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The world this week

Politics

Jan 23, 2025 03:32 PM



Reuters

Donald Trump was inaugurated as America's 47th president in a ceremony that was held inside the Capitol Rotunda because of freezing conditions outside. On his first day Mr Trump signed orders withdrawing America from the Paris climate agreement and the [World Health Organisation](#), and revived sanctions on the International Criminal Court. He also declared an emergency at the border with Mexico, tasking the Department of Defence to come up with a plan to seal it and repel "invasion" from mass migration and trafficking. Refugee admissions were suspended and a scheme that allowed people from Cuba, Haiti, Nicaragua and Venezuela to move temporarily to America was ended.

The Trump revolution

Other edicts prohibited federal employees from interfering with **free speech**. An order "[restoring biological truth](#)" officially defined sex as male or female. All diversity, equity and inclusion programmes in government were terminated along with their mandates, policies and activities. There was even a presidential

memorandum on “putting people over fish” in California. Most of Mr Trump’s decrees will be challenged in the courts.

Mr Trump also issued a flurry of **presidential pardons**, mostly for almost 1,600 people convicted for their part in the attack on Congress on January 6th 2021. Shortly before leaving office **Joe Biden issued pardons** of his own, many of them pre-emptive to counter possible legal action by the new administration. Mr Biden’s list included members of his own family as well as Anthony Fauci, the chief covid adviser, and Liz Cheney, an implacable Republican critic of Mr Trump.

Volodymyr Zelensky used his speech at Davos to take Europe to task for not doing enough to protect its security, saying its leaders needed to do more than just post agreements on social media. “Will Trump even notice Europe?” the **Ukrainian** president asked, as he confirmed that he wants to meet his American counterpart soon. Separately, Mr Trump said Vladimir Putin should make a deal on **Ukraine**, and that he was “destroying Russia” by not doing so. He suggested he would impose crippling sanctions on Russia if Mr Putin refuses to negotiate.

In Russia a closed-door court sentenced three lawyers who represented **Alexei Navalny** to prison. Mr Navalny was the leading figure opposing the Putin regime until his death in an Arctic penal colony a year ago. His lawyers were convicted of supporting “extremism”.

At least 79 people died when fire engulfed a hotel at a ski resort in **Turkey’s** Bolu mountains, which lie halfway between Istanbul and Ankara.

Axel Rudakubana pleaded guilty to murdering three young girls in **Southport**, a town in England, last July. The killings had triggered riots that were blamed on the far right; Mr Rudakubana is the son of Rwandan immigrants. The prime minister, Sir Keir Starmer,

admitted that the authorities had failed to stop the killer; he had been referred to a terrorism-prevention scheme three times but never put under enhanced monitoring. Sir Keir stopped short of calling the murders a terrorist attack.

A spate of violence between rebel groups in **Colombia** killed scores of people and displaced 32,000. The death toll in the Catatumbo region rose to 80 after the oldest guerrilla group, the National Liberation Army (ELN), targeted dissidents of the Revolutionary Armed Forces of Colombia, which disbanded under a peace deal in 2016. President Gustavo Petro suspended talks with the ELN and announced a state of internal unrest. Clashes in the Guaviare jungle killed another 20 people. The armed groups have long fought for control of Colombia's drug-producing regions.

Safe at last



The [ceasefire between Israel and Hamas](#) came into effect, allowing aid to flow into the Gaza Strip. After a small delay caused by bickering over the details, Hamas released the first three hostages it has held captive for 15 months in exchange for 90 Palestinian prisoners. Thirty-three hostages will be released over the six-week period of the truce. Meanwhile, Israeli forces launched a [major operation in Jenin](#), in the **West Bank**, targeting Hamas and other militants.

Lieutenant General Herzi Halevi decided to resign as chief of staff of the **Israel Defence Forces**, saying he had failed to protect the country from the Hamas attack in October 2023. In his resignation letter, General Halevi also said that “The war’s objectives have yet to be fully achieved.”

Nine people were shot dead by soldiers at a gold mine in **Ghana**, according to a local miners’ group. The army said that scores of illegal miners were carrying rifles and had fired on security personnel. The incident comes soon after the deaths of 78 illegal miners in South Africa , where the authorities had cut water and food supplies to the mine.

The Taliban in **Afghanistan** freed two American captives in exchange for the release from an American prison of one of their number, who was found guilty of running a drug ring to buy rockets to attack American troops. The prisoner exchange was announced on the final day of the Biden administration. Two Americans are still held by the Taliban.

A judge in Kolkata handed a life sentence to a man convicted of raping and murdering a junior doctor. The murder last August prompted protests across **India** against the lack of protections for female workers and the general disregard for women’s safety. The killer was a police volunteer.

At his impeachment trial being heard by the Constitutional Court, Yoon Suk Yeol, the president of **South Korea**, defended his decision to impose martial law briefly in December and denied that troops had been ordered to remove opposition MPs from parliament. Meanwhile, the anti-corruption agency investigating Mr Yoon passed its findings on to prosecutors, recommending that he be charged with insurrection.

Taiwan’s opposition-controlled parliament voted to freeze substantial parts of the country’s defence budget. A defence

minister said the decision would affect Taiwan's ability to counter almost daily provocations from China. It could also incur the wrath of Donald Trump, who has said Taiwan needs to spend more on its defence.

The first same-sex weddings were held in **Thailand**, which has become the only country in South-East Asia to legalise gay marriage. More than 1,000 couples took their vows on the first day.

<https://www.economist.com/the-world-this-week/2025/01/23/politics>

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The world this week

Business

Jan 23, 2025 03:32 PM



Donald Trump took no time to issue a gale of executive orders relating to business on his first day as president. He declared an **“energy emergency”** and terminated funding for renewables infrastructure under Joe Biden’s Green New Deal, ditched a goal that 50% of new cars in America should be electric, and resumed export applications for new liquefied natural-gas projects. Another order aims to expand the development of resources in Alaska.

Mr Trump also ordered a review of existing **trade** deals and said he would create an External Revenue Service to collect tariffs. He warned that he would levy tariffs of 10% on Chinese goods by February 1st (which is a lot lower than the 60% he had aired on the campaign trail) and reiterated his intention to impose import duties of up to 25% on goods from Canada and Mexico. “The European Union is very, very bad to us,” Mr Trump said, “so they’re going to be in for tariffs”, too. He also ripped up a global deal on corporate taxes.

Tariffs were also dangled as a further punishment to China if a deal cannot be reached on divesting **TikTok**. Mr Trump signed an order

giving the video platform a 75-day reprieve in America. It had temporarily become inaccessible to its 170m American users on the last day of the Biden administration, after the Supreme Court decided that shutting TikTok down on national-security grounds was constitutional. Shou Zi Chew, TikTok's chief executive, attended Mr Trump's inauguration.

Sam Altman, Larry Ellison and Son Masayoshi, the bosses of OpenAI, Oracle and SoftBank respectively, joined Mr Trump at the White House to announce a new project to build infrastructure in **artificial intelligence**. Named Stargate, the project aims to spend \$100bn on such schemes, rising to \$500bn over the coming years. Elon Musk, who has been in a long-standing feud with OpenAI, claimed the companies didn't have the money. That prompted a clash with Mr Altman, who said Mr Musk was "wrong".

Google was reported to be investing another \$1bn in **Anthropic**, a startup that has developed the Claude generative-AI models. Amazon is also collaborating with Anthropic to build Claude into its Alexa voice-command service.

How green is your AI?

Microsoft reportedly secured carbon credits by paying to restore parts of Brazil's forests, the latest attempt by a big tech company to offset the increasing amount of energy it is burning through because of the expansion of artificial-intelligence services. Microsoft's carbon emissions in 2023 were 29% higher than in 2020.

In Britain the government forced Marcus Bokkerink out as chairman of the country's **Competition and Markets Authority**, reportedly because the regulator is not considering economic growth in its deliberations. The CMA's new interim head is Doug Gurr, who used to run Amazon's British business.

Pod Point, a provider of charging points for **electric vehicles** in Britain, warned that weak demand for EVs would cause its annual revenues to be less than expected. The company's share price plunged by 40%. It said the market for non-company-car EVs was "challenging" and that the government's consultation on its planned zero-emission mandate for cars "could further increase near-term uncertainty".



The Economist

Another 19m subscribers joined **Netflix** in the final three months of 2024, the most ever for a quarter, taking its total membership base to 301m. The company stepped up its push into live-streaming in the period, broadcasting a boxing match between Mike Tyson and Jake Paul, and two National Football League games. It also launched new episodes of "Squid Game", a wildly popular South Korean series, and "Carry-On", a film thriller. Confident of its success, Netflix is increasing its subscription fees in America, raising the price of a standard ad-free plan from \$15.49 to \$17.99 a month.

America's Federal Aviation Administration ordered SpaceX to suspend further launches of its **Starship** project after a rocket exploded minutes after taking off from its base in Texas. The accident caused dozens of airline flights to be delayed or diverted in order to avoid the rocket's falling debris over the Caribbean and Atlantic. SpaceX is hoping to conduct at least 12 Starship tests this year, but that goal may now be in jeopardy.

Shedding a few pounds

LVMH overtook **Novo Nordisk** to become Europe's most valuable company on the stockmarket, a crown the luxury-goods company last claimed in 2023. Novo Nordisk's stock dropped after the body that oversees America's Medicare programme added its Ozempic and Wegovy diabetes and weight-loss treatments to a list of drugs that will be subject to price negotiations.

<https://www.economist.com/the-world-this-week/2025/01/23/business>

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The world this week

The weekly cartoon

Jan 23, 2025 03:48 PM



Dig deeper into the subject of this week's cartoon:

Donald Trump cries “invasion” to justify an immigration crackdown.

Donald Trump has rewritten the history of January 6th.

Donald Trump shows that he is determined to pummel Mexico.

The editorial cartoon appears weekly in The Economist. You can see last week's [here](#).

<https://www.economist.com/the-world-this-week/2025/01/23/the-weekly-cartoon>

The Economist

This week's covers

How we saw the world

Jan 23, 2025 03:32 PM

WE HAVE TWO covers this week. In one we consider Donald Trump's imperial presidency. The consensus that America should be a benign superpower has gone. Mr Trump wants to see the country unleashed, freed from norms, from political correctness, from bureaucracy and, in some cases, even from the law. What's left is something old and new, an ideology from the railroad era mixed with the ambition to plant the flag on Mars. The hope is that the president will keep his vows to make America's government more efficient, its economy more vibrant and its borders secure. But a far worse outcome is also plausible.

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JANUARY 25TH-31ST 2025

Project 1897

The imperial presidency



Leaders: America has an imperial presidency.

United States: Two presidents compete over the worst abuse of the pardon power.

United States: America really could enter a golden age.

In the other we contemplate China's advances in generative artificial intelligence (AI). America's lead over China in AI looks smaller than at any time since ChatGPT became famous. China's large language models may not be the very best, but they are far cheaper to make. The success of these models, combined with industry-wide changes, could turn the economics of AI on its head.

America must prepare for a world in which Chinese AI is breathing down its neck.



Leaders: Chinese AI is catching up, posing a dilemma for Donald Trump

Briefing: China's AI industry has almost caught up with America's

Business: A \$500bn investment plan says a lot about Trump's AI priorities

<https://www.economist.com/the-world-this-week/2025/01/23/this-weeks-covers>

Leaders

- **[America has an imperial presidency](#)**

Project 1897 :: And in Donald Trump, an imperialist president for the first time in over a century

- **[Chinese AI is catching up, posing a dilemma for Donald Trump](#)**

The dragon in the mirror :: The success of DeepSeek and other Chinese modelmakers threatens America's lead

- **[Tariffs will harm America, not induce a manufacturing rebirth](#)**

Trading losses :: Donald Trump's pursuit of tariffs will make the world poorer—and America, too

- **[To make electricity cheaper and greener, connect the world's grids](#)**

Power to the foreigners :: Less than 3% of the world's power is internationally traded—a huge wasted opportunity

- **[Sir Keir Starmer should aim higher in his reset with the EU](#)**

Britain and the European Union :: And he needs to be clearer about what Britain wants

Project 1897

America has an imperial presidency

And in Donald Trump, an imperialist president for the first time in over a century

Jan 23, 2025 03:32 PM



WHAT WILL Donald Trump do next? A decade after he became the Republican front-runner, it is still the urgent question. In a distracted era Mr Trump has an unmatched genius for grabbing attention. And for reimagining presidential power. His second inauguration took place in the Capitol's Rotunda, the same spot where four years earlier his supporters had punched police officers in the face. The power he used to [pardon the Capitol rioters](#) on January 20th was originally designed to bring the nation together:

to pardon political opponents, not the president's supporters (or members of the [outgoing president's family](#)). But that was the convention, not the law, and with Mr Trump in power, conventions are over.

Historians talk about the long 19th century ending in 1914. Precisely when the 20th century ended is, in this sense, debatable. But it is over. Mr Trump is still constrained by some of America's oldest institutions, including federalism and the courts. But he has thrown off many of the recent ones. The governance reforms after Watergate no longer apply. The consensus that America should be a benign superpower, born out of the ashes after 1945, has gone, too. And Mr Trump wants more: to see America unleashed, freed from norms, from political correctness, from the bureaucracy and, in some cases, even from the law. What's left is something old and new, an ideology from the railroad era mixed with the ambition to plant the flag on Mars.

Out of the 19th century comes the idea that the frontier should always be expanding, including by seizing other countries' territory. "We're taking it back," Mr Trump growled of the Panama Canal, in his inaugural speech. America must be "a growing nation", he added, one that "increases our wealth, expands our territory". Although this might reflect a passing enthusiasm, presidents have not talked like that for a century. The only one of his predecessors Mr Trump spent any time on in the speech was that "great president" William McKinley, whose term began in 1897. Mr Trump is not a reader of presidential biographies. He is not about to make bimetallism the issue of the day (though both he and the first lady do now have their own competing currencies). But it was a revealing choice.

