positions of power, officials will not be corrupted.” So far in his term, Xi has clamped down on journalists, crusading lawyers, and nonprofits not associated with the party. —Dexter Roberts and Jasmine Zhao

The bottom line China’s Communist Party has 87 million members, but that number will shrink as recruiters grow more discriminating.

Global Economics

Energy

Clean-Air Rules Revive Demand for Dirty Coal

While mines close in Appalachia, Illinois is reviving its coal industry

"Here we are growing, while the industry's shrinking"

The dirtiest coal in the U.S. is becoming popular again. Now that more of their power plants can remove toxins such as sulfur dioxide (SO2), utilities are buying coal with the highest levels of pollutants after abandoning it decades ago in favor of cleaner-burning varieties from Appalachia and Wyoming. This is good news for coal producers in Illinois, home to some of the dirtiest coal reserves in the U.S. Last year demand for the state's coal hit its highest level since 1990, as sales of competing Appalachian coal dipped and consumption of coal from Wyoming rose at a slower pace. "Here we are growing, while the industry's shrinking," says Michael Beyer, chief executive officer of Foresight Energy, an Illinois company with four coal mines in the southern part of the state.

Coal from the Illinois Basin, which stretches across the state and into parts of Indiana, Missouri, and western Kentucky, contains more sulfur than that from other regions of the U.S. It fell from favor after 1990, when an expansion of the Clean Air Act put limits on SO2 emissions, which cause acid rain. Over the next decade, utilities cut the amount of coal they bought from the region by 46 percent. By the mid-‘90s, plants had started installing scrubbers that could remove 95 percent of SO2 emissions.

Today, more than 70 percent of U.S. coal plants have scrubbers. By 2025 all of them will, according to Wood Mackenzie, an Edinburgh-based energy consulting firm. That should boost demand for coal from the Illinois Basin.

It's cheaper than Appalachian coal and burns hotter than Wyoming coal, producing more energy. According to the U.S. Department of Energy, production from a region designated by the government as the Eastern Interior, which includes the Illinois Basin, is forecast to rise 9.4 percent in 2015, while production from parts of West Virginia, Virginia, and Kentucky is projected to decline 14 percent. Coal from Wyoming is expected to rise 4.4 percent next year.

In June, Foresight held an initial public offering and opened a $450 million mine in southern Illinois called the Viking Mine. In July, Sunrise Coal, a subsidiary of Hallador Energy, bought Vectren Fuels for $320 million to gain access to mines in Indiana, Illinois, and western Kentucky. The Illinois Basin’s share of U.S. production will climb to 20 percent by 2040 from 13 percent currently, according to the U.S. Energy Information Administration. Environmental groups such as the Sierra Club have fought new permits in Illinois but have mostly failed to stop the expansion.

Investment is drying up in Appalachia. Two of its biggest coal companies, Alpha Natural Resources and Arch Coal, plan to close as many as 13 mines in 2014. Making matters worse for the region, the Environmental Protection Agency’s Mercury and Air Toxics Standards rule goes into effect next year. Beginning in April 2015, all utilities will have to install expensive scrubbers in coal-burning plants to reduce mercury emissions, the same technology that helps remove sulfur. The scrubbers make all coal even in terms of pollution, says Jeremy Sussman, an analyst at Clarkson Capital. That means utilities make purchases based on economics. Illinois coal is cheaper to mine and transport than Appalachian coal, and it delivers more bang for the buck than Wyoming coal, he says. Illinois is closer to more coal-fired plants in the Midwest and Southeast than Wyoming, and its flat terrain is easier to mine than the rolling hills of Appalachia.

At its Viking Mine, Foresight is able to use giant shearing machines to cut slabs of coal and-a-half feet thick along a flat surface 1,400 feet wide. The coal collapses onto a belt that moves about 3,000 tons an hour. While it costs millions to install this mining machinery, it’s a much more efficient way to mine—and a method that’s not feasible in most
Global Economics

parts of mountainous Appalachia. "The Illinois Basin is really going to benefit the most," says Hans Daniels, executive vice president of Doyle Trading Consultants. "You have the ideal location for mines. They're in the heart of coal-burning country."
—Mario Parker

The bottom line Demand for Illinois's dirty coal is booming because utilities are now able to burn it without emitting high levels of toxins.

