downturn we expect to work just as we are now as a lot of our work is local authority construction. In fact we will grow as a company through any recession."

Companies who increase pay to workers are footing an ever increasing bill. Rahul Sharma, who runs Indian restaurant The Regency Club in north-west London, says raising wages by 15 per cent had put greater pressure on finances already under strain from higher prices for meat, grains, fuel and commissions for delivery apps. "It [increasing wages] was about defending the position we already have and the staff we already have," he says.

Sharma says he navigated the turmoil after the Brexit referendum and then

Valley that have grown rapidly over the past decade have already put in place hiring freezes and are cutting jobs.

Yet Alistair Cox, chief executive of FTSE 250 recruitment company Hays, says widespread digitalisation across other sectors means companies will continue to hire for jobs they have never needed before – from automation to cyber security. He points to the lack of qualified candidates for existing vacancies.

"There is simply not enough of the right type of skills to match the jobs that are being created today," says Cox, adding that demand had been steadily building for a few years. "Companies are still digitising, even as the macro backdrop worsens."

and other tricky colleagues is hard, but for each of the character types, Gallo sets out step-by-step tactics. (For tormentors, focus on a shared goal.)

Most of all, she encourages us to understand the underlying issues before we react to problem colleagues: remember, for example, that "most people act aggressively at work because they feel threatened." (Isabel Barwick)

tech revolution, he says.

The book is about what happened on the road during those bus tours the stories of the entrepreneurs and communities Case's team met, in the hope of inspiring the next generation in places like Seattle, Denver or Miami.

It is his focus on the "art of the possible", which Case believes will help level the playing field and revive the American dream, ultimately ensuring the country's capacity to keep innovating. (Sophia Smith)

WORK & CAREERS

The Henry Mance Interview

'Science isn't just about writing equations. It's about reconceptualising the world'

CARLO ROVELLI

The physicist known for making complex ideas seem simple wants us to accept that certainty is often out of reach



Charlie Bibby/FT

Of all the big ideas floating around – long-termism, degrowth, space colonisation and so on – is any quite as radical as quantum physics?

For a century, physicists have known that the classical assumptions about the universe are incorrect – electrons do not orbit the nucleus of an atom, but exist in waves around it. So an

electron can be in more than one place at once, until we observe it. Schrödinger's cat is alive or dead: we can only know which by looking, which itself determines the answer. Why this is true is unclear.

"This realisation is "almost psychedelic", argues Carlo Rovelli, the Italian physicist who specialises in making complex ideas seem simple. Quantum physics has been used to develop semi-

conductors and lasers. But the first thing to understand is you cannot truly understand it, because no one does.

Rovelli tries to explain the problem in his book *Helgoland*, and ends up meditating on the nature of science and uncertainty, at a time of climate change and pandemics, his popular physics remains among the best-sellers.

"Melting glaciers are important, but the most powerful aspect of science for

me has been exactly the fact that it challenges our worldview," he tells me, informal and relentlessly curious, on a trip to London from his home in Canada. The public thirsts to understand the universe, even though, as Rovelli writes in *Helgoland*: "knowing that my girlfriend obeys Maxwell's equations will not help me to make her happy."

It helps that Rovelli is happy to push outside scientific boundaries, quoting Buddhist philosophy and organising letters for global disarmament. For him, physics inspires culture. "Good philosophers have always listened to physics. Kant wouldn't have been Kant without Newton just before; half of what Kant does is making sense of Newton. Vice versa, Einstein wouldn't have been Einstein without Kant. Einstein read Kant, and Kant's ruminations about space and time were the main ingredient for him to write equations that predicted black holes."

Rovelli's hope now is that popular culture absorbs the implications of quantum physics. Films such as *Spider-Man: No Way Home* and *Everything Everywhere All at Once* have tended to do so through the theory of many universes: that is, the solution to Schrödinger's cat is that the cat is both alive and dead, as there are infinite universes, covering every possible outcome. Rovelli himself rejects the theory as "crazy".

How is it possible for physicists to have such different interpretations? "Science is not just about writing equations and making predictions. It's about reconceptualising the world. If you think what happened with Copernicus, the way we tell the story is that he

what we know and seeing what plausibly it implies."

Fame came late to Rovelli, now 66. He started writing for a broad audience in his fifties; his 2014 book *Seven Brief Lessons on Physics* was a surprise hit. His path had been unusual. After a spell of hippie activism ended in failure, he applied to study physics at university partly because the queue was shorter than for other courses. "I went into science from the disappointment of the dream of changing the world," but science as in politics, he long felt outside the mainstream.

His particular contribution has been to loop quantum gravity theory, which posits that space itself is not continuous but granular and that the grains are woven together by loops ("the Financial Times was one of the first media that took it seriously"). It remains a theory. "I don't know if I'm right or wrong. I'm more optimistic than 10 years ago... Most of our competitors are in trouble."

Rovelli likens the process of scientific discovery to zooming in on a forest. At first you just see the forest, "you go on, and see that it's different: there are trees. And then you go closer and you see the trunk, animals, insects. And then ever closer... You get layers and layers and layers of understanding... We accumulate knowledge. What Newton understood is correct, it just can be understood better."

The task is not so much working out the answer, as working out what is wrong with the question. "You have to always find something in your assumptions to throw away, in order to make the next step."

His own process is, he imagines, "very similar to a novelist's. If I think of the most cited papers I've done, the ideas came out when I was driving the car, walking in the forest, doing something else completely. You need to know the subject very well. So you keep walking around the boundary of the knowledge, and saying 'this doesn't work'. Then at some point, by thinking about something else, something clicks."

His preferred form of quantum physics is the relational interpretation – the view, developed since the 1990s, that all objects affect each other so that

Buddhism. Where is the distinction between physics and philosophy? "The tools of the trade are completely different, but there is a large grey area in between." Rovelli is an atheist, but says he has "students who are very devout... I do understand people for whom the idea of God plays a role, and they are great scientists."

For Rovelli, it's an easy jump from believing objects are in fact interactions to advocating a collectivist, leftist politics. Since achieving fame, he feels a political responsibility again. When we meet, Italy, where he still spends much of his time, looks set to elect a hard-right coalition.

"It's a country that cannot find itself, that has a low opinion of itself," he laments. "It's a country that internationally has decided not to have a voice... It's a very non-courageous country internationally, because of fascism and because it lost the war. Italians think that they are a third-world country, which is not true."

Last year Rovelli organised a group of eminent scientists and public figures, including former Beate Paul McCartney and experimental psychologist Steven Pinker, calling for military spending to be diverted to climate change and

"We learn more about reality by taking what we know and seeing what plausibly it implies"

other causes, under the banner The Global Peace Dividend Initiative. Russia's invasion of Ukraine a few months later seemed inconvenient for the cause. He suggests his move was misinterpreted: "The global peace dividend is not the idea. 'Tell your government to stop spending on the military.' It is the idea. 'Tell your government to negotiate with your enemy so you both spend less on the military.'"

Rovelli's politics can be frustrating. On the day before Russia's invasion of Ukraine, he tweeted: "Five words are sufficient to stop the Ukraine madness: 'Nato won't expand to Ukraine.' So hard to say them?" (The next day he doubled

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your consciousness but reality, even talking starts making much more sense." Similarly, black holes were predicted by Einstein's equations, before they were detected.

Rovelli wants us to accept that certainty is often out of reach: "We're never sure about anything." Indeed, there is only one time in our conversation when he expresses certainty: when I ask whether we could be living in a simulation, as Elon Musk says is "most likely". "No. Of that I'm sure. We're not in a simulation. It's a silly idea. Who is the simulator? Some guy?" The theory is that, with increased computing power, any species that could run a simulation of its ancestors would run many of them, so we cannot be sure we are not in a simulation. "Come on, have you played with AI? It's completely different to real reality," despairs Rovelli.

Uncertainty does not mean that all ideas are equally valid. "We don't learn something more about reality by making absurd hypotheses and asking how they can be disproved. That's stupid, because everything can happen and nothing can be disproved," says Rovelli. "We learn more about reality by taking

them and objects in the real world, so that an object's properties are only defined in the moments that it relates with another object. This brings him close to

to say matter. "The first step, the first step down: "Putin is disgusting; how can he dare invade a country and killing human beings? Only the Americans are entitled to regularly do so!" He defends his stance. "The west is making a mistake in the long term by not realising that we have to share power with the rest of the world."