McKinley was an imperialist, who added Hawaii, Guam, the Philippines and Puerto Rico to American territory. McKinley also loved tariffs, at least at first. Before he was president, he pressed Congress to pass a bill to raise them to 50%, a level exceeding even

[Mr Trump's \(admittedly hazy\) plans](#). He was also backed by the commercial titans of the time: J.P. Morgan and John D. Rockefeller both donated about \$8m in today's money to his campaign.

The new “golden age” Mr Trump envisions thus resembles the Gilded Age, at least superficially. Mr Trump wants to be as unencumbered by 20th-century norms as McKinley was. But the 21st-century presidency is much more powerful. Project 1897 is combined with Project 2025.

McKinley governed when the federal government had 150,000 employees, many fewer than the new Department of Government Efficiency could ever dream of. By contrast Mr Trump’s executive branch directly employs 4.3m people, including 1.3m men and women in uniform. The president has at his disposal the mightiest military force ever assembled. As a share of GDP, the federal government spends nine times more than it did in the 1890s. In order to fight two world wars and end racial segregation in the 20th century, the executive branch accumulated more and more power. Writing about this in the 1970s, Arthur Schlesinger described this presidency as “imperial”. It was meant as a slur: the modern America didn’t do empire. Yet now it has an imperial president who spies enemies to conquer not only abroad, but at home, too.

Mr Trump means to turn the presidency’s immense power inward as well as outward, to dominate America as no other president has since the second world war. Politics is in his favour. As America has become more partisan, passing laws in Congress has become harder. The new president showed in his first term that, when Congress is evenly divided, the threat of impeachment no longer works as a practical restraint.

This long power shift away from Congress has left the court and the executive in charge. Key rules on abortion, climate change, affirmative action, campaign finance and free speech have been set by the president or the justices. It was the Supreme Court which

decided that presidents are immune from prosecution for official acts which, say, means that any meme coins launched by a president before he takes office won't trouble the emoluments clause.

That sets up a clash between Mr Trump and his felt-tip pens on one hand and the judges and their gavels on the other. As the new administration tests how far it can stretch the law—deploying the army against “invading” immigrants, or turning the Justice Department against Mr Trump’s foes—court battles are inevitable. Mr Trump appears to relish the prospect. His executive order seeking to end birthright citizenship is flagrantly unconstitutional and so likely to be struck down. But if it is, Mr Trump will claim that the robe-wearing elites are thwarting the will of the people who elected him. His supporters will rally round—and he will pick another fight.

Today's McKinley in a state of Denali

Mr Trump is not unusual in wanting to extend the power of the executive—many ambitious (and some great) presidents have done so. Neither is he sure to win. The courts are not the only obstacle. Try as he might to disrupt and intimidate the bureaucracy, it is supremely good at delay. States and cities run by Democrats will resist him. He will have to contend with divisions in his team, with his own character, and with reality.

Mr Trump has proved adept at tearing down the old order, but it is unclear what will replace it. The hope is that he will keep his vows to make America’s government more efficient, its economy more vibrant and its borders secure. But a far worse outcome is also plausible. Either way, America’s remaining checks and balances are about to be tested.■

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The dragon in the mirror

Chinese AI is catching up, posing a dilemma for Donald Trump

The success of DeepSeek and other Chinese modelmakers threatens America's lead

Jan 27, 2025 12:48 PM



IF THERE IS a single technology America needs to bring about the “thrilling new era of national success” that President Donald Trump promised in his inauguration speech, it is generative artificial intelligence. At the very least, AI will add to the next decade’s productivity gains, fuelling economic growth. At the most, it will power humanity through a transformation comparable to the Industrial Revolution.

Mr Trump's hosting the next day of the launch of "the largest AI infrastructure project in history" shows he grasps the potential. But so does the rest of the world—and most of all, China. Even as Mr Trump was giving his inaugural oration, a Chinese firm released the latest impressive large language model (LLM). Suddenly, [America's lead over China in AI](#) looks smaller than at any time since ChatGPT became famous.

China's catch-up is startling because it had been so far behind—and because America had set out to slow it down. Joe Biden's administration feared that advanced AI could secure the Chinese Communist Party (CCP) military supremacy. So America has curtailed exports to China of the best chips for training AI and cut off China's access to many of the machines needed to make substitutes. Behind its protective wall, Silicon Valley has swaggered. Chinese researchers devour American papers on AI; Americans have rarely returned the compliment.

Yet China's most recent progress is upending the industry and embarrassing American policymakers. The success of the Chinese models, combined with industry-wide changes, could turn the economics of AI on its head. America must prepare for a world in which Chinese AI is breathing down its neck.

China's LLMs are not the very best. But they are far cheaper to make. QwQ, owned by Alibaba, an e-commerce giant, was launched in November and is less than three months behind America's top models. DeepSeek, whose creator was spun out of an investment firm, ranks seventh by one benchmark. It was apparently trained using 2,000 second-rate chips—versus 16,000 first-class chips for Meta's model, which DeepSeek beats on some rankings. The cost of training an American LLM is tens of millions of dollars and rising. DeepSeek's owner says it spent under \$6m.

American firms can copy DeepSeek's techniques if they want to, because its model is open-source. But cheap training will change

the industry at the same time as model design is evolving. China's [inauguration-day release](#) was DeepSeek's "reasoning" model, designed to compete with a state-of-the-art offering by OpenAI. These models talk to themselves before answering a query. This "thinking" produces a better answer, but it also uses more electricity. As the quality of output goes up, the costs mount.

The result is that, just as China has brought down the fixed cost of building models, so the marginal cost of querying them is going up. If those two trends continue, the economics of the tech industry would invert. In web search and social networking, replicating a giant incumbent like Google involved enormous fixed costs of investment and the capacity to bear huge losses. But the cost per search was infinitesimal. This—and the network effects inherent to many web technologies—made such markets winner-takes-all.

If good-enough AI models can be trained relatively cheaply, then models will proliferate, especially as many countries are desperate to have their own. And a high cost-per-query may likewise encourage more built-for-purpose models that yield efficient, specialised answers with minimal querying.

The other consequence of China's breakthrough is that America faces asymmetric competition. It is now clear that China will innovate around obstacles such as a lack of the best chips, whether by efficiency gains or by compensating for an absence of high-quality hardware with more quantity. China's homegrown chips are getting better, including those designed by [Huawei](#), a technology firm that a generation ago achieved widespread adoption of its telecoms equipment with a cheap-and-cheerful approach.

If China stays close to the frontier, it could be the first to make the leap to superintelligence. Should that happen, it might gain more than just a military advantage. In a superintelligence scenario, winner-takes-all dynamics may suddenly reassert themselves. Even if the industry stays on today's track, the widespread adoption of

Chinese AI around the world could give the CCP enormous political influence, at least as worrying as the propaganda threat posed by [TikTok](#), a Chinese-owned video-sharing app whose future in America remains unclear.

What should Mr Trump do? His infrastructure announcement was a good start. America must clear legal obstacles to building data centres. It should also ensure that hiring foreign engineers is easy, and reform defence procurement to encourage the rapid adoption of AI.

Some argue that he should also repeal the chip-industry export bans. The Biden administration conceded that the ban failed to contain Chinese AI. Yet that does not mean it accomplished nothing. In the worst case, AI could be as deadly as nuclear weapons. America would never ship its adversaries the components for nukes, even if they had other ways of getting them. Chinese AI would surely be stronger still if it now regained easy access to the very best chips.

Agencies or agency

More important is to pare back Mr Biden's draft "AI diffusion rule", which would govern which countries have access to American technology. This is designed to force other countries into America's AI ecosystem, but the tech industry has argued that, by laying down red tape, it will do the opposite. With every Chinese advance, this objection becomes more credible. If America assumes that its technology is the only option for the likes of India or Indonesia, it risks overplaying its hand. Some tech whizzes promise the next innovation will once again put America far in front. Perhaps. But it would be dangerous to take America's lead for granted. ■

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Trading losses

Tariffs will harm America, not induce a manufacturing rebirth

Donald Trump's pursuit of tariffs will make the world poorer—and America, too

Jan 23, 2025 03:32 PM

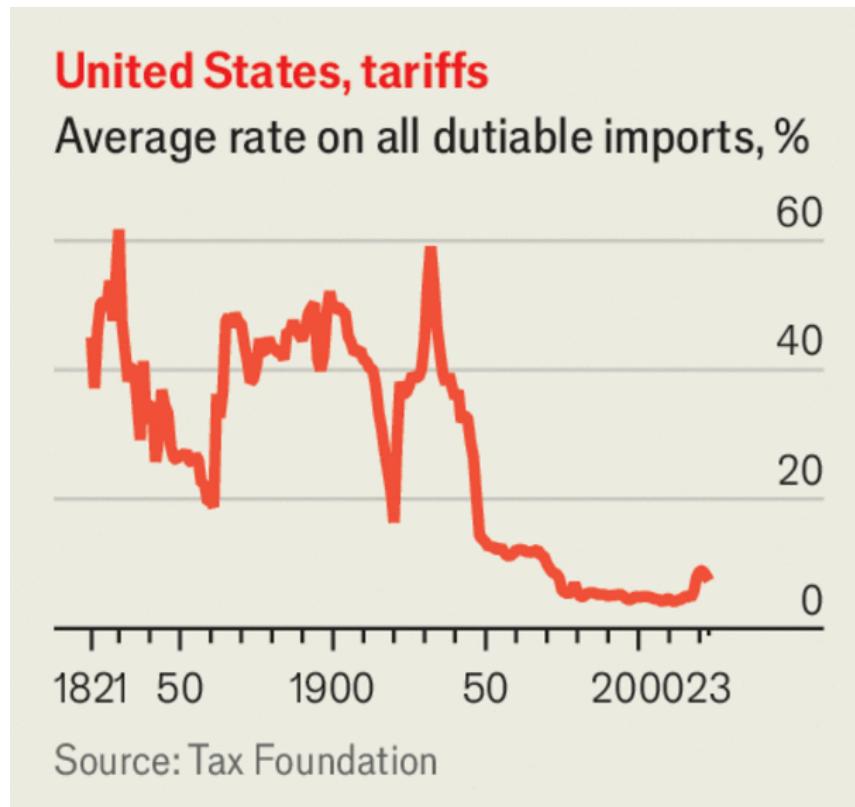


Getty Images

MORE THAN 90 years ago Franklin Delano Roosevelt surveyed the wreckage of the Great Depression. He pointed to one of its causes: sky-high tariffs had put America on the “road to ruin” by inviting retaliation and suffocating investment. It was a painful lesson, and it took decades of sustained global effort, led by America, to bring tariffs down and let commerce flourish. From our vantage in 2025 the perils of protectionism should still be abundantly clear. Tragically, if Donald Trump gets his way, America risks repeating the errors of the past.

There is uncertainty about how far Mr Trump will actually go in his second term. Investors and diplomats alike were relieved that he [refrained](#) from slapping universal tariffs on all imports on his first day back in office. But make no mistake: the man who declared tariff to be the most beautiful word in the dictionary is determined to [ratchet up protection](#). He sees tariffs as a simple tool to achieve

multiple objectives: shrink America's trade deficit, rebuild its manufacturing might and generate a gusher of revenue for the government. On every count he is wrong.



The Economist

Mr Trump's dalliance with tariffs in his first term already shows that they did nothing to narrow America's trade deficit. One reason is that the dollar tends to strengthen when tariffs are applied. The first-order effect of tariffs is to reduce American demand for imported goods, leading to less demand for foreign currencies. But when fewer dollars are sold, the greenback's value increases which in turn depresses global demand for American exports. The result is that even as Americans buy less from the rest of the world they also sell less to it.

To truly shrink its trade deficit America would have to undergo fundamental economic changes, with its savings rate increasing or its investment decreasing. It is not obvious that either change would be desirable: high investment, in particular, is vital if America is to hold its own in new technologies, including artificial

intelligence. A monomaniacal focus on the trade balance has no bearing on the economy's real strengths. Just look at Germany and China today, both running giant trade surpluses and both mired in lacklustre growth.

The record from recent tariffs also proves that they do not magically create jobs in American factories. Manufacturing as a share of American employment has fallen since Mr Trump's first tariffs went into effect. Companies in industries directly protected by tariffs during Mr Trump's first administration—notably steel and aluminium—did indeed increase their revenues. But that gain came at the expense of the thousands of downstream companies that suffered from higher input costs. Put another way, America protected the parts of its economy that were struggling in the global marketplace by imposing burdens on its most competitive industries. That is hardly a recipe for a manufacturing renaissance.

In Mr Trump's most feverish moments, he has talked about completely replacing income tax with tariffs. It is a beguiling vision: eliminate taxes on hardworking Americans and force foreigners to foot the government's bills instead. The External Revenue Service—a brilliant bit of Trumpian marketing—would displace the Internal Revenue Service.

However, data from Mr Trump's first term demonstrates that the real cost of tariffs is borne, to a large extent, by American consumers through higher import prices. Besides, the banal reality is that tariffs will barely move the fiscal needle. Even if import levels were to remain constant, a 10% universal tariff would fund little more than a twentieth of the federal budget. In reality, imports would not in fact remain constant but rather would decline as higher tariffs raised the price of imports. Even by Mr Trump's flawed logic, tariffs cannot both create lots of jobs and also raise large amounts of income for the government. That is to count their effects twice over.

The most optimistic assumption about Mr Trump's professed love for tariffs is that he mainly wants to deploy them for negotiating leverage. It is true that America, as the world's biggest market, has plenty of weight to throw around. But tariffs are just as likely to tie America in knots. Once implemented, they are hard to retract, and their potency diminishes through repeated use. If, for instance, Mr Trump doubles down on tariffs against China because it blocks a sale of TikTok, a video-sharing app, will he then triple down because of its export of fentanyl precursors and quadruple down to counter its clout in the Panama Canal?

