

▶ That may be easier said than done. Although Mr Sharif's supporters fared badly in the local elections and Mr Hussain's boycotted them, Miss Bhutto's candidates swept Sindh province and made a powerful comeback in Punjab and North West Frontier provinces. Indeed, on current form and barring electoral rigging, the PPP can be expected to win the most seats in parliament next year. What then?

Some observers suggest that Miss Bhutto may do a deal with General Musharraf, committing her party to his plans for constitutional change and staying out of parliament herself in exchange for her imprisoned husband's freedom and a degree of power-sharing. As a budding politician himself, General Musharraf may not be all that averse to such a cynical arrangement. ■

### Water in China

## In deep

DANJIANGKOU, HUBEI PROVINCE

### Following up on Mao's big idea

WITH much of northern China fast running out of water, the government is favouring a plan championed by Chairman Mao half a century ago. Water would be diverted to the north from the Yangtze River basin hundreds of kilometres to the south. Chinese officials say work on what would be one of the world's biggest water diversion schemes is likely to start next year. But quite apart from being colossally expensive, the project may well do more harm than good.

Beijing gets most of its drinking water from a single reservoir which these days, thanks to successive droughts and soaring consumption, is a third as full as it once was. Farmers and industries are pumping water out of the ground so fast that in 15 years Beijing's water table will be drained. The Yellow River, on which much of northern China depends for its industry and agriculture, now often dries up before reaching the sea. More than half of China's cities suffer water shortages. This year has seen one of the worst droughts in decades.

But some experts are sceptical about the scheme, much as it appeals to a leadership fond of grandiose solutions to ancient problems. So far, though, it has not aroused the bitter controversy that the equally vast plan to dam the Yangtze at the Three Gorges did before its approval in 1992. In the north, water is needed badly and the project does not threaten an area as beloved as the scenic Three Gorges. But like the earlier one, the new scheme will do considerable damage to the environment and cause massive disruption to

many lives. It will also provide no more than a partial solution to China's problem.

The diverted water would follow three main routes. The western section would involve tunnelling through mountains to link the headwaters of the Yangtze and Yellow rivers. The central route would require building a canal and aqueduct some 1,240km (770 miles) long to the Beijing area. The 1,150km eastern route would mostly follow existing water courses, including that of the ancient Grand Canal.

For the time being, Chinese officials are focusing on the technically less challenging central and eastern routes, which would cost some \$20 billion. The eastern route, however, presents a major problem—the water would pass through some of the country's most polluted rivers. Bringing in a supply of polluted water would be of very little use to northern China.

The central route is therefore likely to be the first to get under way and could be completed by 2010. But there are considerable drawbacks to this part of the plan too. The level of the Danjiangkou reservoir would need to be raised by 13 metres (43 feet). More than 200,000 people would have to move. Many would move higher up the surrounding hills, chopping down forest and exacerbating already serious soil erosion. Downriver of the Danjiangkou dam, the water level of the Han River, a major tributary of the Yangtze, would drop, making it more prone to fish-killing algae. Officials say that this problem could be alleviated by pumping water from the Three Gorges reservoir into the Han River.

Some experts in Beijing argue for a different tack. Tackling pollution, using recycled water and forcing people to save water by raising absurdly low prices would go a long way towards alleviating the north's problems, they say. Once these measures were in place, the diversion plan could be reconsidered. One of China's best-known critics of the government's big water projects, Dai Qing, says officials have suppressed debate about the scheme. "They'll make a lot of money on the side through corruption," she argues. "It doesn't matter to them whether it works or not." ■



### Japan

## Harder times for Koizumi

TOKYO

His shrine visit won't help Japan's prime minister mollify the right



IT WAS a fudge—and not a very successful one at that. Junichiro Koizumi, Japan's new prime minister, had pledged before his appointment in April to go to Yasukuni, a controversial shrine for the war dead, on August 15th, the anniversary of Japan's surrender in the second world war. Last month he started publicly wavering, as protests, both inside and outside Japan, got louder. When he eventually went to Yasukuni, two days earlier than promised and with a minimum of warning, he pleased few and angered many.

Mr Koizumi, the first sitting prime minister to pay an official visit to the shrine in 16 years, had hoped that the change in date and a carefully prepared statement acknowledging Japan's wartime aggression would mollify critics. He was wrong. China, South Korea, and other Asian countries were furious that he went to a shrine which honours, among millions of other war dead, 14 "Class A" war criminals, and were not in the slightest bit mollified by his changing of the date. Tensions that had been running high following a row over Japanese history textbooks that omit reference to the sexual exploitation of local women by Japanese occupation forces rose even further: in South Korea a group of particularly incensed men each cut off a little finger in protest. Japan's foreign ministry, led by Makiko Tanaka, its minister, is now scrambling to patch things up.

Mr Koizumi also lost support at home. Those who opposed his Yasukuni trip—▶



► New Komeito, his main coalition partner, and most of the opposition parties—were angry that he went at all. Worse, those in his own Liberal Democratic Party (LDP) who wanted him to go on the 15th were upset because he partially caved in to what they call pressure from the political left.