This misses quite a lot, but reveals something about his discipline. After the second world war, many nuclear physicists felt a guilt at the atomic bomb that their field had created. Rovelli instead feels a responsibility to avoid conflict.

He is exasperated by UK prime minister Liz Truss's insistence that she would launch nuclear weapons. "You have a new prime minister who said publicly that she was ready to push the button. I think humankind underestimates the catastrophe that is very possible." Nuclear physics seems radically separate from everyday life, but there is only so much time you can spend thinking about it without worrying about nuclear war.

Additional reporting by Dylan Neri

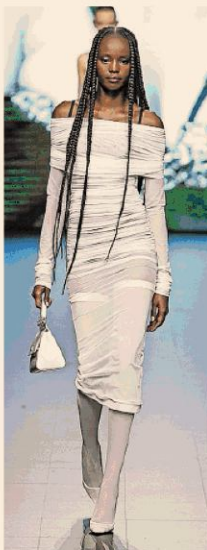
- On the spot**
- **Favourite science fiction?** Kim Stanley Robinson's Mars Trilogy.
 - **Best things about Canada?** The kindness of people, and the natural world. We had wolves in our garden.
 - **What's the hardest thing about getting old?** No, it's the other way round. I grew up thinking everybody over 30 was an idiot. To my incredible surprise, life gets better.
 - **How worried are you by artificial intelligence?** I don't think it's so dangerous. All my life I heard the marvellous things that will happen in artificial intelligence; most did not come true.

MILAN FASHION WEEK

How to reboot a fashion house



Ferragamo — Filippo Fior



Dolce & Gabbana — Monica Faedi



Bally — Alberto Maddaloni



Bottega Veneta — Filippo Fior



Dolce & Gabbana — Monica Faedi



Versace — Alfonso Carlucci/S27

STYLE
Lauren Indvik



Mathieu Blazy dazzles at Bottega Veneta as four designers make their debuts

Every once in a while, a designer delivers a show so astonishingly good that everything else pales in comparison. That was Mathieu Blazy's second outing for Bottega Veneta, the €1.5bn revenue leather goods brand he took up after his former boss Daniel Lee departed last year.

This season, Blazy combined forces with the 82-year-old Italian architect Gaetano Pesce, who conceived the colourful resin floor of the show space and also designed the hundreds of bright, blocky resin chairs lined up for guests. "The idea was to really represent [human] diversity... different characters, and put them in the landscape of Gaetano," Blazy said backstage.

What he offered was a full wardrobe, shown on a cast of models not all in the first flush of youth and the more interesting for it. His wardrobe began with the casual, or what Blazy called "perverse banality": tees and faded overshirts with chinos and baggy jeans fashioned not from cotton and wool but leather, each layered with eight to 12 prints to create depth and then shaved thin, Blazy said.

These were succeeded by smart clothes for professional life: single-breasted suits with trousers swept back and stitched in a gentle arc behind the calf, as if caught by air. Immaculately

by the futurist painter Giacomo Balla. The clothes were not just terrific-looking and invitingly wearable but strategic too, designed to underline the USPs of the Kering-owned brand — its leather craftsmanship and also, Blazy said, its legacy as "a bag company", which links it to travel and the idea of "going somewhere".

Thus those swept-back trousers and the shiver of fringe on shoulders, skirts and trouser hems. Any of these garments would be recognisably Bottega's on a shop floor, no logo needed.

His approach offered lessons for the designers who made their debuts at other labels this week in Milan. Expectations were riding highest at Ferragamo, the 95-year-old Florentine shoemaker now helmed by former Burberry chief executive Marco Gobetti and Maximilian Davis, a 27-year-old hailing from Manchester and the first black designer to cover the creative director position at the house.

In recent years, family-led Ferragamo has forfeited market share to bigger

The clothes were designed to underline the USPs of the Kering-owned brand

rivals, becoming a small fish in an increasingly large pond, and turning it around will be no easy task. Sales last year amounted to €1.14bn, still shy of pre-pandemic revenues.

The family has urged Davis to be "as risky as possible", he said backstage, and the show had the fizz of a major debut, with a palace for a set, its floors and walls blanketed in an orange red, and Ferragamo's new, all-caps, ever-slightly-serified Peter Saville-designed logo blown up opposite the entrance.

In hiring such a young designer, the

skirts, sure, but the emphasis was on tailoring and the kind of slick, jet-set sportswear perfected by Michael Kors and Tom Ford.

The slinky, backless suede dresses were more vibrant and energetic than what came before Davis, but did not thrill. And Ferragamo needs to thrill in order to cut through the noise of its much larger and better-financed rivals.

New Missoni designer Filippo Grazioli, who worked under Riccardo Tisci at both Burberry and Givenchy, certainly aimed to thrill. His debut collection was short, sheer and glittery, but his flat chevron- and zebra-patterned bodycan dresses and miniskirts did little to showcase the house's rich savoir-faire.

For his first Etro show, Marco de Vincenzo, who also designs accessories for Fendi, did not play the label's signature paisley but did enlarge its logo, embroidering it on the pockets of striped shirts, the corners of skirts and the sides of carpet bags upcycled from past-season fabric. The problem with that approach is that Etro lacks sufficient brand equity to make the logo widely desirable — de Vincenzo has work to do to get it there.

It seems it is no longer enough simply to be a leather goods brand today — those that have successfully evolved into luxury fashion houses, such as Louis Vuitton and Hermès, sell more handbags than dedicated handbag brands do, and more shoes than shoemakers.

And so Swiss leather goods label Bally is trying its hand again at fashion, hiring Los Angeles-based designer Rhuigi Villaseñor to put together its first runway collection in 21 years. His suede suits and slinky cut-out dresses would look right at home in LA, but they did not help to establish a clear identity for the brand.

Versace and Dolce & Gabbana both leaned into the power of celebrity this

purple boudoir gowns and dark eye-liner. Dolce & Gabbana teamed up with Kim Kardashian in what it labelled a "curation" and not a collaboration: she chose archival pieces from 1987 to 2007, which the designers lightly reworked, stitching a label with the year of their original creation into the garment.

There were corsets and elastic dresses, silky cargo trousers and head-to-toe leopard print — all pieces Kardashian might conceivably wear. She took a bow with the designers in a glittering jet evening dress as her mother and three of her children looked

on from the front row. It was smart marketing and a moment of light-hearted fun in a week overshadowed by the national election. On the final Sunday of shows, Italians headed to the polls, where they are expected to elect a rightwing coalition that is quietly worrying many in Italy's fashion industry. Armani's closing show offered another moment of respite, with its swishy light-weight trousers, embroidered jackets and shimmering evening gowns in soft, pale colours.

After a week of so many Gen Z-focused shows, it was nice to see clothes for grown-ups.

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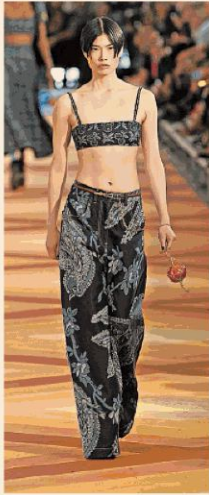
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tailored blazer dresses and coats that swelled at the hips; and, for evening, knit dresses and trouser suits in a mash-up of pattern and fringe inspired

Ferragamo family is hoping to draw in a younger customer, but Davis designed for a range. There were bandeau tops and short

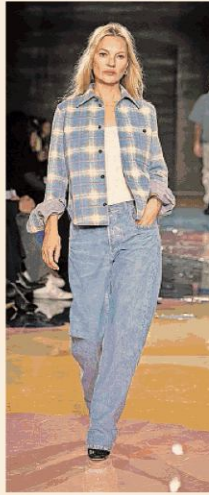
season, and the fashions of the '90s and early aughts. Donatella Versace cast OG influencer Paris Hilton in a vaguely vampiric show of black cowl dresses,