Mr Trump and many of his supporters have taken to lionising the late 19th century as the golden age for America's economy, a period when tariffs were high and growth was strong. That is a distorted reading of what really happened. Scholars have found that tariffs sheltered less-productive companies and raised living costs, and that it was other factors, including a growing population, the deepening rule of law and the success of non-traded goods that fueled America's growth. This may all sound technical and academic. Alas, it is Mr Trump who, in his mangling of history and economics, is steering America and the world back to a dead end. ■

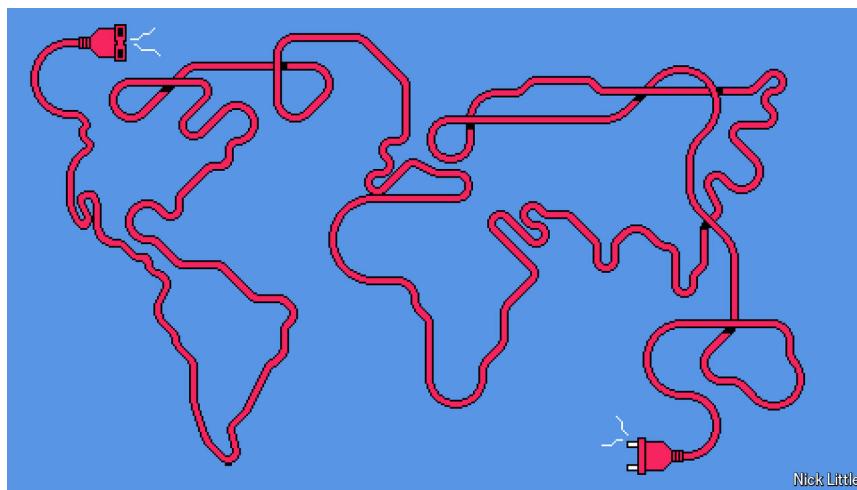
<https://www.economist.com/leaders/2025/01/21/tariffs-will-harm-america-not-induce-a-manufacturing-rebirth>

Power to the foreigners

To make electricity cheaper and greener, connect the world's grids

Less than 3% of the world's power is internationally traded—a huge wasted opportunity

Jan 24, 2025 11:06 AM



NORWEGIAN POLITICIANS have had a shock. Wholesale power prices have been spiking, as wind-powered neighbours rush to import Norwegian electricity when the normally blustery North Sea turns calm. The big political parties are suddenly souring on the idea that Norway should export ever more of its abundant hydropower. Several want some of the cables carrying electricity abroad to be switched off. The Progress Party, which is leading in the polls, also wants to increase already generous subsidies for household bills. One way or another, in the name of reducing domestic prices, exports seem likely to be curbed after elections later this year.

Norway would be shooting—or zapping—itself in the foot. Its transmission links to nearby countries are good for it, Europe and the planet. International cables make electricity cheaper, greener and more reliable. Around the world, less than 3% of all power

crosses a border. Some countries, such as Bangladesh and Singapore, are [trying to import more](#). Most others should do the same.

Connecting up grids brings a host of benefits. Countries need fewer largely redundant power plants that are used only when demand peaks or when other generation goes offline. The top-up to supply can come down a cable instead. This makes it cheaper to generate electricity at both ends of the wire. Extra connections are especially helpful for cutting greenhouse-gas emissions. Grids with lots of solar or wind power see big fluctuations in generation and prices, depending on the weather. If power can be exported when it's abundant, instead of being wasted, investment in renewables becomes more attractive. If the wind dies, power can come from far off, where it is still blowing.

Savings are often to be had at one end of the cable or the other, depending on which market has higher prices at any given moment. Power can flow from where it is cheap to where it is costlier, lowering prices overall.

True, this means that the price rises in the cheaper market, which is the source of the dismay in Norway. But Norwegians are forgetting that domestically produced power is not always cheaper. Whenever the current in the cables flows towards them, it helps reduce high prices. And even though Norway exports more power than it imports, that is fantastic for domestic energy producers. Norway's state-owned power firms have been raking it in, which is one of the reasons the government can afford to subsidise household prices.

Governments may worry that the country at the other end will cut the power or that the cables will be sabotaged, as a subsea communications link off Taiwan may have been this month. And so they might—but the best defence is to have lots of cables to many countries. Diversifying sources of supply multiplies the economic

benefits while reducing dependence on each supplier, and hence their leverage.

Indeed, international cables help protect against the unpredictable. Although Britain is typically a big power importer, it became an exporter when high natural-gas prices crimped power generation in the EU after Russia's invasion of Ukraine. France is usually a big exporter, but when many of its nuclear plants were closed for maintenance, it needed imports. Who knows—water levels may someday sink low enough in Norway's reservoirs that it will want more cables, not fewer. ■

<https://www.economist.com/leaders/2025/01/23/to-make-electricity-cheaper-and-greener-connect-the-worlds-grids>

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Britain and the European Union

Sir Keir Starmer should aim higher in his reset with the EU

And he needs to be clearer about what Britain wants

Jan 24, 2025 11:04 AM



Nate Kitch

IN THE FIVE years since Britain formally left the European Union on January 31st 2020, three things have become clear. One is that Brexit has imposed costs, particularly on goods exports, without any large offsetting benefits. That should worry [Rachel Reeves](#), the chancellor, as she searches for ways to pep up a near-stagnant economy. Second, the geopolitical situation has deteriorated. Russia's war in Ukraine, China's growing assertiveness and the return of Donald Trump in America all make striking out alone in Europe less appealing. And third, public opinion has switched markedly to the view that Brexit was a mistake, and that if choices must be made it is better to move closer to Europe than to America.

These changes make this an opportune moment for Sir Keir Starmer to re-engage with the EU. Next weekend the prime minister will attend his first informal summit with other European leaders in Brussels, followed by a formal bilateral meeting in the spring. The plan is to open negotiations on what Sir Keir is calling

a “reset” in relations. The political momentum should be helpful. Not only has public opinion shifted, but Sir Keir has a big parliamentary majority and he leads a Labour Party that is overwhelmingly pro-European. And there is much scope for improvement. Even the Conservative leader, Kemi Badenoch, has recently admitted that her party never had a coherent plan for Brexit.

And yet [Sir Keir’s approach to the EU](#), as to much else, is marked by a plodding cautiousness. He is sticking firmly to the three red lines laid down in the Labour manifesto: no single market, no customs union and no free movement of people. He has suggested some improvements to the present trade deal, but is vague when it comes to details. This may reflect a genuine desire not to reopen the painfully long years of Brexit debate between 2016 and 2020. But he is also making a political calculation. Sir Keir does not wish to provoke claims from the Conservative opposition and Nigel Farage’s Reform UK party that he is trying to overturn the referendum of 2016. Labour strategists are especially worried about the threat from Reform in Labour seats in northern England which voted heavily for Leave.

Sir Keir should be bolder. The Reform party’s rising support is now linked more to immigration than to the EU. Sir Keir could gain the upper hand by reframing Britain’s EU debate in terms of hard geopolitical interests. Whether in dealing with Vladimir Putin, or in responding to Mr Trump’s demands for more military spending, or in seeking energy security, European countries, including Britain, are stronger together.

And he should not be ashamed of the economic gains. The [trade and co-operation agreement](#) of December 2020 needs bulking up. A veterinary deal would boost food trade in both directions, reduce some of the most sensitive barriers to trade between Great Britain and Northern Ireland and help angry British farmers. A youth-mobility agreement would be good for everyone. There is also

scope for closer co-operation over energy and climate-change policy. In general, greater regulatory alignment, including an implicit role for the European Court of Justice, makes sense, not least since half of the UK's exports still go to the EU. Experts say such a package could raise GDP by as much as 0.7%, a boost Ms Reeves sorely needs.

Even with greater boldness and urgency, the forthcoming talks will not be the end of the story. Switzerland has been negotiating trade arrangements with the EU for over 30 years. Britain may have to accept a similar timetable. It could yet decide that it would be better to be in a customs union, though this would preclude trade deals with third countries (including America). Or it might consider rejoining the single market, at least (also rather like Switzerland) for goods, even if it means payments to the EU budget and freer movement of people. What matters most is not the ultimate destination but the direction of travel—towards, not away from, the EU. ■

<https://www.economist.com/leaders/2025/01/23/sir-keir-starmer-should-aim-higher-in-his-reset-with-the-eu>

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Letters

• **Letters to the editor**

On deportations, alcohol, political perceptions, women in combat, Nordic business, children's books, corporate hierarchy :: A selection of correspondence

On deportations, alcohol, political perceptions, women in combat, Nordic business, children's books, corporate hierarchy

Letters to the editor

A selection of correspondence

Jan 23, 2025 03:32 PM



Peter Crowther/AP/Alamy

Letters are welcome via email to letters@economist.com

The process of deportation

The Economist argued that Donald Trump “will not be able to carry through his threat to deport 15m people”, in part because “shipping out such a huge number would be extraordinarily expensive” (“Donald the Deporter”, January 11th). That assertion is not unreasonable, given that the deportations will entail tracking down 15m people, taking them into custody, pushing them through deportation proceedings, and then forcing their native countries to accept their return. However, having served as senior counsellor to the secretary of homeland security in the first Trump administration I would challenge that premise.

Both sides of the immigration debate are largely in agreement that the overwhelming majority of illegal immigrants are here to work. Accordingly, if the opportunity to work and thereby earn that living

is withdrawn, illegal immigrants who do not fear severe persecution in their homelands will largely self-deport so that they can support themselves and their families with more modest earnings.

American employers who hire foreign workers are required to complete form I-9, identifying the worker and his work eligibility. However, the form is stored at the workplace and only rarely reviewed by a government official. A regulation entitled G-Verify (government verification) was drafted under the first Trump administration and will almost certainly be given effect in the second. It would require that I-9s are filed online, resulting in the prompt discovery of unlawful workers.

Form I-9 applies only to workers known by their employers to be foreign, and many undocumented workers may disguise that from their bosses, who in many cases are happy to go along. Fortunately, there is E-Verify legislation pending in Congress that would require online verification of each new employee's Social Security number. The executive branch has within its power the option of verifying those numbers for current workers. I would also recommend a small financial reward to employees who disclose their employer's failure to complete form I-9.

WILLIAM CHIP
Washington, DC



Marcelena Caputi

Moderate drinking

You suggested that moderate drinkers live longer than teetotallers because some teetotallers are “sick quitters” who wrecked their health with booze in the past (“[Hard-liquor truths](#)”, January 11th). This argument was first made in the 1980s and has been repeatedly disproved, most recently in a wide-ranging review from the National Academies of Sciences, Engineering and Medicine that found moderate drinkers have a 16% lower rate of all-cause mortality than lifetime abstainers, which you mentioned in your leader (“How to think about the demon drink”, January 11th).

One does not need to have blind faith in observational epidemiology to accept the truth of this. The review notes that randomised controlled trials have shown that “moderate drinking favourably affects HDL cholesterol, low density lipoprotein (LDL) cholesterol, and apolipoprotein A-1”. It would be remarkable if this did not lead to lower heart disease and stroke risk, and it is this that explains most of the longevity gains enjoyed by moderate drinkers.

DR CHRISTOPHER SNOWDON

Institute of Economic Affairs

London

You used various factors to weigh the risk of consuming alcohol, and suggested that “there is no completely safe level of almost anything”, pointing to the fact that “7,500 American pedestrians were killed by cars in 2022”. But according to the National Safety Council, “alcohol impairment was a factor in 42% of all pedestrian fatalities in 2022, accounting for 3,097 deaths”. The pedestrian was the only alcohol-impaired individual 24% of the time, the driver the only such impaired individual 12% of the time, and in 6% of cases both the pedestrian and the driver were impaired.

Furthermore, while “walking” generally entails anything from using a gym treadmill to strolling in the park, a “pedestrian” is a

person who is walking near vehicles. Being a pedestrian is more dangerous than simply “walking”.

When it comes to alcohol, maybe it’s time we all appreciate that we can have “an evening of warmth and good company” without being intoxicated, even amid the cold and gloom of January. Fancy a cuppa, anyone?

ANNA MYERS

Boise, Idaho

I’m a consultant psychiatrist and I’m partaking in “Dry January”, not because I’m an alcoholic, but because the last time I went a whole month with no alcohol was 33 years ago, when I was 14. You suggest that total abstinence is unnecessary, and that it’s healthier to find a balance that includes enjoying the occasional drink. However, a substantial portion of the population are unable to achieve that balance. Many of the people I’ve worked with, including patients and colleagues, know that alcohol damages their mental and physical health, yet they struggle to limit it to safe levels. For many, complete abstinence would be a much healthier and happier balance.

I personally have enjoyed discovering the freedom of going out for a night and drinking mango juice. Dry January has been a much more positive and enlightening experience than I expected and I’m considering a dry 2025.

ANDREW WILSON

Cranborne, Dorset



Nate Kitch

Perceptions matter

[Bagehot](#) rightly laments a tendency for British politics to over-concentrate on what is or isn't "a good look" (January 4th). Clearly, there is a jeopardy in prioritising perception and appearance over reality and actual policy. There is also the debate about the death (or rude health) of "deliverism".

A Venn diagram provides a useful framework for tackling these overlapping tensions. To be effective, decision-making needs to consider what is acceptable (or a good look), what works (a good outcome) and what is deliverable (a good option). As a pollster, I recognise that sensitivity to perception shouldn't trump policy or serve as a way of shouting down good ideas but equally, it should be seen as a vitally important ingredient of successful policymaking.

BEN MARSHALL
Research director
Ipsos
London



eyevine

Women in combat

Women are better suited than men to certain key combat roles in the armed forces (“[Women warriors and the war on woke](#)”, January 11th). Our daughter served on intelligence missions with Army Rangers in Afghanistan in 2017 targeting some of the top leaders of al-Qaeda, Islamic State and the Taliban. The army trained such women because men could not interrogate females in conservative Muslim countries.