The loss of his conservative chums comes at a bad time for Mr Koizumi. His cabinet has just approved a stringent set of budget guidelines for 2002, which trim overall government spending by 1.7%, the biggest cut ever. The prime minister, it seems, is determined to stick to his promise of capping new issues of government bonds to less than ¥30 trillion (\$246 billion) next year. He ventured into sacred LDP territory, slashing public-works spending by 10% or ¥9.3 trillion. The folk in the LDP, mindful of their constituents, will now start fighting for their pieces of the shrunken pie. With few allies and lots of enemies, Mr Koizumi may find it hard to

control the rows that will surely erupt in the coming weeks.

He will have to do battle himself if he is to push through administrative reforms to sort out Japan's debt-ridden public corporations, such as the Japan Highways Public Corporation and the post office. Not only does he face strong resistance from the bureaucrats that oversee them, but he is likely to clash with many politicians who rely on these groups for support. As for his structural reform plans for the private sector (which he has yet to unveil), these too are unlikely to be greeted kindly by many members of his party.

Mr Koizumi has ended up wasting precious political capital by going to Yasukuni. He has even lost some credibility with voters. His strongest support group, ordinary voters, cared little about his visit to the shrine, but were left with the impression that Mr Koizumi backs and fills when the going gets tough. ■

them agree that Indonesia's new president, Megawati Sukarnoputri, needs to get the government budget under control. Fortunately, Miss Megawati has had a good week. The currency rallied sharply as her new economic team continued to make soothing noises. By mid-week it had reached 8,485 rupiahs to the dollar—a rise of 31% since she took office last month. With public debt at over 100% of GDP, more than half of it external, a stronger currency could ease debt-service costs.

The rupiah's recent rebound, however, should be heralded with caution. It is a volatile currency partly because the markets in which it trades are so thin. This week's spike followed promises that the Indonesian Bank Restructuring Agency will at last begin selling assets seized during the last economic crisis. But if Miss Megawati's team fails to press ahead, Indonesia will suffer a triple blow: the government will lose the proceeds it needs to plug its deficit; foreign capital will not flow in to buy the assets, thus weakening the rupiah; and an unamused IMF may halt Indonesia's efforts to restructure its debts yet again.

A few Asian governments are still trying to spend their way out of trouble. Malaysia will run a fiscal deficit of more than 4% this year (even including revenues from its state-owned oil giant, Petronas). Although many analysts doubt whether that money will yield worthwhile infrastructure, and give warning that it may postpone badly-needed restructuring, they all agree that it will help offset the short-term plunge in Malaysia's exports. They also agree that Malaysia can afford to keep borrowing for a while yet.

They worry even more about Thailand, where the prime minister, Thaksin Shinawatra, won office this year by promising several measures to boost rural incomes. Mr Thaksin is also planning a 58 billion baht (\$1.3 billion) stimulus package for the year beginning October 1st. More confusingly, he sacked the central-bank chief earlier this year so that he could raise interest rates, a policy that will make his fresh borrowing even more expensive. For now, however, the farmers come first. ■

### East Asian economies

## To spend or not to spend?

BANGKOK

Some governments are opening the spigots, others are afraid to

THE last time they collapsed, during the crisis of 1997-98, East Asia's economies could at least fall back on healthy fiscal balances. That virtue gave them an edge over other emerging markets, and after a little wrangling with the IMF their governments began spending freely to help offset falling exports and investment. Four years on, however, the region has been gripped by a second downturn, this one global. And after borrowing heavily last time to bail out banks and boost demand, Asian governments' debt levels are now much higher than before. This time round, can they afford to prime the pumps?

Although some clearly can, it is surprising how few are trying. Indeed, investors are actually urging some countries to spend more. South Korea's government, for example, has plenty of scope to do so, but delays in the National Assembly continue to hold up its plans. The government actually ran a budget surplus of 1.1% of GDP last year, and has fallen well short of its spending targets in the first half of 2001. Some onlookers have also wondered why Singapore does not spend more, since it has a large surplus while its exports, and its growth, are falling sharply.

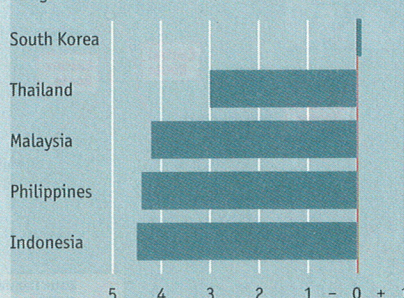
In the region's most troubled economies, by contrast, governments would like to prime the pumps, but higher debt-service costs and wary currency traders are making it more difficult. In the Philippines,

for example, Gloria Macapagal Arroyo inherited a runaway deficit from her predecessor, Joseph Estrada, when she replaced him as president earlier this year. Far from spending her way out of trouble, she has implemented an austerity plan, and is trying to overhaul the tax system to capture more revenues from the economy. Her government continues to hit its monthly deficit targets, which provide for a 2001 shortfall of around 145 billion pesos (\$2.7 billion). Such efforts may eventually help to restore confidence, but will bring little solace during the current global slump.

Indonesia's fiscal problems are even worse: although analysts debate Mrs Arroyo's austerity package, almost all of

### Not much slack

Budget balance as % of GDP, 2001 forecast



Source: J.P. Morgan Chase

Total public sector debt as % of GDP, end 2000