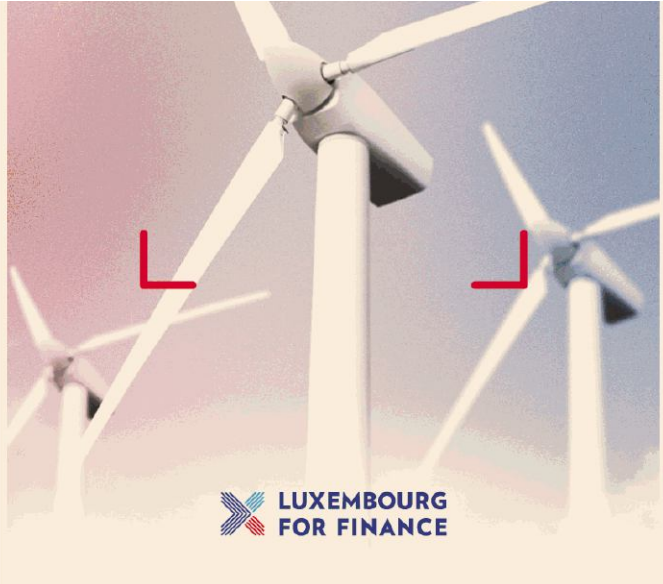
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Ferragamo — Filippo Fior



Bottega Veneta — Filippo Fior



LUXEMBOURG FOR FINANCE

ARTS

'I like plays that ask the hard questions'

Dominic Cooke's new show features David Tennant as a German scientist losing his grip on morality. Sarah Hemming meets the director

The great thing about David [Tennant] is that he's the last person you think of becoming a Nazi," says director Dominic Cooke. This must come as something of a relief for the actor himself. But it's also crucial to the play in which he is about to open. CP Taylor's Good, directed by Cooke in a new West End production, depicts a university professor in 1950s Germany, John Halder (played by Tennant) thinks of himself as a good person — indeed, he is a good person: thoughtful, diligent, caring. And yet. He finds himself sucked deeper and deeper into the Nazi killing machine.

Taylor's 1981 drama is one of countless plays, films and novels about Nazi Germany, but it's unusually unsettling in the way it focuses not on the atrocities of the camps but on the wider thinking and behaviour — or absence of action — that enabled them to happen. He demonstrates, in precise psychological detail, the way people can argue themselves into turning a blind eye, rationalising, internalising — or even contributing to — horrors.

"What I find chilling in the play is the self-deception," says Cooke. "The lying that goes on within [someone's] head. You realise how much people can deny that they're involved in the most terrible stuff. . . it's very specifically rooted in the history of National Socialism, but what it's saying about how we tune out of stuff that's just too big for us to deal with, and too terrifying, is so good. "Taylor is looking at the intelligentsia and going, 'Well, are we any better than other people?' he won't allow himself off the hook. I like plays that ask the hard questions."

Throughout the piece Halder repeatedly tells himself that things won't get



that bad. It's not for nothing that he is a Goethe specialist: the play has echoes of Faust, with its character who sells his soul to the devil. Halder is flattered by party officials, rewarded with a house that belonged to a Jewish academic. He succumbs to vanity, to an easy life, to a cognitive dissonance that enables him to justify horror. His writings on euthanasia are embraced by the party to help legitimise the Final Solution. As a cautionary tale, it's deeply disturbing, says Cooke (who, like Taylor, is Jewish), raising searching questions about morality. "I don't think he loses his sense of right and wrong. I think he stops listening to it."

We're sitting in a small theatre kitchen at the end of a week of rehearsals, actors waving goodbye as they flit past the door on the way home. Cooke, genial and relaxed in a sweatshirt and trainers, brings a terrific energy and openness to conversation. He's one of the UK's finest and most successful directors. During his seven-year period as artistic director of the Royal Court, the theatre staged major new plays, such as Jez Butterworth's Jerusalem, Lucy Prebble's Error, Nick Payne's Constellations and Bruce Norris's Clybourne Park. His own recent productions include a rare revival of Emlyn Williams's The Corn is Green, starring Nicola

Walker, a searing production of Larry Kramer's pioneering Aids play The Normal Heart and a superb staging of Sondheim's Follies, all at the National Theatre. (He is working on a film of Follies.)

He saw Good as a teenager and it made a big impression. "It was one of the first grown-up theatre experiences I can remember," he says. Returning to the work to stage it, he was struck by the

'Drama, whether it's film, television or theatre, is one of the ways we understand who we are'

unnerving resonances it has now acquired. He points out that Taylor's understanding of how hard it is for individuals to face enormous problems could apply now to climate change. More specifically, recent years have seen an increase in anti-Semitism, right-wing populism and xenophobia. One contributory factor, Cooke suggests, is the loss of a living link with the second world war. "I was born 20 years after the end of the war, but its presence in my life was huge," he says. "Now a lot of the witnesses are gone or going."

It's also the play's formal daring that impresses Cooke. He is fascinated by memory on stage: in both Follies and The Corn is Green he explored how the subconscious forces its way to the surface and how memories interact with the present. He suggests that the fragmented narrative of Good shows us

Halder's mind in action as the character tries to process what he has done. Taylor himself described it as "a tragedy which I have written as a comedy".

"[Taylor] really understood how memory works," he says. "The play is very contemporary. Because, in the way it is constructed, it's the hardest things to remember that are the most fragmented. So, for example, one of the earliest scenes is the moment when [Halder] goes in to see Beuller, who led on the euthanasia programme. But that's a really hard thing to own and remember. So it's broken up into three or four sections. If you've ever done psychotherapy, you know the tricks that your subconscious forces to stop from dealing with the thing that is the hardest thing



Left: director Dominic Cooke. Above: David Tennant in rehearsals for 'Good' — Taylor Jewell/Invision/AP, Julian Perisson

to think of." The new production, he says, will aim to meet that innovative spirit and deliver "the same sort of shock" as the original.

Good is the first West End production from Fictionhouse, an independent producing company set up by Cooke and producer Kate Horton to create drama for stage and screen. Audiences for both genres, says Cooke, are "sophisticated, adventurous and hungry for new experiences".

One of the nagging questions for any director, however, is whether the arts can make any difference to the way we engage with the major problems facing humanity. There is a real benefit, he insists, to engaging with drama that asks tough questions of us.

"Drama, whether it's film, television or theatre, is one of the ways that we understand who we are," he says. "I think people can sometimes overstate the power of theatre: I don't really believe that many people leave a show and go, 'Oh God, I'm completely changed.' But I do believe it does shift the way people think — I know it does because it has with me. And recognition of inner thoughts and experiences in public is a powerful thing. It's a collective — it's a ritual."

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Above: Mark Rylance (centre) starred in 'Jerusalem' — Simon Ansdard

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Serial returns after dramatic development

PODCASTS

Fiona Sturges



You probably remember *Serial*, the true-crime podcast that turned scores of listeners into amateur sleuths as it investigated the killing of an 18-year-old high-school student, Hae Min Lee, in 1999. Debuting in 2014, it cast doubt on the conviction of her ex-boyfriend, Adnan Syed, for her murder. Hosted by the *This American Life* producer Sarah Koenig, *Serial* was an unexpected smash, attracting more than 500m downloads and helping to turn podcasting from a niche pursuit into a mainstream proposition.

Last week brought a twist in the tale in the form of Syed's release from jail after 23 years, and a new explanatory episode from the original *Serial* team. The episode is simply called "Adnan Is Out" and runs through the chain of events that led to his release. Former *Serial* addicts may experience a rush of nostalgia at the tinkly soundtrack, copycat versions of which have since cropped up all over the audioverse, and at hearing Koenig, whose quizzical tones have largely been absent since she assumed a behind-the-scenes role at Serial Productions (now owned by the New York Times).

Koenig was in the courtroom for the Syed hearing – "More than 100 people at times shockingly quiet, as if no one was breathing," she says. Surprisingly, the motion to overturn the conviction

came from the prosecutor's office. It was based on new information about two potential suspects, renewed suspicion over the testimony of one of the key witnesses and loss of confidence in the original mobile phone evidence. "Adnan's case was a mess – is a mess," Koenig concludes.

That Syed's release has made headlines across the world is undoubtedly down to the *Serial* effect, which once again raises questions about true-crime podcasts and whether they can be a force for good. Koenig and co may have helped Syed's cause by raising the profile of the case, but they also opened the floodgates for scores of podcasts devoted to reheating cold cases and hoping for a *Serial*-sized hit. All too often these stories of abuse and murder are packaged up like Hollywood thrillers and, in inviting us to speculate

over case details, overlook the real lives at their core.

While, for the most part, *Serial* approached its subject with caution and care, the impact on Hae's family is clear from her brother Young Lee's statement to the court last week: "When I think it over it always comes back, a real life living nightmare for 20-plus years."