Petroleum

Islamic State's Hold Over Turkey

The militants sell cheap oil to the country—and keep 49 hostages

The fate of the captives might "impede Turkish and allied options"

Turks pay about 5 liras ($2.30) per liter at the pump, a higher price than in most European countries and more than double the average in the U.S.—the equivalent of almost $9 a gallon. That makes cheap oil and gasoline smuggled across the border from Syria and Iraq attractive. The fuel makes its way into Turkey by truck, hauled inside containers, or is pumped through plastic pipelines. Middlemen purchase the fuel for 1 lira to 1.5 liras per liter, says Mehmet Ali Ediboglu, a Turkish legislator. By the time it arrives in the city of Gaziantep, a booming export hub in southeastern Turkey, it sells on the black market for about 3 liras, locals say.

The trouble is, much of that gas comes from Islamic State, the murderous proto-government that rules a swath of territory straddling Syria and Iraq. The Sunni militias control about 60 percent of Syria's crude oil production assets and several oil wells in Iraq. Say Luay al-Khatteeb, a visiting fellow at the Brookings Doha Center. While some of the fuel is sold or distributed in Syria and Iraq, the rest is smuggled to southern Turkey. "It's the only export market that Islamic State has," he says.

Smuggling has always played a role in the border economy, but it's grown out of control since the start of Syria's civil war in 2011. The amount of fuel seized at the border by authorities has tripled since then, say two government sources speaking on condition of anonymity because they aren't authorized to speak to the press. Over the past few months, Turkey's armed forces have started taking a tougher line, stopping trucks at the border and destroying pipelines, often little more than hoses. "We try to make sure that those smugglers know that if they smuggle now, it will be related to terrorism," says one of the officials.

As the shadow economy thrives, the traditional one is feeling the hurt. Already cut off from markets in Jordan, Lebanon, and the Persian Gulf by the fighting in Syria, merchants and Turkish exporters in Gaziantep province are reeling from the effects of Islamic State's offensive in Iraq. A month after the militants overran Mosul and other cities, the province's exports to the country fell 48 percent from the previous year, according to the Gaziantep chamber of commerce. Islamic State "has blocked the trade routes from the northern part of [Iraq] to the center," says one agricultural commodity trader, who asked not to be named because of his company's policy. "We had 15,000 metric tons going to Iraq every month...Over the last two months that has basically stopped." Turkey's overall trade with Iraq has dropped 32 percent since June. According to Turkish news reports, the militants have set their sights on a number of towns near the border, presumably to open supply routes for weapons, fighters, and smuggled oil. Islamic State has also begun recruiting fighters inside Turkey, possibly with the help of Islamist organizations and charities. Estimates of the number of Turks who have joined the militants range from several hundred to more than a thousand. At least 114 Turkish nationals have died fighting in Syria, according to a Turkish official who declined to be named.

One of the main reasons for Turkey's muted response to Islamic State: In June, when the militants overran Mosul, Iraq's second-largest city, they took over the Turkish consulate there, capturing 49 people, including the consul general. They are still being held hostage. "It is very difficult now for Turkey to manage the situation," says Vaskes Yavas, a former Turkish foreign minister. "Its hands are tied." After the execution of the U.S. journalists James Foley and Steven Sotloff, "It has become all the more difficult to do something which Islamic State might perceive as a wrong move."

Of all the countries involved in NATO's newly formed "core coalition" against the terrorists, Turkey is the most exposed to potential blowback. "Once they consolidate their gains in Iraq and Syria, some of Islamic State's leadership may try to export their brand of jihadism to Turkey," says Sinan Ugen, a former Turkish diplomat and visiting scholar at the Carnegie Endowment for International Peace. "The biggest threat is their potential to stage suicide attacks on Turkish soil," he says. Can Kasapoglu, a research fellow at the Center for Economics and Foreign Policy Studies, a Turkish think tank, wrote in a recent report that the Islamic State leadership "could opt to keep the hostages indefinitely in order to impede Turkish and allied options."

Asked to comment on the effect the hostage situation is having, the second government source is circumspect.

"We're careful," she says. "Our options are limited." Defense Minister Ismet Yilmaz said in August, "Those who say otherwise want us not to attach any importance to those 49 people. That's not a reasonable demand."

—Piotr Zalewski

The bottom line Despite the impact on the economy and security in its south, Turkey's response to Islamic State has been muted.