Night after night our daughter would accompany the Rangers on these combat operations, fast-roping out of helicopters, coming under enemy fire and hiking two miles to the target site under the cover of darkness. The women and children would then be sequestered in a separate building and searched for weapons before our daughter started her interrogations. The army would not send anyone on missions like these who could possibly compromise the operation because they lacked the physical or psychological capabilities.

ANN MARSHMAN
Kennebunk, Maine



Carl Godfrey

The Nordic model

As a modern Norwegian Viking I was thrilled to see your enthusiasm for the corporate success of Nordic firms ("[Northern lights](#)", January 4th). The unifying framework that ties this together is the Nordic corporate governance system, influencing ownership behaviour, board engagement and senior management incentives. Nordic ownership structures encourage large owners to take long-term risks and responsibility, with little evidence of blocking power being misused. This is exemplified by industrial institutions such as the Novo Nordisk Foundation, which is the controlling owner of the drug company.

Nordic boards are typically international and highly independent from top management, with employee representation that makes firms less vulnerable to stakeholder conflict. Furthermore, research on executive compensation shows that Nordic chief executives are incentivised with bonuses and stock-based pay, but these incentives are moderate compared with the Anglo-American world and more aligned with cultural norms of equality.

PROFESSOR TROND RANDØY
Centre for Corporate Governance
Copenhagen Business School

Success requires boldness. Novo Nordisk cracked the complex relationship between hunger and human homeostasis where many

tried and failed when developing its weight-loss treatments. Vestas transformed wind into viable energy when others felt it would never be economical. Spotify pioneered music streaming and survived Apple's bullying to become an undisputed market leader. Kone's breakthrough in lightweight cable technology enabled super-tall buildings. Lego (*leg godt*, meaning play well) became the world's largest toymaker by turning plastic interchangeable bricks into a creative medium for children.

Ownership can also be a comparative advantage. Nordic companies typically have large, engaged, patient owners with skin in the game. That contrasts sharply with Britain's post-Thatcher sell-off of national champions and America's proclivity to private equity, where companies are churned for short-term gains.

Moreover, the Nordics demonstrate that robust free markets and effective government amplify rather than oppose each other. Nordic entrepreneurs are happy to outsource child care, education and health care to the state. A 23-year-old Swedish woman on her second startup told me recently that she became an entrepreneur after taking a course in high school on how to build a business. Swedes can work on a startup for two years while collecting unemployment.

It's the left hand helping the right, and vice versa, that distinguishes the Nordic model. More free markets and better government offer a more expansive and inclusive formula compared with the gridlock and zero-sum nature of political architecture in America and Britain.

R. JAMES BREIDING
Zurich

Fairy tales

It may be true that until the 18th century there was no distinct children's literature ("Grimm stuff", January 11th). But Nicholas Orme's wonderful book, "Tudor Children", provides a wealth of information about the nursery rhymes, plays, songs, stories and books that children encountered in the Tudor era. Mr Orme traces children's literature in England as far back as 1,000 years ago, to the school dialogues of Aelfric of Eynsham and Aelfric Bata. As early as the 15th century there are records of adults being interested in what children were reading.

During the Reformation, William Tyndale, among others, attacked popular literature, such as the tales of Robin Hood, for corrupting young people. Then, as now, children's literature could "cause conniptions".

RICHARD WAUGAMAN
Clinical professor of psychiatry
Georgetown University
Washington, DC



Know your place

Bartleby mused about the importance of hierarchies in business, such as the seating arrangements that identify the corporate pecking order (January 11th). The key measure of the pecking order used to be the company car. Whenever a new member of staff appeared, everyone would cluster around the windows to identify what

vehicle he or she had been allocated. Whether it was a top of the range car or an economy model could imply several grades of importance.

I remember when a colleague's car was upgraded with a sun roof at no extra charge. When the car arrived the car-pool manager said the sun-roof was an extra not available for my colleague's grade in the company, and asked if it could be welded shut.

DAVID SCOTT

Port St Mary, Isle of Man

I never like to sit at the head of the table at a meeting, either too much deference or one is obliged to pick up the tab. And it's always best to avoid the sniper's seat at the distant corner. I like to sit somewhat to the right of the big boss, to indicate general supportiveness just short of grovelling obeisance.

DAVID LAND

Edinburgh

<https://www.economist.com/letters/2025/01/23/letters-to-the-editor>

By Invitation

- **Peter Sands of the Global Fund on the pandemic's positive legacies**

Covid-19, five years on :: New vaccines got most of the attention but there's a lot more to celebrate

Covid-19, five years on

Peter Sands of the Global Fund on the pandemic's positive legacies

New vaccines got most of the attention but there's a lot more to celebrate

Jan 23, 2025 03:32 PM



Dan Williams

WHEN COVID-19 struck five years ago, hundreds of thousands died because of a lack of oxygen. Even in rich countries, demand for oxygen overwhelmed hospitals in the first wave of the pandemic. In low- and middle-income countries, where nine out of ten hospitals had no medical-oxygen capacity, desperate families went to extraordinary lengths to procure oxygen cylinders to try to save their loved ones. In response, close to \$1bn was mobilised to help these countries provide emergency supplies of cylinders and to invest in more scalable and cost-effective approaches, such as pressure swing adsorption (PSA) plants that create medical oxygen from the atmosphere. These investments, alongside training, have constituted the biggest expansion in access to medical oxygen such countries have ever seen. In Nigeria alone, 73 hospitals now have or are on track to have PSA plants creating oxygen that is then piped to hospital beds or used to fill cylinders distributed to other health facilities.

Although the original intent was to save lives threatened by covid-19, these investments are now saving lives in other ways. Many deaths from maternal and neonatal complications, or from traffic accidents or other traumas, can be prevented if medical oxygen is available. Many life-saving surgical procedures require the gas. It has been estimated that investing \$4bn in oxygen provision in low- and middle-income countries could save more than 800,000 lives by 2030, including 330,000 children under five.

Having more oxygen to hand also helps with pandemic preparedness. Many of the pathogens monitored by the World Health Organisation for their potential to generate pandemics cause respiratory distress, so immediate access to oxygen can be crucial to reducing the potential death toll from an outbreak.

Better access to oxygen is just one example of how what started as an emergency response to covid-19 has turned into a step-change in health-system capabilities. While the extraordinary speed at which mRNA vaccines were developed got most of the fanfare, the massive impact of these other legacies has received relatively little attention.

Disease surveillance is another example. To track the pandemic and identify the emergence of variants such as Omicron, poorer countries secured support to expand molecular testing, wastewater surveillance and genome-sequencing networks, and to build the systems and human capacities to interpret and respond to the data. For example, by 2023 Uganda's National Health Laboratory had established wastewater-based surveillance at four sites.

The benefits of these investments go far beyond covid-19. In Malawi, wastewater surveillance helped public-health officials track and ultimately halt an outbreak of wild poliovirus type 1. In Indonesia, genome sequencing played an essential role in fighting covid-19 and will be used to develop more accurate treatment to fight other diseases including tuberculosis (TB), cancer and brain

diseases. In Congo, rapid molecular testing tools have played a vital role in understanding the spread of Mpox. While there are still big gaps in being able to detect and identify dangerous pathogens in poorer countries, covid-19 turbocharged progress.

The pandemic also helped dismantle longstanding resistance to at-home testing. Initially, many health authorities hesitated to support self-testing programmes owing to concerns about accuracy and misuse. However, the realisation that overwhelmed health systems could not manage the volume of testing required prompted a shift towards prioritising accessibility. For example, more than 2bn lateral flow tests have been provided across Britain since 2020.

Greater acceptance of self-testing reflects a broader recognition that empowering individuals to take control of their health is a crucial part of any public-health strategy. Arguably, this should have been understood earlier. People engaged in the fight against HIV/AIDS learned long ago that enabling those most affected by the disease to take the lead yields better results. Countries with robust community-health networks can mobilise populations and disseminate information more effectively than those relying on top-down approaches. Many Western countries—constrained by rigid and highly medicalised health-care systems—struggled to implement social distancing, mass testing and vaccination during the pandemic. Many poorer countries, on the other hand, benefited from well-established, more flexible community structures.

As memories of the covid-19 emergency fade, we seem to be sliding back to the cycle of panic and neglect that has typified past approaches to pandemics. It has always been difficult to convince people that it is worth continuing to invest in a more sustained approach to improving global health security when success is measured in nothing happening. Although numerous studies show the potential cost to the global economy of infectious-disease outbreaks, the benefits of avoiding such risks tend to be seen as

paling in comparison to the benefits of addressing immediate health issues.

People who work in pandemic preparedness and outbreak response often talk about this arena as if it were a distinct set of health-system capabilities. Yet most of the improvements in infrastructure and capacities required for pandemic preparedness, including improved access to oxygen and better disease surveillance, can also deliver immediate health benefits. Perhaps the trick to securing political and public support for improvements in preparedness would be to frame them more as collateral benefits of investments that more directly meet people's immediate health needs, rather than as separate priorities.

Increasing investment in fighting TB would serve as an example of such a “double whammy” approach. Now the deadliest infectious disease, killing 1.25m people per year, it puts a huge health and economic burden on the world’s poor. Beating it would save millions of lives and boost productivity. According to the Copenhagen Consensus Centre, a think-tank, every dollar invested in averting TB deaths returns on an average \$46 in economic benefits. Moreover, the investments required to combat the disease more effectively—including in surveillance, molecular diagnostics and x-ray screening—would also build capacity and infrastructure vital for pandemic preparedness. It is no accident that some of the countries that did best in responding to covid-19, such as Japan and South Korea, had also invested heavily in fighting TB.

Covid-19 exposed the stark inequities in global health. It also showed that health crises know no borders and that our resilience is only as strong as the weakest health system. With climate change likely to fuel pandemic threats, given the impact of ecological change on zoonotic transmission, we have a shared interest in strengthening our defences. When there are cost-effective approaches to tackling current health problems that also boost pandemic preparedness, we should grab them. ■

Peter Sands is the Executive Director of the Global Fund to Fight AIDS, Tuberculosis and Malaria. He was chief executive of Standard Chartered, a bank, from 2006 to 2015.

<https://www.economist.com/by-invitation/2025/01/20/peter-sands-of-the-global-fund-on-the-pandemics-positive-legacies>

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Briefing

• **Why Chinese AI has stunned the world**

Uncomfortably close :: DeepSeek's models are much cheaper and almost as good as American rivals

Uncomfortably close

Why Chinese AI has stunned the world

DeepSeek's models are much cheaper and almost as good as American rivals

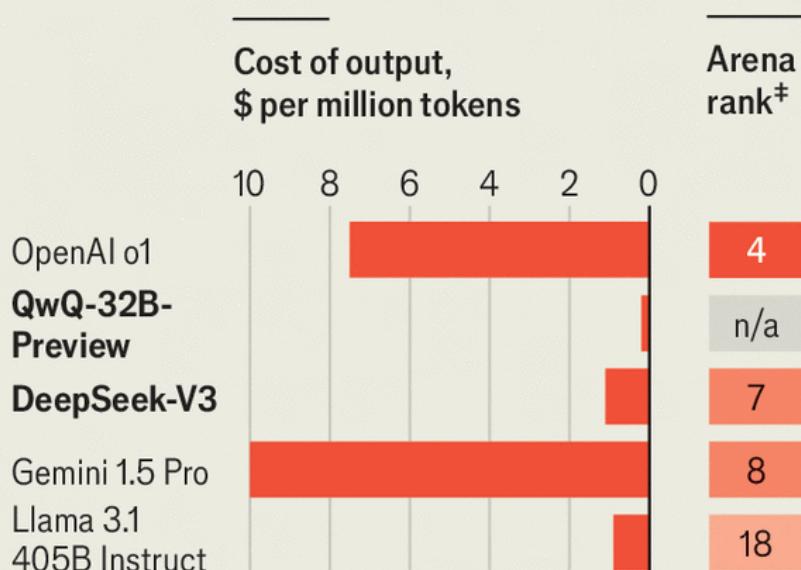
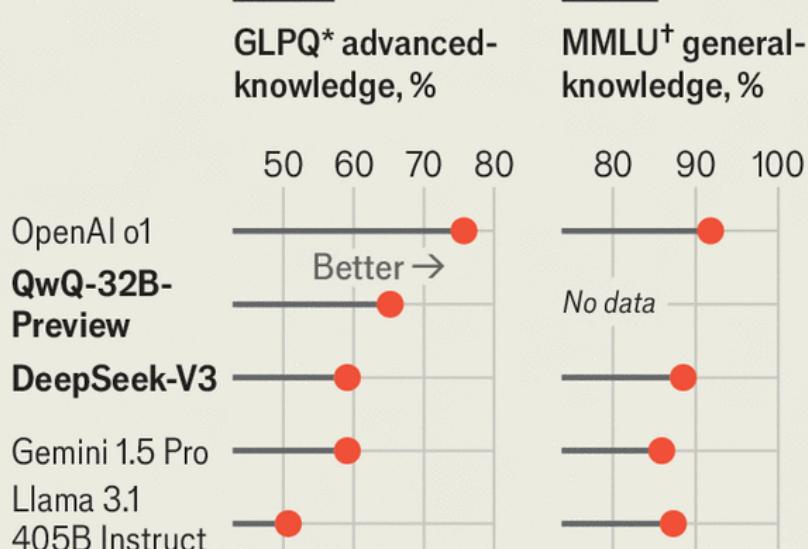
Jan 28, 2025 09:53 PM



THE WORLD'S first “reasoning model”, an advanced form of artificial intelligence, was released in September by OpenAI, an American firm. o1, as it is called, uses a “chain of thought” to answer difficult questions in science and mathematics, breaking down problems to their constituent steps and testing various approaches to the task behind the scenes before presenting a conclusion to the user. Its unveiling set off a race to copy this method. Google came up with a reasoning model called “Gemini Flash Thinking” in December. OpenAI responded with o3, an update of o1, a few days later.