And so, in this new episode, it feels fitting that Koenig doesn't so much celebrate Syed's release as heave an exasperated sigh at a flawed justice system: "Even on a day when the government publicly recognises its own mistakes, it's hard to feel cheered about a triumph of fairness. Because we've built a system that takes more than 20 years to self-correct – and that's just this one case."

serialpodcast.org



Left: Adnan Syed after being released from prison – Lloyd Fox

FT BIG READ. LATIN AMERICA

Ahead of October's vote, Brazilians must decide between the free-market Bolsonaro administration and the more interventionist Lula. But will the winner be able to kindle long-term growth?

By Bryan Harris and Michael Pooler

Brazil's search for economic revival

Brazil's ascendancy in the early years of the 21st century as an emerging market darling – the B in the Brics – ended with a thud in 2014. The nation had been riding a global commodities boom with increased exports of raw materials and foodstuffs, especially to a resource-hungry China. It then collapsed into a brutal recession.

Since then, the economy has barely budged. Gross domestic product expanded just 0.15 per cent, on average, annually in the decade up to the end of 2021. Living standards have fallen in a country where the middle class had been expanding. And despite being one of the world's foremost agricultural producers, food insecurity has risen.

"Brazil's growth underperformance since the end of the previous commodity supercycles in 2014 has surprised even those who were pessimistic," says Marcos Casarin, chief economist for Latin America at Oxford Economics. "Per capita income is still 10 per cent below its 2015 peak and will take at least another four years to return to that level."

Political coverage in the build up to next week's presidential election has been dominated by the controversies around the two leading candidates – whether incumbent Jair Bolsonaro will respect the result if he loses and the potential return to power of former leader Luiz Inácio Lula da Silva who spent time in jail on corruption charges. But as Brazilians prepare to vote on October 2, it is the widespread decline in quality of life that is at the forefront of their minds.

"If you walk through downtown São Paulo or other cities, you will see there are a lot of people going hungry," says Maria Isabel da Costa, who runs a restaurant in the city. "People are having a hard time maintaining themselves."

Bolsonaro and Lula have both promised a path to prosperity but espouse starkly different visions for reviving Latin America's largest economy.

Lula, a former trade unionist who governed Brazil between 2003 and 2010 at the height of the commodities boom, is leading in the polls by about 30 per



Luiz Inácio Lula da Silva and Jair Bolsonaro, above, have both promised a path to prosperity but espouse starkly different visions

expanded 1.2 per cent in the second quarter from the previous quarter. It was an unexpectedly buoyant result that prompted several investment banks to revise forecasts for this year upwards to more than 2.5 per cent. Services drove the recovery, complementing commodities exports, which have become a bedrock of the economy. It

relatively closed economy and residue of protectionist policies, which they argue has resulted in a lack of competitiveness and dynamism. "Most of the industries in Brazil are far behind other countries," says Luiz Toniati, chief executive of semiconductor group Qualcomm in Brazil. "Why? Because we did not make the reforms,

spends around 15 per cent of GDP on pensions and approximately 6 per cent of GDP on education. The solution involves directing these resources more efficiently," says Buccini. Adjusting for inflation, government spending on education fell from R104bn (\$20bn) in 2016 to R80bn last year, a 25 per cent drop. Defence spending remained stable

"If you walk through downtown São Paulo or other cities, you

omy. "The state has to use all its powers of influence so that we can develop this country and convince businessmen and foreigners to invest in Brazil," the former president said this month.

He has also spoken about a return to a greater role for the national development bank; suggested the government should take a firmer hand in the run-

centage points. He wants to put the state back at the centre of economic policy-making and use government spending, notably on infrastructure, to spur growth. Yet much of his rhetoric has focused on past achievements rather than fresh policy proposals.

Under Bolsonaro, voters can expect a continuation of the free market, pro-business agenda of finance minister Paulo Guedes, who has focused on cutting bureaucracy, promoting privatisation and simplifying labour regulations. Many of these microeconomic reforms have been lauded by the country's business community.

Neither candidate, however, has focused on the difficult structural changes deemed necessary to improve productivity and generate long term growth. These include an overhaul of Brazil's notoriously complex tax system and the significant investments needed in infrastructure and education. This partly comes down to political priorities. It also reflects how, under Brazil's system of proportional representation, no candidate's party ever wins a majority in Congress, the federal legislative body.

Whoever is elected president will be forced to deal with the Centrao - literally, the "big centre" - a loose political bloc encompassing almost half of the lower house's lawmakers, who lend support in exchange for funds to plough into their home constituencies. This pork barrel politics undermines growth by diverting precious government resources away from where they are most needed, critics say.

The Bolsonaro administration did not hide its glee when growth figures were released this month. "Brazil is flying," cheered Guedes, after data showed GDP

for reviving Brazil's economy; São Paulo, right, is facing a homelessness crisis

FT portraits: A7V/Getty Images; Nelson Almeida/ATV; Getty Images

came on top of a reduction in unemployment, which has fallen below double digits to the lowest point since 2015, and also falling inflation.

Yet economists expect GDP to slow next year to less than 1 per cent as a confluence of high interest rates, an unfavourable global scenario and potential political uncertainty take a toll. The deeper issue is that Brazil has struggled to find an effective and sustainable model for broad economic growth.

Ahead of the 2014 crash, Dilma Rousseff's leftwing administration used spending to keep up momentum. This, combined with a simultaneous collapse in the price of commodities, eventually resulted in a fiscal crisis, which snowballed into the recession. "Brazil needs new engines of growth because the state cannot grow more," says David Becker, chief Brazil economist at Bank of America in São Paulo.

Although agribusiness has surged in recent years and now accounts for more than 25 per cent of GDP, the gains have been offset by a long decline in industry.

Industrial output shrank by about one-fifth in the 10 years to late 2021, according to the Brazilian Institute for Geography and Statistics. It is a phenomenon described as "premature" deindustrialisation, since the loss of manufacturing occurred earlier than would be expected given the country's stage of development. Many blame what is known as the custo brasil: the combination of bureaucracy, a complex tax system and poor logistics infrastructure that elevates the cost of doing business in the country.

For others, it is also a legacy of Brazil's

we did not do the infrastructure, we did not invest where we should have invested. If we want a decade of growth, we need to do all this."

"Taxes are a mess"

Guedes - educated at the University of Chicago under Milton Friedman, the father of the monetarist school of economics - came to office with a pro-business agenda. His successes include a landmark overhaul of pensions in 2019, helping secure the independence of the central bank, as well as a host of microeconomic reforms aimed at increasing the ease of doing business.

"The attraction of investments into infrastructure has also been positive, with multiple concessions and the privatisation of (power utility) Eletrobras," says Lucas de Aragao, a partner at Arko Advice, a political consultancy. "Media often overlooks these themes, since it is a government that generates a lot of controversy."

Most analysts expect a continuation of these economic policies if Bolsonaro wins a second term and Guedes has signalled he would stay on as finance minister. To date, however, his agenda of major structural reforms has mostly floundered. Far from among them is a shake-up of the country's byzantine tax system. "Taxes are really a mess and this drags us down in terms of consumption and investment," says Tomisi.

A midsize Brazilian company takes more than 1,500 hours to prepare and pay taxes, according to World Bank data - the highest in the world. By contrast, a US counterpart takes 175 hours and a UK business about 110 hours. An attempt by Guedes to pass a limited tax reform, which among other measures would have introduced a tax on dividends, is stuck in the Senate.

Tax reform is a particularly knotty issue because of the plethora of competing interests. Critics are sceptical that Guedes has the nous to guide such projects through Congress and win over the Centrao. Securing the bloc's support, de Aragao adds, means the "government often has to water down, or downright forget, proposals considered extreme or ideological."

Insufficient investment

Another widely acknowledged factor holding Brazil back is poor educational standards. "There is a chronic deficiency in the quality of education. Brazil

in the same period. Infrastructure is similarly plagued by a lack of investment. Poor quality roads and the absence of rail links dramatically increase logistics costs and reduce margins. In terms of sanitation, almost 100m Brazilians lack wastewater services for the removal of sewage.

Redirecting resources to these areas, however, is not straightforward. More than 90 per cent of the government budget is pre-assigned to mandatory expenses, mostly public sector salaries and pensions. Overhauling this system would require an administrative reform



of the state, one likely to be bitterly contested by a multitude of vested interests, including the Centrao.

For many investors with exposure to Brazil, the immediate post-election worry is Bolsonaro and Lula's propensity to spend when politically expedient. "Neither of the candidates' proposals highlight a commitment to promoting a stable macroeconomic environment, rooted in low inflation, sustainable fiscal policy and predictability," says Mariam Dayoub, chief economist at Grimper Capital.

The lure of Lula 2.0

The concerns centre on the future of the public sector spending ceiling implemented in 2016, known as the teto. By limiting growth in the budget to the rate of inflation, it is viewed as a key fiscal anchor. Bolsonaro has circumvented the cap in order to increase social welfare payments, while Lula has been open about his desire to abandon it altogether.

Lula has made no secret of his plans to shift the centre of gravity in the econ-

will see a lot of people going hungry'

ring of Petrobras, the state-controlled oil producer, and also enact legislation to better protect workers.

The leftwing also talks about reducing inflation - now at 9 per cent - and forging a more progressive tax system, although he has offered scant details on how he would do either. Lula insists his time in power is evidence of his fiscal responsibility. Critics, however, blame him for the start of a more interventionist approach embraced by his successor, Rousseff, who was impeached in 2016.

Elena Landau, an adviser to Simone Tebet, the candidate polling in fourth place in the presidential election, argues Lula set the stage for the nation's economic woes. "By the time he left, he had exacerbated countercyclical policies, fiscal spending and intervention in state-owned companies," she says.

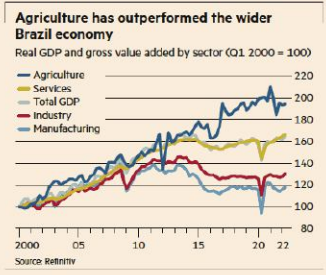
Wagner Parente, chief executive of consultancy BMJ, adds: "Although Lula is unlikely to adopt the same economic policies as Rousseff, some specific goals - such as overturning the government spending cap - bring uncertainty to the private sector."

So far financial markets have been sanguine about a potential new Lula presidency, mostly owing to the fact that he is a known quantity and perceived as moderate on economic policy. He also enjoys a better reputation among many western investors, who fretted over Bolsonaro's at times authoritarian rhetoric and disregard for the environment.

The business elite believe Brazil could reap enormous dividends from "green" investments if the next administration shows more interest in protecting the Amazon. Despite a surge in the destruction of the rainforest, Brazil still maintains 60 per cent of its native forests and almost 80 per cent of its electricity comes from renewable sources. "Brazil has great potential to lead the decarbonisation agenda on multiple fronts, notably by energy transition but also nature-based solutions - carbon capture via reforestation," says Gabriel Baptista, an analyst at Control Risks. "We also have the opportunity to lead on frontier segments, such as green hydrogen."

Becker at Bank of America is more bullish, saying the country is primed to grow if it manages to discipline and reform: "We have big potential for ESG investments. We are far away from conflict and it is peaceful country. The question is, can we capitalise on that?"

Additional reporting by Carolina Ingizola



The FT View



FINANCIAL TIMES "Without fear and without favour" ft.com/opinion

Japan's yen intervention is ineffectual but inoffensive

Buying currency is tolerable if it keeps the government out of monetary policy

As the US Federal Reserve and other major central banks embark on vigorous interest rate rises to combat inflation, Japan is now the only country in the world that still has negative rates. It paid the price for that position on Thursday, after the Swiss National Bank lifted its rates into positive territory. A pledge by the Bank of Japan to stick with its ultra-loose monetary policy drove the yen to a 24-year low. Within hours, Tokyo intervened to buy its currency for the first time since the late 1990s. This action is unlikely to have any useful economic effect, but nor is it likely to do too much harm; and given the political struggles of Fumio Kishida's government it is understandable. Japan's G7 partners should not protest too loudly. The yen has lost about one-fifth of its

value against the dollar this year, the slide accelerating as the Fed's rapid monetary tightening has opened a significant interest rate differential. The Kishida government, whose popularity is flagging, is under pressure to help those who lose out from a weakening currency - including importers, and pensioners on fixed incomes facing sharp increases in food prices. Consumer price inflation reached 3 per cent in August, its highest since 2014. Had the government not stepped in when the yen neared ¥146 to the dollar, the level that prompted intervention in the Asian financial crisis in 1998, it would have faced questions from an angry populace. The currency has also been trading for months without clear levels of either technical or psychological resistance. Hedge funds and asset managers - mostly based in Europe and the US, rather than Japan - have built up sizeable short positions against the yen. The point of last week's intervention was to warn those investors that their trades

are not a one-way bet; there is a line around the level of ¥145 they should keep in mind. The government hopes thereby at least to slow down any further depreciation. Doing so is not too costly: at these levels, the Japanese authorities are getting a good deal when they sell dollars from the country's near-\$1.2tn foreign exchange reserves in order to buy yen. They should, however, be cautious of setting more ambitious goals. Past experience suggests unilateral foreign exchange interventions almost never lead to a meaningful or sustained impact on a currency. The government should be wary of trying to defend any particular level of the currency or getting into a battle with markets that they cannot win. Sending a message is one thing. Actually strengthening the yen is quite another. Any further intervention should be sporadic and unpredictable. Intervention will not have big effects because there is a fundamental reason for the yen's fall: the yield differential

between the yen and the dollar. The much deeper question, therefore, is whether the BoJ should raise interest rates in order to strengthen the yen. The central bank, however, sets interest rates in order to manage economic activity and inflation. If it suddenly switched its policy target to the exchange rate this would compromise its efforts on both. Japan's low interest rates reflect its 30-year struggle to generate meaningful domestic inflation and sustain full economic activity. As Haruhiko Kuroda, the BoJ governor, observed last week, with clear differences in its "economic and price situation", Japan does not need to remove negative rates just because other countries have. The challenge is whether that is politically sustainable or whether Kishida will feel obliged to replace Kuroda with a more hawkish governor when his term expires next year. If a bit of yen intervention buys the political space for coherent monetary policy then the benefits are probably worth the costs.

Opinion Entertainment

Superfans accuse Disney of taking the Mickey



Elaine Moore For many visitors, links to childhood mean Disney parks are more meaningful than ordinary holidays. That means they expect more from the

Letters

How the funeral music provided a fitting and fond farewell

There could be no greater tribute to Queen Elizabeth II than the exquisite singing of the service music by the choir at both the funeral and interment, of anthems from the splendid Anglican choral repertoire: both the familiar - Hubert Parry's "My Soul, There is a Country" and Vaughan Williams's "O taste and see"; and the less well known - Judith Weir's setting

of the lovely words of the 42nd Psalm, and James MacMillan's powerful "Who Shall Separate Us", composed 10 years ago for this service and performed there for the first time. The boy sopranos' unison singing was so perfectly blended, they sounded like one voice. How fortunate we are to have institutions that continue to maintain the highest

standards for the performance of sacred music ("Queen's funeral music revealed truths about her and all of us", Opinion, September 20). The buglers too played as one - their fanfare followed by two minutes of complete stillness in that great space, and matched by the reverent silence of the crowds waiting outside. Unforgettable were the haunting

melodies the Queen's Piper played - one at Westminster and the other at Windsor - as he turned and left those gathered for the final time, his notes fading in the distance. Having played to the Queen every morning as she greeted the new day, it was a fitting and fond farewell. Margaret McGillr Greenwich, CT, US

Job of pension trustees is to stop such investments

Martin Wolf's otherwise excellent article on "The economic consequences of Truss" (Opinion, September 21) suggests that previous governments have allowed "the search for safety in corporate pensions to shift portfolios away from the growth of high-performing



Some headline confusion after Xi-Putin exchange

I always feel better informed when I read the FT. However I must confess a certain confusion regarding the headline on your September 16 story "Putin admits to China 'concerns' over Ukraine in meeting with Xi". It is the Chinese who are admitting

Catchy descriptor does no justice to Japan

The phrase "Japan Inc" is tendentious. It starts the economic story in the middle, likens the country to a superconglomerate, and misrepresents the archipelago's postwar success ("A weak yen is no longer an unimixed blessing since it has triggered a

INTROIC



In America, the most devoted fans of Walt Disney are known as Disney adults. This group drops thousands of dollars each year on park visits, swooning over the distinct smell of the water in the Pirates of the Caribbean ride. To outsiders, their devotion to a brand aimed at children is embarrassing. Even Disney's feelings towards them are complicated. In an interview with the Hollywood Reporter this month, Disney chief executive Bob Chapek implied that fans who paid for expensive annual passes were visiting so often they were jamming up the parks: "We love the superfans, obviously. But we also like the fans that don't have the same expression of their fandom... we've got to make sure that there's room in the park for the family from Denver that comes once every five years." Access to many annual pass options has been suspended. Pre-booking visits is now required.