Near the top of the class

Selected large language models' performance against different benchmarks, January 2025



*Graduate-Level Google-Proof Q&A Language Understanding

†Massive Multitask
Crowdsourced chatbot quality,
out of 194 where 1=best

Sources: LLM Stats; LMArena

The Economist

But Google, with all its resources, was not in fact the first firm to emulate OpenAI. Less than three months after o1 was launched, Alibaba, a Chinese e-commerce giant, released a new version of its

Qwen chatbot, QwQ, with the same “reasoning” capabilities. “What does it mean to think, to question, to understand?” the company asked in a florid blog post with a link to a free-to-use version of the model. Another Chinese firm, DeepSeek, had released a “preview” of a reasoning model, dubbed R1, a week before that. Despite the American government’s efforts to hold back China’s AI industry, two Chinese firms had reduced their American counterparts’ technological lead to a matter of weeks.

It is not just with reasoning models that Chinese firms are in the vanguard: in December DeepSeek published a new large language model (LLM), a form of AI that analyses and generates text. V3 was almost 700 gigabytes, far too large to run on anything but specialist hardware, and had 685bn parameters, the individual precepts that combine to form the model’s neural network. That made it bigger than anything previously released for free download. Llama 3.1, the flagship LLM of Meta, the parent of Facebook, which was released in July, has only 405bn parameters.

DeepSeek’s LLM is not only bigger than many of its Western counterparts—it is also better, matched only by the proprietary models at Google and OpenAI. Paul Gauthier, founder of Aider, an AI coding platform, ran the new DeepSeek model through his coding benchmark and found that it outclassed all its rivals except for o1 itself. LMSYS, a crowdsourced ranking of chatbots, puts it seventh, higher than any other open-source model and the highest produced by a firm other than Google or OpenAI (see chart).

Enter the dragon

Chinese AI is now so close in quality to its American rivals that the boss of OpenAI, Sam Altman, felt obliged to explain the narrowness of the gap. Shortly after DeepSeek released v3, he tweeted peevishly, “It is (relatively) easy to copy something that you know works. It is extremely hard to do something new, risky, and difficult when you don’t know if it will work.”

China's AI industry had initially appeared second-rate. That may be in part because it has had to contend with American sanctions. In 2022 America banned the export of advanced chips to China.

Nvidia, a leading chipmaker, has had to design special downgrades to its products for the Chinese market. America has also sought to prevent China from developing the capacity to manufacture top-of-the-line chips at home, by banning exports of the necessary equipment and threatening penalties for non-American firms that might help, too.

Another impediment is home-grown. Chinese firms came late to LLMs, in part owing to regulatory concerns. They worried about how censors would react to models that might "hallucinate" and provide incorrect information or—worse—come up with politically dangerous statements. Baidu, a search giant, had experimented with LLMs internally for years, and had created one called "ERNIE", but was hesitant to release it to the public. Even when the success of ChatGPT prompted it to reconsider, it at first allowed access to ERNIEbot by invitation only.

Eventually the Chinese authorities issued regulations to foster the AI industry. Although they called on model-makers to emphasise sound content and to adhere to "socialist values", they also pledged to "encourage innovative development of generative AI". China sought to compete globally, says Vivian Toh, editor of TechTechChina, a news site. Alibaba was one of the first wave of companies to adapt to the new permissive environment, launching its own LLM, initially called Tongyi Qianwen and later abbreviated to "Qwen".

For a year or so, what Alibaba produced was nothing to be excited about: a fairly undistinguished "fork" based on Meta's open-source Llama LLM. But over the course of 2024, as Alibaba released successive iterations of Qwen, the quality began to improve. "These models seem to be competitive with very powerful models developed by leading labs in the West," said Jack Clark of

Anthropic, a Western AI lab, a year ago, when Alibaba released a version of Qwen that is capable of analysing images as well as text.

China's other internet giants, including Tencent and Huawei, are building their own models. But DeepSeek has different origins. It did not even exist when Alibaba released the first Qwen model. It is descended from High-Flyer, a hedge fund set up in 2015 to use AI to gain an edge in share-trading. Conducting fundamental research helped High-Flyer become one of the biggest quant funds in the country.

But the motivation wasn't purely commercial, according to Liang Wenfeng, High-Flyer's founder. The first backers of OpenAI weren't looking for a return, he has observed; their motivation was to "pursue the mission". The same month that Qwen launched in 2023, High-Flyer announced that it, too, was entering the race to create human-level AI and spun off its AI research unit as DeepSeek.

As OpenAI had before it, DeepSeek promised to develop AI for the public good. The company would make most of its training results public, Mr Liang said, to try to prevent the technology's "monopolisation" by only a few individuals or firms. Unlike OpenAI, which was forced to seek private funding to cover the ballooning costs of training, DeepSeek has always had access to High-Flyer's vast reserves of computing power.

DeepSeek's gargantuan LLM is notable not just for its scale, but for the efficiency of its training, whereby the model is fed data from which it infers its parameters. This success derived not from a single, big innovation, says Nic Lane of Cambridge University, but from a series of marginal improvements. The training process, for instance, often used rounding to make calculations easier, but kept numbers precise when necessary. The server farm was reconfigured to let individual chips speak to each other more efficiently. And after the model had been trained, it was fine-tuned on output from

DeepSeek R1, the reasoning system, learning how to mimic its quality at a lower cost.

Thanks to these and other innovations, coming up with v3's billions of parameters took fewer than 3m chip-hours, at an estimated cost of less than \$6m—about a tenth of the computing power and expense that went into Llama 3.1. v3's training required just 2,000 chips, whereas Llama 3.1 used 16,000. And because of America's sanctions, the chips v3 used weren't even the most powerful ones. Western firms seem ever more profligate with chips: Meta plans to build a server farm using 350,000 of them. Like Ginger Rogers dancing backwards and in high heels, DeepSeek, says Andrej Karpathy, former head of AI at Tesla, has made it "look easy" to train a frontier model "on a joke of a budget".

Not only was the model trained on the cheap, running it costs less as well. DeepSeek splits tasks over multiple chips more efficiently than its peers and begins the next step of a process before the previous one is finished. This allows it to keep chips working at full capacity with little redundancy. As a result, in February, when DeepSeek starts to let other firms create services that make use of v3, it will charge less than a tenth of what Anthropic does for use of Claude, its LLM. "If the models are indeed of equivalent quality this is a dramatic new twist in the ongoing LLM pricing wars," says Simon Willison, an AI expert.

DeepSeek's quest for efficiency has not stopped there. This week, even as it published R1 in full, it also released a set of smaller, cheaper and faster "distilled" variants, which are almost as powerful as the bigger model. That mimicked similar releases from Alibaba and Meta and proved yet again that it could compete with the biggest names in the business.

The way of the dragon

Alibaba and DeepSeek challenge the most advanced Western labs in another way, too. Unlike OpenAI and Google, the Chinese labs follow Meta’s lead and make their systems available under an open-source licence. If you want to download a Qwen AI and build your own programming on top of it, you can—no specific permission is necessary. This permissiveness is matched by a remarkable openness: the two companies publish papers whenever they release new models that provide a wealth of detail on the techniques used to improve their performance.

When Alibaba released QwQ, standing for “Questions with Qwen”, it became the first firm in the world to publish such a model under an open licence, letting anyone download the full 20-gigabyte file and run it on their own systems or pull it apart to see how it works. That is a markedly different approach from OpenAI, which keeps o1’s internal workings hidden.

In broad strokes, both models apply what is known as “test-time compute”: instead of concentrating the use of computing power during the training of the model they also **consume much more** while answering queries than previous generations of LLMs. This is a digital version of what Daniel Kahneman, a psychologist, called “type two” thinking: slower, more deliberate and more analytical than the quick and instinctive “type one”. It has yielded promising results in such fields as maths and programming.

If you are asked a simple factual question—to name the capital of France, say—you will probably respond with the first word that comes into your head, and probably be correct. A typical chatbot works in much the same way: if its statistical representation of language gives an overwhelmingly preferred answer, it completes the sentence accordingly.

But if you are asked a more complex question, you tend to think about it in a more structured way. Asked to name the fifth-most-populous city in France, you will probably begin by coming up

with a longlist of large French cities; then attempt to sort them by population and only after that give an answer.

The trick for o1 and its imitators is to induce an LLM to engage in the same form of structured thinking: rather than blurting out the most plausible response that comes to mind, the system instead takes the problem apart and works its way to an answer step by step.

But o1 keeps its thoughts to itself, revealing to users only a summary of its process and its final conclusion. OpenAI cited some justifications for this choice. Sometimes, for instance, the model will ponder whether to use offensive words or reveal dangerous information, but then decide not to. If its full reasoning is laid bare, then the sensitive material will be, too. But the model's circumspection also keeps the precise mechanics of its reasoning hidden from would-be copycats.

Alibaba has no such qualms. Ask QwQ to solve a tricky maths problem and it will merrily detail every step in its journey, sometimes talking to itself for thousands of words as it attempts various approaches to the task. "So I need to find the least odd prime factor of $2019^8 + 1$. Hmm, that seems pretty big, but I think I can break it down step by step," the model begins, generating 2,000 words of analysis before concluding, correctly, that the answer is 97.

Alibaba's openness is not a coincidence, says Eiso Kant, the co-founder of Poolside, a firm based in Portugal that makes an AI tool for coders. Chinese labs are engaged in a battle for the same talent as the rest of the industry, he notes. "If you're a researcher considering moving abroad, what's the one thing the Western labs can't give you? We can't open up our stuff any more. We're keeping everything under lock and key, because of the nature of the race we're in." Even if engineers at Chinese firms are not the first to discover a technique, they are often the first to publish it, says

Mr Kant. “If you want to see any of the secret techniques come out, follow the Chinese open-source researchers. They publish everything and they’re doing an amazing job at it.” The paper that accompanied the release of v3 listed 139 authors by name, Mr Lane notes. Such acclaim may be more appealing than toiling in obscurity at an American lab.

The American government’s determination to halt the flow of advanced technology to China has also made life less pleasant for Chinese researchers in America. The problem is not just the administrative burden imposed by new laws that aim to keep the latest innovations secret. There is also often a vague atmosphere of suspicion. Accusations of espionage fly even at social events.

The big boss

Working in China has its downsides, too. Ask DeepSeek v3 about Taiwan, for instance, and the model cheerfully begins to explain that it is an island in East Asia “officially known as the Republic of China”. But after it has composed a few sentences along these lines, it stops itself, deletes its initial answer and instead curtly suggests, “Let’s talk about something else.”

Chinese labs are more transparent than their government in part because they want to create an ecosystem of firms centred on their AI. This has some commercial value, in that the companies building on the open-source models might eventually be persuaded to buy products or services from their creators. It also brings a strategic benefit to China, in that it creates allies in its conflict with America over AI.

Chinese firms would naturally prefer to build on Chinese models, since they do not then need to worry that new bans or restrictions might cut them off from the underlying platform. They also know they are unlikely to fall foul of censorship requirements in China that Western models would not take into account. For firms like

Apple and Samsung, eager to build AI tools into the devices they sell in China, local partners are a must, notes Francis Young, a tech investor based in Shanghai. And even some firms abroad have specific reasons for using Chinese models: Qwen was deliberately imbued with fluency in “low-resource” languages such as Urdu and Bengali, whereas American models are trained using predominantly English data. And then there is the enormous draw of the Chinese models’ lower running costs.

This does not necessarily mean that Chinese models will sweep the world. American AI still has capabilities that its Chinese rivals cannot yet match. A research programme from Google hands a user’s web browser over to its Gemini chatbot, raising the prospect of AI “agents” interacting with the web. Chatbots from Anthropic and OpenAI won’t just help you write code, but will run it for you as well. Claude will build and host entire applications. And step-by-step reasoning is not the only way to solve complex problems. Ask the conventional version of ChatGPT the maths question above and it writes a simple program to find the answer.

More innovations are in the pipeline, according to Mr Altman, who is expected to announce soon that OpenAI has built “PhD-level super-agents” which are as capable as human experts across a range of intellectual tasks. The competition nipping at American AI’s heels may yet spur it to greater things. ■

<https://www.economist.com/briefing/2025/01/23/chinas-ai-industry-has-almost-caught-up-with-americas>

United States

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The quality of mercy

Two presidents compete over the worst abuse of the pardon power

Donald Trump and Joe Biden have both made indefensible decisions

Jan 23, 2025 03:32 PM | WASHINGTON, DC



AMERICAN PRESIDENTS are often disappointed to discover limits to their authority, but the country's founders intended the nearly absolute pardon power to be an exception. Alexander Hamilton, for example, believed that legislators should not be involved in the pardons process because "one man appears to be a more eligible dispenser of the mercy of government, than a body of men." Americans might now question the wisdom of bestowing such responsibility on men like Joe Biden and Donald Trump.

Throughout American history, the use of clemency has ranged from magnanimous to contemptible. George Washington pardoned men involved in a violent insurrection against his government over a whiskey tax. Andrew Johnson granted reprieves to Confederate civil-war veterans. Draft-dodgers were let off the hook by Jimmy Carter and Gerald Ford, who also pardoned his predecessor, Richard Nixon. Recent declarations have been less high-minded.

Bill Clinton pardoned a Democratic donor's former spouse and, during his first term, Mr Trump did the same for his son-in-law's father.

Mr Trump's indiscriminate pardons of those involved in the [January 6th attack on the Capitol](#)· understandably dominated headlines. But Mr Biden kept busy before he left. On January 20th he issued pre-emptive pardons for polarising figures like Mark Milley, the retired top general; Anthony Fauci, a public-health official; and members of the House's January 6th committee. Mr Biden said that the pardons were not an admission of guilt so much as protection from "revenge" by the new Trump administration.