Ensuring park visitors spend more is essential to subsidise the company's investment in streaming

Not many companies get to claim superfans as customers. Tesla perhaps. Maybe Apple. At Disney, fan devotion has sent attendance in US theme parks back to pre-pandemic levels. It has enabled the company to expand from family-centred holidays to more expensive experiences such as cruise ships. In the last quarter, Disney Parks, Experiences and Products revenues increased to \$7.4bn from \$4.3bn the previous year. Cutting off a favourite product could be a risky move. I've seen Disney adults up close just once. When I moved to California a few years ago, I persuaded a friend to come to Disneyland with me so I could see what I'd missed out on growing up in England. We drove from Los Angeles to Anaheim on a quiet Tuesday in early December to visit the original park, built on a former orange grove in 1955. Because it was a school day I assumed we'd have the place to ourselves. I was wrong. Thousands of holidaying adults swarmed around us, decked out in Disney merch. Every ride had a long queue. So did every restaurant. The hyperreality of Disney theme parks has made them the most popular resorts in the world. Setting a haunted mansion beside the wild west land in view of an enchanted castle and surrounding them with pretzel and hot dog stands makes for sensory overload.

means they are worth paying more for — park prices rises exceed inflation. Yet even as other discretionary spending dips, Disney fans keep buying tickets. The problem is that super fans don't spend as much per visit as occasional park visitors. There are only so many Minnie Mouse headbands a person can wear. For some, the annual pass that allows buyers to visit Disney parks throughout the year is extremely good value too. A one-day trip to Disney World in Florida is \$109. The annual Incredi Pass is \$1,299 plus tax. Visited once a month and you break even. Go every week and you'd save over \$4,000. The mismatch has shades of the MoviePass debacle, in which subscribers paid less than \$10 per month for multiple cinema trips. MoviePass guessed they might visit once or twice a month. But their willingness to watch movies day after day left the company bankrupt.

Disney needs its parks to subsidise the company's massive investment in streaming. In August, Disney overtook Netflix on streaming subscriptions, triggering existential panic among the latter's investors. With 221m paying viewers, Disney+ is a hit. Its decision to price the service below competitors has encouraged sign-ups. Subscriptions for Disney+, Hulu and ESPN+ combined are expected to report close to \$12bn in revenue this year, according to Insider Intelligence. Disney's ability to cross-sell its intellectual property sets it apart from services like Netflix — which has tried to sell merchandise but has no significant source of revenue other than streaming subscriptions. But creating enough content to keep viewers watching is expensive. Disney has an impressive back catalogue and has successfully tapped franchises like Star Wars and Marvel to create new TV shows. But costs are high. It reported a \$1.1bn operating loss in the third quarter — three times as much as the same quarter the previous year. Ensuring park visitors keep coming back and spending more is therefore essential. Disney is reported to be considering a membership programme along the lines of Amazon Prime that would encompass streaming, parks and merchandise. Fans are not satisfied. At the recent D23 Expo, an annual event for the die-hard Disney supporters, there were complaints that annual passes were still suspended. Unluckily for them, Chapek used to run the parks division. He knows that demand is far higher than supply and is sufficiently unenthusiastic to take advantage. Prices could double and visitors would still come. Disney fans may moan but they will keep on coming back.

David Linnell
Retired Fellow, Institute of Actuaries,
Loughton, Essex, UK

away from the supply of risk capital to business to ownership of government bonds". This suggests that previous governments could have done otherwise, but this is untrue. Final salary schemes grew rapidly in the sixties and after; in the early years there were comparatively few pensioners, or members near retirement, and schemes were funded at levels well above the amounts that would have been needed on winding up.

As schemes matured, these conditions changed — the need to protect the interests of members in retirement, or nearing retirement, and also a decline in the levels of funding of schemes meant that there was a significant decline in the proportion of funds classed as surplus. Only such surpluses should be invested in more risky assets in the hope of reducing the employers' future contributions. Investing in riskier assets any of the funds needed to guarantee members' pensions would have been to gamble with those members' benefits, something which the trustees of these schemes were, and still are, there to prevent.

David Linnell
Retired Fellow, Institute of Actuaries,
Loughton, Essex, UK

What happens when borrowers go to the wall?

What will the government do when the fiscal loosening highlighted by Martin Wolf ("Energy package puts UK economic credibility at risk", Opinion, September 19) causes additional monetary tightening, sending many borrowers to the wall?

John Murray
Mayfield, East Sussex, UK

A wealthy businessman's critique of privatisation

As a wealthy businessman, I was interested in the unsupported assertions presented by Gregory Shenkman in his letter "A panacea only in the minds of forgetful leftists" (September 12), where he criticises the earlier letter of green peer Natalie Bennett (September 7). He arbitrarily views nationalisation as an obvious ill which "always results in bad management, waste and low productivity" and stipulates that "however badly private sector companies perform, state-owned ones would be much worse". Yet I would refer him to James Meek's 2014 book *Private Island* that enumerates the dreary results of the massive Thatcher-era privatisations of the national rail systems, the mail service, drinking water supply, electricity generation and distribution.

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HSBC's headquarters in Hong Kong, lit up for its 150th anniversary in May

healthcare, and housing estates, which demonstrate that "you can buy better but you can't pay more".

Privatisation can be viewed as a form of "shell game" or swindle resulting in the privatisation of gain and the socialisation of loss. A fair hypothesis is that stupidity is distributed evenly across a population. It matters not whether it is labelled "public" or "private" enterprise. Doctrine thinking is stuck favouring one or the other, instead of considering the actual intelligence of the specific endeavour. Joshua Shapiro
Chappaqua, NY, US

Imagine the savings if we'd decarbonised 10 years ago

Let me add some simple arithmetic to the cost of decarbonising the electricity system ("Investment of \$1tn a year needed to hit climate goals, research says", Report, September 21).

Basically, the study you cite could have been written a decade ago. Now consider that as the electricity industry decarbonises, cost of capital (return on and return of) will become the dominant cost in the production of electricity.

If our great leaders, greenwashers, climate deniers, politicians who did not want to face reality and shortsighted managers had started to take action a decade ago, they could have raised money during a period of essentially zero interest rates. What will they pay for money now?

Let's say that the industry (with governmental backing of some sort) would have paid 1 per cent over the past decade and 5 per cent now. On \$1tn dollars per year, that means an extra \$40bn per year in additional interest. Spend \$1tn for 10 years and the 10th year, electricity consumers will be paying an extra \$400bn per year, which is equivalent to the US electric bill right now.

Fabius Cauteris did a great job explaining Hannibal. I doubt that our bunch of delayers will be remembered as heroically. Leonard S. Hyman
Shelley Hollow, NY, US

is it valuable Putin who is articulating concerns or is it Xi Jinping who has expressed his, when talking to Putin in Uzbekistan?

The latter interpretation seems more plausible and accurate, as reflected in the article itself. Notwithstanding the linguistic finesse, the tides do seem to be mounting against the invader from many directions. Can one now begin to feel more optimistic? Hopefully so, at the onset of winter and its dire impact on our food and energy crisis. Arlette Laurent
New York, NY, US

How would HSBC boss react to China-Taiwan war?

You report the chief executives of Bank of America, Citi and JPMorgan have committed to complying with any US government demand to pull out of China if Beijing were to use force to reunite Taiwan ("US lenders ready to quit China in event of Taiwan war", Report, September 25).

The UK and the US have a special relationship and the two countries align with each other on most international policies. The UK has been a stronger supporter on sanctions against Russia.

It would be interesting to know the position of the chief executive of HSBC if he is confronted with similar questions as his US counterparts.

HSBC is the largest bank in the Hong Kong Special Administrative Region of China. Tony SK LI
Hong Kong

There's gratitude for you, from across the pond

Janan Ganesh's (Opinion, September 21) piece presented the bill for Britain's infatuation with tradition, one that was on glorious display this past week.

But talk of the bill prompts thoughts about who should share the cost. Among many on this side of the pond, the solemnity and majesty of the multi-day production were not so much casually, as hungrily, watched, less as a diversion from our divisive civic life as therapy from its bottomless crassness.

The result was a valuable and timely service Britannia provided to a country already so desperate for the soothing balm of dignity that it sat spellbound before *The Crown*.

So, a suggestion. In gratitude for this costly extravagance, maybe Americans should offer to help pay for it. Possibly through favourable trade agreements or a generous 21st century lend lease. I'll leave the details to Liz Truss and Joe Biden. Luke Popovich
Washington, DC, US

DRIPPING ACROSS JAPANESE INDUSTRY, Report, September 22).

Currency is not the main reason for Japan's break out of what economists call the "middle-income trap". Monetary policy did not give birth to Japanese industry, internationalise Japanese companies, the *haisha*, or inspire continuous improvement in production, *kaizen*.

In most measures, Japan's achievements and competitiveness are attributed to its attitude towards productivity, uniformity of thought and action, as well as rules for managing large-scale organisations. Sebastian Woller
Zurich, Switzerland

Brussels is right to call out Hungary's PM

Your leader says "the EU should press Hungary hard on rule of law" (FT View, September 25). Yes. The EU should flex its muscles and demonstrate not only that it has the tools but will to suspend funds to a country violating core principles of democracy and the rule of law.

Hungary learnt how to dance around Soviet domination under János Kádár as he tiptoed towards greater freedoms. Now under Viktor Orbán the opposite is happening in his "illiberal" democracy with not so gradual moves to autocracy, dilution of an independent judiciary and attacks on media freedom.

The EU should use all its available powers to demonstrate it means business. And stand by the withholding of funding until there is independent verification that Hungary has undergone an irreversible return to the rule of law. John A Dembitz
London SW19, UK

One unfairness I see when women take career breaks

Brooke Masters ("Better work-life balance for bankers could be another 'mommy track'", Opinion, September 22) writes about the problems of the on and off ramps in banking and the law that disadvantages women who wish to have children (and men who desire to parent).

The career cost of having children is an indisputable fact. However, it doesn't seem quite fair that people who seek a better "work-life balance" (for whatever reason) should have the expectation of being on the same future annual earnings as those who put their career above everything else.

Unless, of course, one's brilliance is openly acknowledged by the people for whom one works. Guy Wroble
Denver, CO, US

Opinion

The seven economic wonders of a worried world



Ruchir Sharma

MARKETS
In periods of gloom like this one, when commentators see nothing but faults in most countries, it is worth highlighting the few that defy the prevailing pessimism. Here are seven that stand out in a world tipping towards recession and higher inflation: Vietnam, Indonesia, India, Greece, Portugal, Saudi Arabia and Japan. They share some combination of relatively strong growth, moderate inflation or strong stock market returns — compared with other countries. By fascinating coincidence, most of them also defy deep biases about the supposedly dim prospects of certain countries, cultures and systems. The least surprising name on my list is Vietnam, a case study in communism that works. As geopolitical tensions

increase with China, western businesses are hedging their bets by adopting a "China plus one" strategy — and often the "one" extra sourcing destination is Vietnam. By investing heavily in the infrastructure required of a manufacturing export power, and opening its doors, Vietnam is growing at nearly 7 per cent, the fastest pace in the world. Criticism of the economic trials of Muslim countries long ignored the most populous one, Indonesia. Resource rich, it is benefiting from the global commodity price boom, but with a domestic market of 276m it is not overly dependent on exports. It has unusually low debt compared with other developing economies, and an unusually stable currency in a year when most currencies are falling sharply against the dollar. The result, a benign mix of 5 per cent growth with less than 5 per cent inflation, makes Indonesia a shining example of economically defying Islam. Though India's growth is always flattered by its low base, its economy will continue to be one of the world's fastest growing. Policymakers have done just

enough reform to draw in investors who, spooked by the regulatory crack-downs in China, are now gravitating to the second largest emerging economy. New investment in digital services and manufacturing are bearing fruit and the vast domestic market insulates India from global recession. Some of the "Pigs" — the countries at the core of the eurozone debt crisis a

These countries defy biases about the supposedly dim prospects of certain cultures and systems

decade ago — are now in revival mode. Greece and Portugal have cut their government deficits by more than half, and are less exposed than most of Europe to gas supply shocks emanating from Russia. Greece is getting a boost from a revival in foreign investment — and in tourism, which Covid had cut from 20 to 15 per cent of its gross domestic product.

Less than 10 per cent of bank loans are non-performing, down from 50 per cent during the crisis. Now growing at more than 4 per cent, with inflation coming down fast, Greece is enjoying one of the region's healthiest recoveries.

Portugal is in a similar place. It is wisely investing support funds from the EU and reforming one of the continent's most excessively generous pension systems, while a special "golden visa" attracts a tide of rich new émigrés. Perhaps not coincidentally, the best performing stock market in the developed world this year is Lisbon's. The Pigs acronym is passé.

Saudi Arabia is leading a movement among Gulf states to diversify beyond oil. Reforms, including loosening restrictions on women, workers, tourists and nightlife, have helped push projected growth to nearly 6 per cent over the next two years.

The regime is investing oil money in infrastructure, including 10 smart cities which promise a futuristic and car-free version of urban life. Though harshly criticised for political repression and with some distance to go on civil rights,

the kingdom is also expanding economic freedoms and putting this proudest at the forefront of green urban development.

The most surprising country on my list is Japan, where growth is actually picking up. After being dogged by deflation for years, Japan is also the rare country that gains from a return of inflation — now running just over 2 per cent. Its supposedly weak corporate culture has been raising profit margins. Labour costs are now lower in Japan than in China. The cheap yen is boosting exports and could revive animal spirits in the market as a late reopening from Covid restrictions draws back visitors.

Any of these economies could, of course, falter, undone by a turn in leadership, policy or by complacency. Still, these nations are already among the top performing stock markets this year. Amid well-founded worry about global prospects, a new set of winners is emerging.

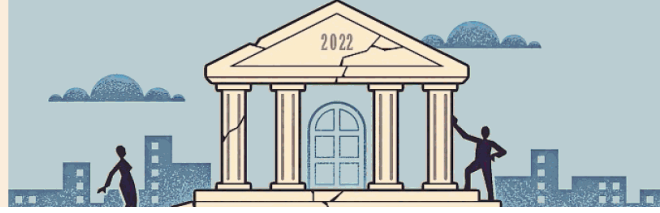
The writer is chair of *Rockefeller International*

Kwarteng's approach will leave Treasury with 'no money'

David Laws

Those who expected Liz Truss' government to be "continuity Boris" will by now have recognised their mistake. The populist, pragmatic, non-ideological Johnson-Sun era has been replaced with the tax-cutting, deregulatory, small-state ideology of the new prime minister and her chancellor. Radical, bold, and ambitious are words that Truss and Kwasi Kwarteng will want associated with their economic plans. But others spring to mind: irresponsible, eccentric and regressive. Let us start with irresponsible. When the Conservatives came to power, in coalition, in 2010, the Treasury was forecasting a budget deficit of just over £160bn for 2009/10. As incoming chief secretary, I received a now-notorious letter from my Labour predecessor admitting "there is no money [left]". The coalition established a new body, the Office for Budget Responsibility, to ensure transparency and to prevent chancellors from fiddling the forecasts. The OBR figures informed each fiscal event, often having an impact on the chancellor's decisions. They are free of political meddling, and of the optimism bias towards which politicians

Fallout of 2008 crisis still stalks financial system



Financial System

BUSINESS

Rana Foroohar



Watching the heads of several major US banks — JPMorgan Chase, Bank of America and Citigroup — being grilled in front of Congress last week, I couldn't help but be reminded of that familiar image of downcast chiefs of systematically important financial institutions on the Hill following the 2008 crisis.

This time around, politicians wanted to know not what Wall Street had done wrong, but what they were planning to do right should there be another crisis, either geopolitical (yes, the bank heads would pull out of China if Taiwan was invaded) or financial.

All of it underscores that 15 years on from the great financial crisis, there's still plenty of risk in the market system — it's just coming from different places. Consider, for example, current worries about Treasury market liquidity. As the October 2014 flash crash, the September 2019 repo market pressures and the March 2020 Covid-related dislocations have shown, the ultimate "safe" market has ended up being quite fragile in times of stress.

This is itself part of the legacy of 2008.

The huge amount of quantitative easing required to paper over the financial crisis meant that the Treasury market growth outpaced the ability or desire of buyers to hold T-bills. Deglobalisation and US-China decoupling meant that the usual suspects, Asian nations, are looking to sell, not buy Treasuries, at a time when the Federal Reserve is actively trying to offload T-bills as part of quantitative tightening.