Although Mr Biden's Department of Justice (DoJ) previously argued that immunity for presidents wasn't needed because grand juries are "prohibited from engaging in arbitrary fishing expeditions", and the justice system broadly is "subject to public scrutiny and rigorous protections for a defendant's rights", the outgoing president grew more sceptical of safeguards in the system, even with his own party in control of the DoJ. That was the case in December, when Mr Biden cast doubt on the fairness of the justice system he oversaw to justify breaking his pledge not to pardon his son.

Mr Biden's siblings and their spouses also received pre-emptive pardons in the final minutes of the administration. Mr Trump had considered a similar move after the 2020 election but decided against it after facing bipartisan criticism. Mr Biden had no such qualms, framing the last-minute pardons as protecting the innocent from unfair prosecution. Never mind that Mr Biden's own DoJ had investigated his brother, or that Republicans allege he had lied to Congress in testimony.

John Yoo, a legal scholar with an expansive view of presidential power, suggested that such unprecedented pardons could create new vulnerabilities for those who accept them. No longer subject to

federal prosecution, recipients such as Mr Fauci can't cite a right to avoid self-incrimination when refusing congressional testimony. "If we really want to know what happened with covid and lab leaks and federal funding...well, now Congress can find out," reckons Mr Yoo. He also noted that prosecutors at state level, who pursued cases against Mr Trump parallel to federal ones, remain free to investigate and indict those with federal pardons.

Another little-noticed act of clemency came for Leonard Peltier, a Native American activist convicted of murdering two federal agents. For decades the case was a *cause célèbre* on the left. Meanwhile, the director of the FBI expressed "vehement" opposition to the release of a "remorseless killer". But Mr Biden commuted Mr Peltier's sentence, citing health concerns. No doubt many of Mr Trump's supporters will point to this decision when defending his indefensible January 6th pardons.

Those supporters also may cite Hamilton's admonition that "there are often critical moments, when a well timed offer of pardon to the insurgents or rebels may restore the tranquillity of the commonwealth". The difference is that such pardons were meant for a president trying to quell unrest—not to protect participants in unrest that he had condoned. Others seem to be learning depressing lessons from this: Eric Adams, the mayor of New York, who faces corruption charges, has started courting Mr Trump in recent months.

Even when Mr Trump made a defensible choice on clemency, he went about it in an unseemly way. On January 21st he [pardoned Ross Ulbricht](#), who had been sentenced to life in prison after creating an online marketplace for drug-dealers and other criminals. Mr Trump, who had previously called for the death sentence for drug-dealers, alluded to a campaign promise to libertarians and said that "the scum" who convicted Mr Ulbricht had pursued him too.

Presidential pardon power took a reputational hit this week, deservedly. To change it requires a politically impossible constitutional amendment. Presidents could wield it more responsibly, though. To persuade them to do so would require public pressure and awareness of what a better system might look like.

While high-profile cases get the most attention, thousands of anonymous Americans remain mired in a backlog of clemency reviews at the DoJ. Mr Biden previously granted clemency to most of the federal prisoners on death row and thousands of non-violent offenders. Yet the most recent data show he leaves office with nearly 10,000 petitions closed without presidential action, up from just over 8,000 under Mr Trump four years ago. The number stood at around 500 when George H.W. Bush left office in 1993.

Margaret Love, who was the DoJ's pardon attorney in the 1990s, says it is common to see someone convicted of a minor drug offence as a teenager seeking a pardon so they can become a lawyer as an adult.

During Mr Trump's first term, only about 11% of the 238 clemency grants were recommendations from the Department of Justice's pardon attorney. The president typically preferred flashier cases. "I hope Trump will take a careful look at how we're using the power," says Ms Love. "Let's do some stuff for little people." ■

<https://www.economist.com/united-states/2025/01/23/two-presidents-compete-over-the-worst-abuse-of-the-pardon-power>

Politics and mercy

Donald Trump has rewritten the history of January 6th

By pardoning violent offenders, he ignored his own team's advice

Jan 23, 2025 03:32 PM | Raleigh, North Carolina



“THIS IS A big one,” Donald Trump said as he signed a clemency order for nearly 1,600 January 6th rioters just hours after being sworn into office. By evening Enrique Tarrio, the leader of the Proud Boys, a far-right group, who had served three years of a 22-year sentence in federal prison for choreographing the attack on the Capitol in 2021, was in a holding cell in Louisiana awaiting release. Back in Miami, Mr Tarrio says a full pardon was what he expected “from day one after the election”.

The plans he made for life after liberation won’t start just yet. His first day home is “a moment of zen” before he figures out what is next for him and for the Proud Boys. To those who say that the pardons represent a whitewashing of what happened on January 6th, Mr Tarrio replies that his imprisonment in the first place was an injustice. “I understand their game, you take the opponents’ pieces off the board,” he says. “And I’m down to play that game,

right? But we're not at that point yet." He is not "calling for it", but he means that his team too can lock people up.

Mr Trump's amnesty was more sweeping than its beneficiaries had expected. "This is leaps and bounds better than I could have hoped," says John Kinsman, a Proud Boy who served four years in prison. "Never in a million years" did he think that Mr Trump would set every January 6th "hostage" free. All but 14 leaders of the Proud Boys and Oath Keepers, a militia, who breached the Capitol building, were granted full pardons. Their pardons lift penalties that typically arise from felony convictions, such as restrictions on buying guns, visiting certain foreign countries and, in some states, voting. Those who weren't pardoned had their sentences commuted. In their cases, Mr Trump said, his team needed to do "further research".

The outcome seemed surprising because a few days earlier J.D. Vance, now the vice-president, told viewers on Fox News that "if you committed violence on that day obviously you shouldn't be pardoned." Yet many who had were. Pam Bondi, Mr Trump's nominee to lead the Department of Justice (DoJ), echoed Mr Vance's restraint. The fact that Mr Trump overruled them suggests that the scope of his final decision was his own idea. Mr Trump said those imprisoned had served enough time.

To some on the inside, Mr Trump's actions only reinforce their belief that he sought on January 6th to goad his supporters to sack the Capitol. "This is one of the most candid acknowledgments that what happened that day is what he intended," says a senior DoJ lawyer. It is indeed reasonable to see the pardons as an endorsement of the mob violence that took place. In the summary of his now-dismissed case, published on January 7th this year, Jack Smith, the special counsel who investigated Mr Trump's role, wrote that his office had sufficient evidence to "obtain and sustain a conviction". But Mr Trump has now made sure that the meaning of the January 6th assault will be long contested. To many of the

president's supporters, the pardons rectify an injustice arising from overreach by Mr Trump's foes.

It is unarguable that soon hundreds of people who punched police, smashed windows and broke through barricades will be home. Though many of them are ordinary doctors and businessmen, at least 200 have pledged allegiance to a militia-like group. In interviews Proud Boys across America say that jail time has subdued their movement—and watchdog groups like Miami Against Fascism agree that their power has been “severely diminished”.

Nonetheless political violence, both on the left and the right, has increased since 2021; there were two lone-wolf attempts on Mr Trump's life during the campaign. According to an analysis by Robert Pape of the University of Chicago, the DoJ prosecuted 26 threats against members of Congress between 2022 and 2023. Yet Mr Trump's administration may not pursue domestic radicals as forcefully as Joe Biden's administration did. ■

<https://www.economist.com/united-states/2025/01/23/donald-trump-has-rewritten-the-history-of-january-6th>

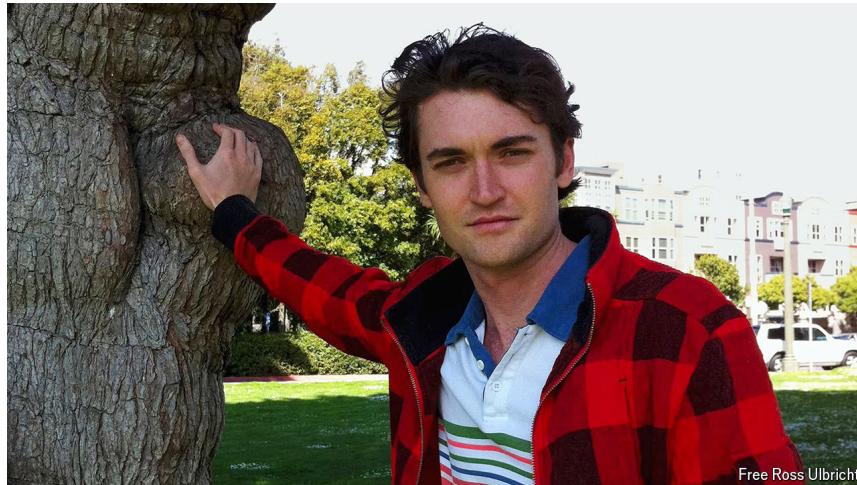
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Silk ties

Ross Ulbricht, pardoned by Donald Trump, was a pioneer of crypto-crime

His dark website, the Silk Road, was to crime what Napster was to music

Jan 23, 2025 04:27 PM | CHICAGO



THERE CANNOT be many international crime leaders inspired by “The Princess Bride”, a cult children’s fantasy movie released in 1987. Ross Ulbricht, the founder of the Silk Road, the very first dark-web drug-trading network, certainly was. When users signed up for the website, which went live in 2011, they were greeted by a message from the founder, “Dread Pirate Roberts”, the hero of the film, explaining how the site worked. Shielded by Tor, which hides website servers, and using bitcoin to make payments, users could order all manner of goods and services without revealing personal information.

The combination of the two technologies, Tor and cryptocurrency, allowed the creation of something like an Amazon Marketplace, only for illegal drugs. Users could anonymously order parcels to their homes, without ever having to encounter a scary drug-dealer in person. Dread Pirate Roberts was its delightful outlaw organiser.

Until, of course, in 2013 the Silk Road was shut down by FBI agents and Mr Ulbricht, then 29 years old, was arrested in the science-fiction section of a San Francisco public library. In 2015, after a four-week trial, he was convicted of various offences and sentenced to life in federal prison. And that is where he sat until January 21st, when Donald Trump pardoned him.

“The scum that worked to convict him were some of the same lunatics who were involved in the modern day weaponisation of government against me,” wrote Mr Trump on his social-media platform, Truth Social. The president, who has mused about executing drug-traffickers, said that two life sentences were a “ridiculous” punishment. He was also honest about his reason for the pardon. It was, he said, in honour of America’s libertarian movement, “which supported me so strongly”.

The pardon exemplifies Mr Trump’s brand of transactional politics. He originally promised to commute Mr Ulbricht’s sentence at the Libertarian Party’s national convention last May. In exchange, many of the party’s supporters voted tactically for Mr Trump over their own candidate in November. Promises made, promises kept. And yet the way in which Mr Ulbricht’s cause was taken up by libertarian voters is also revealing. As Dread Pirate Roberts, he represented a type of internet anarchism that has, with the rise of cryptocurrency, grown hugely influential.

Mr Ulbricht was caught because of a stupid mistake—he posted his own email address using an account he had used to promote the Silk Road. And yet in the case against him, prosecutors suggested he was also a violent criminal who had paid a hitman to take out an informer. What they did not reveal was that the supposed hitman was in fact a Drug Enforcement Administration agent, Carl Mark Force IV, who was using his knowledge of the case to extort bitcoin from Mr Ulbricht. The informer and his murder were fake. Mr Force and another agent, Shaun Bridges, later pleaded guilty to corruption offences.

Mr Ulbricht's supporters use this to argue that their man was unfairly punished. According to a commentary posted on the "Free Ross" website, which operates with the support of his family, Mr Ulbricht "is a peaceful first-time offender". Or as Angela McArdle, the chairwoman of the Libertarian National Committee, put it after his release, Mr Ulbricht was a "political prisoner", and "one of our own". The Silk Road, she argued, was a libertarian project, all about "economic independence".

That is a stretch. When Mr Ulbricht was arrested, the government seized 144,000 bitcoin he had accumulated in commission on drug trades, then worth around \$30m (and rather more now). He may not have killed anyone, but Mr Ulbricht was arguably the first serious cryptocurrency criminal. The Silk Road was to organised crime a little like what Napster was to the music industry. Had he not been caught, Mr Ulbricht would plausibly be a billionaire by now.

Nowadays, not only are dark-web markets still thriving, but bitcoin is also used as a means of money-laundering for more offline drug-dealing. Ransomware, a type of extortion dominated by Russian crime groups, would be impossible without it. "Cryptocurrency is foundational to modern cybercrime," says Jamie MacColl of the Royal United Services Institute, a British think-tank. In "The Princess Bride", Dread Pirate Roberts is revealed to be more than one man. The moniker shifts from one pirate to another. Mr Ulbricht is free again. But he is no longer Dread Pirate Roberts; now they are everywhere. ■

<https://www.economist.com/united-states/2025/01/23/ross-ulbricht-pardoned-by-donald-trump-was-a-pioneer-of-crypto-crime>

The president's phoney war

Donald Trump cries “invasion” to justify an immigration crackdown

His executive orders range from benign to belligerent

Jan 23, 2025 03:32 PM | Los Angeles



Getty Images

AN “INVASION”. That’s how Donald Trump describes migration across America’s southern border. “For American citizens, January 20th 2025 is Liberation Day,” he said in his inaugural address. The notion that America is being invaded is the defining theme of ten executive orders on immigration and border enforcement he signed on his first day in office. This is despite the fact that encounters at the border are the lowest they have been in four years. The orders fall into three categories: the rescission of Joe Biden’s policies and reinstatement of Mr Trump’s first-term plans; flashy things that sound tough; and extreme measures that range from probably illegal to flagrantly unconstitutional.

In the first group Mr Trump issued a sweeping order that aims to increase detention, coerce countries to take back their citizens, encourage local police to help with immigration enforcement and punish sanctuary cities, among other things. He resurrected Remain in Mexico, a policy he introduced in 2019 that forced migrants to

wait on the other side of the border while their asylum claims were adjudicated.

He also shut down CBP One, an app set up by the Biden administration that helped migrants schedule appointments to apply for asylum. Migrants already in the queue found their meetings abruptly cancelled after Mr Trump took office. During his first term, the number of refugees relocated to America plummeted. This time he suspended all refugee resettlement for at least three months. Another order increases vetting for migrants and directs agencies to identify whether there are countries from which travel should be prohibited, perhaps a prelude to a ban like the one Mr Trump imposed on arrivals from mostly Muslim-majority countries in 2017.

Some orders sound harsh but may not change much. One that demands physical border barriers, detention and deportation is “just calling for enforcing laws that are already on the books”, says Julia Gelatt of the Migration Policy Institute, a think-tank. Additionally, Mr Trump declared a national emergency at the southern border, which allows the defence secretary to send troops to help secure the frontier with Mexico. George W. Bush and Barack Obama did something similar. Federal law limits soldiers’ roles in domestic affairs to non-law-enforcement activities such as transport and logistical support, rather than actually arresting migrants. The national emergency also unlocks funds from the Department of Defence for the fortification of the border wall, a move the president made in 2019, too.

That leaves the most extreme orders. One aims to end [birthright citizenship](#), which is enshrined in the 14th Amendment . The new president kickstarted the lengthy process of classifying drug cartels as foreign terrorist organisations and directed top officials to prepare for the possibility that he will invoke the Alien Enemies Act, the only piece of the Alien and Sedition Acts, passed in 1798 when America was feuding with France, that was not repealed or

allowed to lapse. It permits the president to summarily detain and deport citizens of countries at war with America. Yet America is not at war, and drug gangs are not sovereign states, even if they do control some territory.

This is where Mr Trump's talk of an "invasion" becomes more than rhetorical bombast. Framing the cartels as terrorists invading America is meant to legitimise his use of the law. And because America is being invaded, Mr Trump argues, he can block anyone from crossing the border. The courts may not see it that way.■

<https://www.economist.com/united-states/2025/01/23/donald-trump-cries-invasion-to-justify-an-immigration-crackdown>

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Into a scrap

To end birthright citizenship, Donald Trump misreads the constitution

A change would also create huge practical problems

Jan 23, 2025 03:32 PM | CHICAGO



Reuters

IN HIS INAUGURATION speech Donald Trump promised that, in his administration, “we will not forget our constitution.” Before the day was over, Mr Trump had signed an executive order that, if implemented, would apparently end birthright citizenship, which is guaranteed by the 14th Amendment to the constitution. According to the plain text of the amendment, “all persons born or naturalised in the United States, and subject to the jurisdiction thereof, are citizens of the United States.” It doesn’t mean what it appears to mean, Mr Trump claims.

Under Mr Trump’s order, from next month the federal government will refuse to issue “documents recognising American citizenship” (presumably passports) to newborns unless they have a parent who is either a citizen or a permanent resident of the United States. Children born in America to unauthorised immigrants would thus be excluded. But so too would those of around 3m people living in America on exchange, work or student visas.

Relatively few rich countries automatically extend citizenship to everyone born on their territory (though Canada does, as do most countries in Latin America). America started doing so at the end of the civil war. The constitution was amended then to overturn the *Dred Scott* decision of 1857, which held that black people were not Americans. The 14th Amendment ensured that freed slaves and their children would henceforth be citizens.

The Trump administration's argument is that the 14th Amendment "has never been interpreted to extend citizenship universally to everyone born within the United States". Narrowly speaking, this is true. The American-born children of foreign diplomats, who have immunity from prosecution, have always been excluded from American citizenship, under the clause about jurisdiction. Until the passage of the Indian Citizenship Act in 1924, so too were some native Americans. But Mr Trump seems to think the jurisdiction clause allows him to exclude far more people.

To justify this he draws on fringe thinking, which has gained adherents on the right since the early 1990s. Republican representatives in Congress have repeatedly introduced laws ending birthright citizenship, though none has got out of committee, notes Peter Spiro of Temple University in Philadelphia. The argument made is that when the framers of the amendment wrote "jurisdiction" what they in fact meant was "allegiance". This "just looks reversed-engineered", says Mr Spiro.

Since 1898, when *United States v Wong Kim Ark* was decided by the Supreme Court, American law and practice has held that birthright citizenship applies to the children of foreigners, says Alison LaCroix of the University of Chicago's law school. In that case, an American-born child of Chinese migrants in San Francisco sued when he was refused re-entry to America. A president cannot overturn over a century of precedent about how to interpret a constitutional amendment with an executive order, says Ms

LaCroix. Had it been applied in the 1960s Mr Trump's rule would have stopped Kamala Harris from becoming a citizen.

Mr Trump's order seems unlikely to survive legal challenges, even with a friendly Supreme Court. But even if it does, implementing it would be difficult. When applying for passports Americans have to submit only a birth certificate to prove their citizenship; these do not now record the citizenship or legal status of parents. Birth certificates are also issued by local governments, so that is unlikely to change soon, at least in Democratic states. To exclude foreigners' children, everyone would have to provide documentation.

Ending birthright citizenship would also create some perverse outcomes. Although work visas and the like are nominally meant to be temporary, in reality, many people have them (legally) for decades, and start families during that time. In particular, because of a federal cap on the number of green cards available to citizens of any one country, people from India and China find it almost impossible to convert to permanent residency. Their children could now be excluded from citizenship, too. Indeed, it is unclear what legal status those children would have. In effect, some legal immigrants would give birth to undocumented "immigrants".

The effect of ending birthright citizenship, combined with America's current immigration law, would be to create a growing class of second-class residents—non-immigrants who can never become citizens. Fortunately, Mr Trump probably lacks the power to bring that about. ■

<https://www.economist.com/united-states/2025/01/23/to-end-birthright-citizenship-donald-trump-misreads-the-constitution>

Carolina scheming

An unfinished election may shape a swing state's future

A Supreme Court race ended very close. Then the lawyers arrived.

Jan 23, 2025 03:32 PM | Raleigh



Getty Images

WHEN SHOULD an election loser concede? That question lies at the core of a fight over a North Carolina state Supreme Court race that is still being contested months after election day. Jefferson Griffin, a Republican, challenged the incumbent Democrat, Allison Riggs, for her seat in November. After losing by just 734 votes he requested two recounts. When both reaffirmed her win he brought lawsuits, challenging the ballots of nearly 70,000 voters. On January 7th the Republican court, which he hopes to sit on, delayed certification of Ms Riggs's victory.

Mr Griffin is questioning several sets of voters. They include 5,500 who live abroad or on military bases and did not present a photo ID with their absentee ballots. Another group of just over 60,000 filed registration forms missing a Social Security or driving-licence number. Among the rest, he says, are felons and dead people.

Democrats are up in arms about the challenges. “This is probably the most anti-democratic action we’ve seen on the state level,” says Morgan Jackson, a party strategist. The two largest groups of voters under scrutiny did nothing wrong. According to the rules set by the state election board, overseas voters are exempt from providing ID, and although the board was aware that some voters had incomplete registration forms, it chose not to fix them before the election. That decision was blessed by a federal judge.

An analysis by Chris Cooper of Western Carolina University finds that less than a quarter of the two largest groups of voters being challenged are Republicans. And Mr Griffin is questioning overseas votes in only four of North Carolina’s 100 counties—the most urban, Democratic ones. Mr Griffin is not shy about his goals: in a brief filed last week he encouraged the court to stop checking ballots once the outcome flips in his favour.

At stake is the political future of one of America’s swingiest states, a hotbed for battles over redistricting. The state court is the arbiter of election maps. If Mr Griffin were to secure a spot on the 5-2 Republican-controlled bench, Republicans would surely determine redistricting after the 2030 census. But such a naked power-grab could backfire, says Mr Cooper. North Carolina will host one of the country’s most competitive Senate races in 2026. Even Republicans admit that a story about their team trying to nullify legal votes could help Democrats in that one.

Bob Orr, a former Republican justice who has since left the party, reckons the idea of the legal challenge was prepared before the election for Donald Trump, in case the presidential race in North Carolina was close. Paul Shumaker, who ran Mr Griffin’s campaign, denies that. Republicans claim that the state election board, which is run by Democrats, misinterpreted North Carolina’s voter-ID mandate. Although the rule exempting overseas voters was unanimously confirmed by a rules committee, Republicans believe that the appointed board ought not to be allowed to carve

out exceptions from state law. “Why should some people vote under different rules?” Mr Shumaker asks.

Jim Stirling of the John Locke Foundation, a conservative think-tank, says changing the game after everyone has played seems like a hard sell. Yet partisans are committed to the fight. Jason Simmons, the Republican state-party chair, says that Mr Griffin’s loss simply made their unresolved concerns more pressing. He reckons Democrats are the ones playing dirty. “Instead of allowing the process to play itself out they want to adjudicate this in the courts of public opinion,” he says.

Meanwhile the legal challenge is moving through both state and federal courts. On January 27th the federal Fourth Circuit appeals court will hear arguments—its ruling would override a state one. So far one Republican state justice has voiced opposition to Mr Griffin’s arguments. Citing doctrine that prohibits changing election law late in the process, Richard Dietz chastised Republicans for trying to scrap ballots of voters who complied with current rules. Doing so, he wrote, “invites incredible mischief”. ■

<https://www.economist.com/united-states/2025/01/23/an-unfinished-election-may-shape-a-swing-states-future>

Lexington

America really could enter a golden age

Donald Trump would need to build on its strengths, and subdue his own weaknesses

Jan 23, 2025 03:32 PM



David Simonds

MAYBE YOU are in the habit of applying a hefty discount to claims by Donald Trump; no one could blame you. But he really does have the chance to lead America into the [golden age he proclaimed](#) in his second inaugural address. Historic circumstances, political dynamics and his own audacity could also enable him to achieve the legacy he wants as “a peacemaker and a unifier”. His party has fallen into lockstep; his adversaries at home are confounded and enervated, and America’s opponents abroad are preoccupied with their own troubles. Mr Trump has battled for ten years against anyone he perceives to have crossed him. His most formidable adversary still standing is probably himself.

As he assumes office again, Mr Trump has embarked on a marketing offensive, a familiar routine, albeit this time with a twist: rather than having to persuade people something is grander than it is—that the Trump Tower in Manhattan has 68 floors rather than 58—he has to assign himself credit for things that are truthfully better

than Americans may yet realise. America's economy is the [envy of the world](#). America is already exporting record amounts of gas and oil, and its biggest obstacle to pumping more is global demand. But Mr Trump's declaration in his inaugural address of a "national energy emergency" may help him vault to the head of the kind of parade celebrating American glory that poor President Joe Biden lacked the wherewithal to summon.

Similar gamesmanship explains Mr Trump's inaugural commitment that Americans would now "be able to buy the car of your choice", which was equally true under Mr Biden (and equally untrue for those who chose a Ferrari but could not afford one), and his pledge to use troops to "repel the disastrous invasion of our country" at the southern border, where arrests for illegal crossings are below the level when Mr Trump left office.

Yet Mr Trump's initial executive orders are meant to do more than gild the lily. In some cases they call for drastic action, particularly on immigration. As with Mr Trump's promises of tariffs and his exhumation of "manifest destiny", no one knows how far he may go with his deportation initiative. But there is also a bigger, more hopeful possibility: could his showy crackdown be part of a grand plan for the golden age?

In Mr Trump's first term some of his aides saw the potential of linking enhanced border security to broader reform of America's immigration system. For all his harsh oratory about immigrants, Mr Trump has sometimes sounded sympathetic, particularly about people brought as children. Last October, he told the editorial board of the *Wall Street Journal* he had a practical reason for his tough talk about illegal immigration: "The nicer I become, the more people that come over illegally." (The Biden administration learned that lesson to its sorrow.) But, Mr Trump said, "We have a lot of good people in this country, and we have to do something about it." In general, said Mr Trump, who is married to an immigrant, and not

for the first time, “I want a lot of people to come in, but I want them to come in legally.”

Mr Trump tries to win over any room he walks into, and that may explain his comments to the *Journal*’s editors. But he may also recognise that he has amassed more credibility with immigration hardliners than any president in memory, and thus has an opening to achieve what his recent predecessors could not. Comprehensive immigration reform has eluded presidents since 1986, when Ronald Reagan signed into law heightened border security along with an amnesty for almost 3m people in America illegally.

Other grand, bipartisan bargains are possible for Mr Trump. He has not displayed interest in the kind of far-reaching tax reform that Reagan achieved, but in his first term he showed a flash of ambition for the sort of gun-safety legislation that polls show a majority of Americans want. “It’s not going to be talk like it has been in the past,” he told grieving parents and students after a 19-year-old gunman killed 17 people at a Florida high school in 2018. “It’s been going on too long, too many instances, and we’re going to get it done.” He scolded Republican lawmakers for being “scared” of the National Rifle Association (but then, after talking to NRA officials himself, backed off).

Such deals at home would realise Mr Trump’s vision of being a unifier. His opportunities to prove himself a peacemaker, extending America’s golden aura beyond its shores, await not in Panama but in Eastern Europe and the Middle East, where war may have wearied America’s allies but has surely weakened its adversaries, Russia and Iran. The test for Mr Trump is whether he can insist on fair deals for Ukraine, and for the Palestinians.

With malice toward some

From Abraham Lincoln to Franklin Roosevelt to Reagan, presidents who accomplished great things appear more as unifiers

in the eyes of history than they did in those of their contemporaries. They were all dividers, too. They were also subjected to vicious criticism and even violent attack.