Meanwhile, the big banks that have traditionally played the key broker-dealer role in the Treasury market say that they have been constrained by post-2008 capital requirements from doing that intermediary job as well as they had in the past. (Banks had hoped the pandemic-era exceptions from certain capital buffers would be made permanent).

As a recent Brookings Institution report on the topic put it: "without changes, the size of the Treasury market will outstrip the capacity of dealers to safely intermediate the market on their own balance sheets, causing more frequent bouts of market illiquidity that will raise doubts over the safe haven status of US Treasuries."

Consumer advocacy groups like Americans for Financial Reform are pushing for more transparency in pre-trading data, as well as central clearing for Treasuries, something that would help make the \$24tn US Treasury market, the largest and deepest market in the world, less fragmented and better regulated. Not surprisingly, banks are pushing back against not only more regulation, but also the capital require-



ments that have made it tougher for them, they claim, to hold more Treasuries.

This gets us back to one of the core, and still unanswered, questions of the great financial crisis: why are banks so special? Yes, the major US banks are far safer and better capitalised than they were before 2008. But why do they chafe at single-digit capital requirements when businesses in any other industry hold multiples of that?

Part of it is simply a desire to take more risk and make more money. But within that is a more nuanced and legitimate complaint, which is that banks increasingly have to compete with less regulated market actors like principal trading firms (aka, high frequency funds) that have moved into the T-bill

There's plenty of risk in the markets — it's just coming from different places

market, as well as fintech companies and private equity titans that have become important players in areas like lending and housing.

That points to yet another problem in the system. Financial "innovation" is still running far ahead of regulation, just as it did before 2008. It is well known that private equity benefited wildly from being able to buy up single family homes, multiple family dwellings and even mobile home parks in ways that large banks would not have been able to in the wake of the crisis.

Since then, private equity has moved into healthcare (they want to streamline nursing homes, ominously), and is even targeting some of the US's industrial giants — family-owned manufacturing businesses. I shudder to think what these profitable, community-based businesses will look like once the big funds are done stripping their assets and loading them up with debt.

The SEC has proposed stronger rules for private funds, and better transparency and metrics on fees, which is, of course, needed. Meanwhile, the Treas-

ury Department is reviewing public comments on how to make sure we don't get a flash crash in T-bills. There's even a push to tighten regulation on regional banks that are playing a bigger role in the financial system. All of this has merit.

But it also points to the biggest question that we never answered in the wake of 2008 — who is the financial system meant to serve? Wall Street or Main Street?

I'd argue the latter, but there's no one silver bullet to fix a system that has moved so far away from the productive mediation of savings into investment. As everything from an increasingly volatile T-bill market to a home lending market now dominated by shadow banks to the financialisation of commodities has shown us, we still have a market system that all too often exists more to serve itself than the real economy.

Perhaps we will need another crisis before that problem is finally fixed.

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are prone — not least in setting growth targets such as the current 2.5 per cent objective.

We embarked on a programme of deficit reduction. This was not some ideological obsession. It was intended to achieve three outcomes: keeping interest rates low, avoiding a build-up of debt

This experiment will result in more debt, higher interest rates, and greater inequality

to saddle future generations and ensuring that healthy public finances would allow bold responses to national emergencies. Prudent fiscal management has permitted the UK to fund interventions such as the furlough scheme and, now, the energy price guarantee.

For Conservative colleagues, this process of "repairing the roof" was their central mission. All of it has now been junked by Truss. The OBR has been sidelined; instead of the fiddled forecasts of past chancellors, on Friday we were offered no forecasts at all. Government borrowing is being massively increased not to deal with one-off crises but to deliver large, unfunded tax cuts. It is an extraordinary change of course — precisely when UK public finances need to be strengthened to meet the health and pension costs of an ageing population.

Next comes eccentric. How else to describe a government policy that seeks to boost growth through tax cuts while the Bank of England is having to raise interest rates to reduce inflation? Policymakers have their feet simultaneously on both the economic brake and the accelerator. But there is little evidence of a surge in gilt yields, which will raise UK debt servicing costs.

If unfunded tax cuts could raise long-term growth rates to Kwarteng's target of 2.5 per cent, they might be worth this incoherence. But there is little evidence of it. If Truss wants to raise productivity and growth, she will have to tackle more complex policy challenges: improving education and skills, planning reform, and mending trade relations.

Finally, to regressive. The cuts to income tax and National Insurance contributions hugely favour those on high incomes. Stamp duty cuts will benefit the older, richer and those in the south-east. Truss might say she is prioritising opportunity. But there is an iron relationship between poverty and stunted life chances.

This is a huge economic experiment. The result will be more debt, higher interest rates, starved public services and greater inequality. With a budget deficit, according to recent IFS forecasts, which could average around £160bn per year (or more) over the next two years.

Current Treasury ministers may need to leave a letter for their successors: "There is still no money left. We are back to where we started in 2010." That would not be a happy legacy.

The writer was a Liberal Democrat minister in the 2010-2015 coalition government

Urgent rewriting of EU fiscal rule book will depend on trust

ECONOMICS

Martin Sandbu



The Dutch economist Jan Tinbergen's name is immortalised in the rule every economics student must — and every policymaker should — learn: you need one policy tool for each policy goal you are trying to achieve.

The Tinbergen rule is useful to keep in mind as the EU prepares to reform its fiscal rules, informally known as the stability and growth pact. In its current form, the pact has no instrument to target growth at all (unless you count limited suspensions of the rules). Indeed, private and public investment hit rock bottom in the last decade, when European politics was mostly heavily steered by fiscal discipline.

Conversely, the pact contains too

many instruments targeting "stability". Even the most hawkish of eurozone finance ministers have complained that it is too complex. And "stability" is a misnomer; the pact's tools may limit public borrowing but they don't guarantee stability, as Spain and Ireland's experiences in the eurozone sovereign debt crisis showed.

Until recently, EU leaders have been deadlocked between high-debt states and "frugal" ones but there is now accelerating movement. Governments have published informal position papers. When finance ministers met in Prague this month, I am told their shadow boxing around reform became "less shadow and more boxing". They expect a detailed reform proposal from Brussels next month.

Why is momentum for reforming the rules building now? One reason, paradoxically, is their current suspension. The "general escape clause" was first triggered in the pandemic and then extended after Vladimir Putin's assault on Ukraine. When governments start planning their 2024 budgets next year, they will need to know what rule book to

go back to. They are increasingly seeing eye-to-eye on what this should be.

The tragic clarity of Putin's intentions, and his willingness to weaponise gas, have focused Europe's attention on geopolitical security in general and energy security in particular. The need to invest more — in frontier technologies to gain "strategic autonomy" and in digital and decarbonised infrastructure for energy independence — has moved from long-

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term aspiration to immediate security imperative. That sense of urgency has produced an impressive agreement that the rules must encourage investment in Europe-wide public goods such as defence capabilities, electricity generation and energy transmission. Even Germany's government emphasises the need for investment. The security

imperative has reconfigured the politics as well. The EU's northern flank of smaller liberal states were traditionally strictest on both security and budget questions. Putin's belligerence has brought home that you cannot be hawkish on both at the same time. They have largely, and wisely, decided to put geopolitical hawkishness first. The result is a much more constructive attitude on budget policy, including surprising new constellations such as a joint Dutch-Spanish position.

That raises two questions. First, will Germany play ball? The answer is probably yes. It has been showing more flexibility, from its coalition's governing programme last year to its statement of principles for reform this summer. No longer shielded by the ultra-hawkish group of northern states, it is likely to move further.

Second, will the reforms achieve enough? Here, the answer is probably no. The likely compromise will retain the overarching legal structure of the rules while modifying their substance. There is much support for replacing structural deficit targets with paths for

public expenditure, and budding agreement on tailoring debt reduction for each country. These are improvements but they hardly amount to instruments dedicated — à la Tinbergen — to boosting growth or even investment.

But an optimal outcome is not on the cards. What can be hoped for is that imperfect but more country-specific rules will improve the political dynamic. Many capitals argue that more national input into how the rules apply and a greater effort to agree about what counts as good public spending would increase compliance. That could create incentives to prioritise investments that benefit the EU as a whole. In all this, the experience of the EU's recovery fund will matter hugely. If countries' deployment of common resources are seen as a success, it will boost trust and make the fiscal rule book more growth-friendly. Failures to meet agreed milestones, let alone failures of the rule of law, will do the opposite. Rules, often a substitute for trust, in this case depend on it if they are going to work.

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