But Mr Trump has yet even to hint at the grandeur of spirit that those presidents brought to the job. The petty partisanship of his inaugural address, along with his pardons of even violent January 6th convicts, bodes poorly for the chances that he will ever overcome the weaknesses likely to cast a shadow over what could be a golden age: self-pity, a flickering attention span, a vulnerability to flattery and a reverence for strongmen. “Trump’s sense of aggrievement reinforced his penchant for seeking affirmation from his most loyal supporters rather than broadening his base of support,” General H.R. McMaster concludes in “*At War With Ourselves*”, his memoir about his time as Mr Trump’s national security adviser during the first term. “Trump’s indiscipline made him the antagonist in his own story.” And in America’s. ■

<https://www.economist.com/united-states/2025/01/21/america-really-could-enter-a-golden-age>

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Showdown

Donald Trump is targeting Mexico like no other country

The United States' southern neighbour is bracing for a wave of deportees and trapped migrants

Jan 24, 2025 10:23 AM | Mexico City



Getty Images

MORE THAN any other country, Donald Trump went after Mexico on his first day in office. He ordered its criminal gangs to be designated as foreign terrorist organisations (FTOs), declared an emergency at the southern border, reinstated policies that leave migrants languishing on Mexican soil and ordered federal institutions to call the Gulf of Mexico the “Gulf of America”. He broke his promise to impose a 25% tariff on goods imported from Mexico and Canada on “day one”, but ordered an investigation of trade imbalances and rambled about a new date for imposing tariffs, February 1st.

His most unprecedeted move was to kickstart the process of labelling Mexico's gangs as FTOs. Mr Trump is the first president ever to do so, although others, including Barack Obama, considered it. Republican officials argue that by trafficking fentanyl into the United States, the gangs have killed more Americans than

groups like Islamic State and Hamas, which do have FTO status. State Department officials must now draw up a list of which groups to include.

The designation matters, says Cecilia Farfán-Méndez of the University of California, San Diego. American officials already have the power to pursue gangs and those who support them under the Kingpin Act, but an FTO designation gives them additional powers to investigate and prosecute people. This is a good thing, says Eduardo Guerrero of Lantia, a consultancy, as it provides better ways to target people—many of them American—who sell radios, vehicles or guns to the gangs. But it creates new risks for businesses operating in Mexico and migrants passing through it, since most make payments to the gangs for security or transport, even if unwittingly.

The designation also paves the way for the United States to take unilateral military action in Mexico. In theory, the circumstances which permit this are extremely limited; doing so would deeply strain the two countries' relationship. Mexican officials are comforted by Marco Rubio, Mr Trump's secretary of state, saying that he favours co-operation with Mexico. But the idea of unilateral military action is no longer fringe. On January 20th, when asked whether he might send special forces to Mexico to "take [the gangs] out", Mr Trump replied: "Could happen. Stranger things have happened."

Mr Trump's actions on the border and migration present more immediate difficulties. Thousands of migrants hoping to enter the United States legally are now stuck there after Mr Trump closed all pathways to do so. CBP One, an app that allowed migrants to make asylum appointments, was shut down on January 20th. Humanitarian parole, which allowed Cubans, Nicaraguans, Venezuelans and Haitians who meet certain requirements to stay in the United States for up to two years without either an asylum application or a visa, was ended too. Mr Trump reinstated Remain

in Mexico, a policy from his first term which requires asylum-seekers to wait in Mexico for their hearings, and which the Biden administration had ended. His declaration of an emergency helps him to seal the border, including by deploying the army. One thousand five hundred troops have already been sent south.

Mr Trump also started following through on his threat to deport “millions” of people who entered the United States illegally; some 5m of them are Mexican. The border town of Tijuana has declared its own state of emergency, fearing being overwhelmed by a mixture of stranded migrants and Mexican deportees. Both are fodder for criminal gangs, who make billions from charging people to be smuggled across the border.

On January 21st Mexico’s president, Claudia Sheinbaum, offered a measured response. She insisted that Mexico would collaborate on tackling gangs, nodded at co-operation on migration, and said that “the whole world” bar the United States’ federal government would continue to call the Gulf of Mexico by its name. During Mr Trump’s first term, Mexico became a holding ground for migrants of all nationalities while their claims to asylum in the United States were processed. Ms Sheinbaum said Mexico would not do so again, but that it would help any migrant on its territory.

Mr Trump’s orders were expected, says a Mexican official. Mexico has been preparing to receive deportees, and has pledged to give 2,000 pesos (\$100) to each to make their way home. Officials hope that Ms Sheinbaum’s approach to tackling the gangs will forestall military action. A recent series of raids on fentanyl labs are offerings meant to placate.

But Lila Abed, head of the Mexico Institute at the Wilson Centre, a think-tank in Washington, worries that the Mexican government’s plans are not comprehensive enough. Mexican officials are only now starting to have formal contact with the Trump team. The next two weeks are likely to see a flurry of activity to try to ward off the

tariffs that Mr Trump has said will come on February 1st, and the preparation of tariffs of its own in case a response is needed.

Mexican officials say they still hope reason will prevail. “If they want to shoot themselves in the foot, there is not much we can do about it,” says one. Mexicans are rallying behind Ms Sheinbaum. Her approval ratings have soared to 78%. Mr Trump’s plans, if carried out in full, will not just hurt Mexico and the United States; they will not achieve his aims. Illegal migration will probably spike if legitimate routes into the United States are shut down. Mr Trump’s impatience to pummel Mexico may well backfire. ■

<https://www.economist.com/the-americas/2025/01/23/donald-trump-shows-that-he-is-determined-to-pummel-mexico>

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Trudeau? Hardly knew him

The race to lead Canada's Liberal Party hinges on handling Trump

Mark Carney and Chrystia Freeland are the front-runners

Jan 23, 2025 03:32 PM | Ottawa



THE SPRINT to succeed Justin Trudeau as the leader of Canada's Liberal Party has begun. Eight candidates have put their names forward ahead of the January 23rd deadline, but the race will almost certainly be won by either the former central-bank governor, Mark Carney, or Mr Trudeau's former deputy prime minister and finance minister, Chrystia Freeland. Another former minister in Mr Trudeau's cabinet, 37-year-old Karina Gould, is running with the aim of bringing back to the Liberal Party the younger voters who have deserted it for Pierre Poilievre's Conservatives. Liberal Party members will choose their new leader on March 9th.

The likely successors are already abandoning Mr Trudeau's policies and economic record. A signature Liberal achievement was winning three straight elections while campaigning to introduce a carbon tax. Now, Mr Carney, Ms Freeland and Ms Gould all say they are prepared to pull back from the unpopular levy. Mr

Trudeau's tax-and-spend budgeting? They say Canadians are still smarting from the Liberals' largesse, and they want it to stop.

The winner will become prime minister immediately, but probably only briefly. Opposition parties have said that they will force a vote of no confidence in the government as soon as Parliament returns on March 24th. The new leader may well call an election rather than face losing that vote. Mr Trudeau's departure has done nothing to help his party in the polls. If the election were held tomorrow, the Conservatives would thump them.

Mr Carney's advantage is his relative distance from the departing prime minister. After running the Bank of Canada from 2008 to 2013, Mr Carney then ran the Bank of England until 2020. That makes him an outsider in Canadian politics. After returning in 2020 he refused several entreaties from Mr Trudeau to join his government. Mr Carney's rejection of Ms Freeland's finance portfolio, which Mr Trudeau offered to him in December, was the trigger for the latter's resignation.

The former central banker is running on his economic credentials. "The prime minister and his team let their attention wander from the economy too often," Mr Carney said during the rather punchless launch of his candidacy in Edmonton on January 16th. "I won't lose focus." That was a shot at Ms Freeland. Mr Carney told Jon Stewart, a television host, in a much more effervescent appearance on January 13th, that he was running as an outsider.

But many Liberals resent him for leaping late into the fray that has consumed their party over the past three years, and which has seen them slide from first place in the polls to 26 points behind the Conservatives. "The Liberal Party of Canada is not a hobby for me," said Ms Gould. The implication was clear: Mr Carney might not stick around as leader if he loses the general election.

No one can accuse Ms Freeland of dabbling in politics; her time at Mr Trudeau's side is the weak spot in her leadership bid. Casting herself as a candidate of renewal will be tricky. Hours of video show a vigorously nodding Ms Freeland standing beside Mr Trudeau; she publicly approved of all he said for almost a decade.

Ms Freeland tells it differently. "For quite some time I was in disagreement with the prime minister, particularly in regards to spending," she said at her campaign launch in Toronto on January 19th. Their spat intensified after Donald Trump's election and his threat to wage "economic war" on Canada. "When you face an existential threat, you cannot afford to make electioneering expenditures."

A big question for Liberal members is which candidate will best handle Mr Trump. Ms Freeland points to her experience dealing with his administration during free-trade negotiations in 2018. Mr Carney says guiding big central banks through financial crisis (2008) and populist upheaval (Brexit) means he is best placed to handle what may be a staggering blow to Canada's economy.

Mr Trump never hid his contempt for Mr Trudeau. He may well be enjoying the irony of his outsized role in determining Mr Trudeau's successor. ■

<https://www.economist.com/the-americas/2025/01/21/the-race-to-lead-canadas-liberal-party-hinges-on-handling-trump>

The last round

Can Brazil's left survive without Luiz Inácio Lula da Silva?

Brazil's current president, a titan of the Latin American left, has no apparent heirs

Jan 23, 2025 03:32 PM | São Paolo



Ricardo Stuckert

SINCE LEAVING hospital in December, Luiz Inácio Lula da Silva, known as Lula (pictured), has cut a smart figure. Brazil's president has taken to wearing a Panama hat to hide deep scars from two emergency brain surgeries. They were carried out to halt bleeding in his brain that followed slipping in the bathroom and banging his head. Lula, who is 79, has been in good spirits. He recently joked that he could live until 120. His Workers' Party (PT) insists that he will run again in Brazil's next presidential election, in 2026.

There is less certainty behind the scenes. On January 20th *O Globo*, a national newspaper, reported that Lula had surprised his cabinet by telling them that he would not run again unless he is in good health. The Workers' Party has been thrown into a frenzy. He is the party's only popular figure. Its base has shrunk as the Brazil in which it was forged has changed. Once an industrial powerhouse built upon a unionised, largely Catholic workforce, today Brazil

relies on high-tech agriculture and gig workers who flock to evangelical temples. As Lula's star fades, the party he built, which dominates Brazil's left, faces "an identity crisis", says Celso Rocha de Barros, the author of a book on the PT.

Lula's remarkable life-story and personal magnetism have helped him connect with voters in ways most politicians can only dream of. Born to a poor family in Brazil's drought-prone north-east, he eventually moved to São Paulo, where he worked his way up from shoe-shine boy to lathe operator and later leader of the country's metalworkers' union. He is the first Brazilian president to be elected to three non-consecutive terms. Barack Obama once called him "the man".

The man

During his first two terms, from 2003 to 2010, Chinese demand for Brazilian commodities rocketed. The state oil firm, Petrobras, discovered huge reserves of crude oil. This helped to fund an expansive welfare programme and reduce poverty.

Then Lula's luck ran out. Commodity prices fell, and in 2014 the PT was engulfed in a corruption scandal. Construction firms had been paying kickbacks to Petrobras executives and politicians, including many from the PT. In 2017 it caught up with Lula, and he was sentenced to nine years in jail (his conviction was later overturned). All the while, the PT conducted vicious campaigns against any potential rival to Lula, maintaining his control of the party.

The corruption scandals dented Lula's reputation, but he remains a giant of Brazilian politics. After his release he regained the presidency from Jair Bolsonaro, a far-right populist, in 2023. Fernando Morais, Lula's biographer, describes him as "a buffalo", gruff, disciplined and energetic. He has shrugged off concerns about his age by hinting that he has a lot of sex with his wife, who

is 21 years his junior. A poll of over 8,500 Brazilians taken between December 4th and 9th suggested that Lula would beat any rival in 2026. Yet a slim majority of Brazilians also said he should not run again. This year “things are going to get messy” as candidates jockey for Lula’s blessing, says Mr Morais.

Top of the list of potential successors in the PT is Fernando Haddad, the finance minister. Mr Haddad is considered a pragmatist, and a rare government voice that upholds fiscal continence. Yet this has drawn the ire of the PT’s base. His cerebral background—he has degrees in law, economics and philosophy, and wrote a doctoral thesis on “historical materialism”—makes him something of a hard sell. As the PT’s presidential candidate in 2018 he was walloped by Mr Bolsonaro, who rode an anti-establishment wave to power.

The PT could yet plump for a popular minister or governor from the north-east, its stronghold. Both options are fraught. Camilo Santana, the education minister, is gaining ground but still lacks name recognition. Rui Costa, the former governor of the biggest north-eastern state, has had a bumpy ride as Lula’s chief of staff.

That leaves possible heirs to left-wing leadership from outside the PT. For a while Guilherme Boulos, a 42-year-old socialist congressman, seemed to be Lula’s likeliest successor. He rebelled against his well-to-do family at university, moved into a squat, and became the leader of an organisation that helps homeless people. Although he embraced Brazil’s poor, they have not embraced him. In October he ran to be São Paulo’s mayor, and lost by almost 20 points to the dull right-wing incumbent.

Power couple

Tabata Amaral, a congresswoman from São Paulo and a young rising star of the left, does not yet appear to possess sufficient political heft. She also ran in São Paulo’s mayoral race but received

just 10% of votes. Her partner, João Campos, the mayor of Recife, the capital of Lula's home state of Pernambuco, may have a better shot. In October he was re-elected mayor with almost 80% of the vote. Both are 31, and so open to charges of inexperience.

When Lula is not on the ballot the PT is fragile, and right-of-centre parties dominate. The number of municipalities with PT mayors has fallen from 624 in 2012 to 252. Its base has shifted from the south-east, the manufacturing heartland, to the north-east, where many people rely on government aid. That is a liability, since right-wing governments have also embraced handouts. "The PT used to depend on the organised poor," says Mr Barros. "Now they depend on the disorganised poor." As Lula prepares to bow out, the movement he built may struggle to outlast him. ■

<https://www.economist.com/the-americas/2025/01/23/can-brazils-left-survive-without-luiz-inacio-lula-da-silva>

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Electoral goodies in India

Indian politicians are becoming obsessed with doling out cash

Handouts are transforming the role of the state—perhaps for the worse

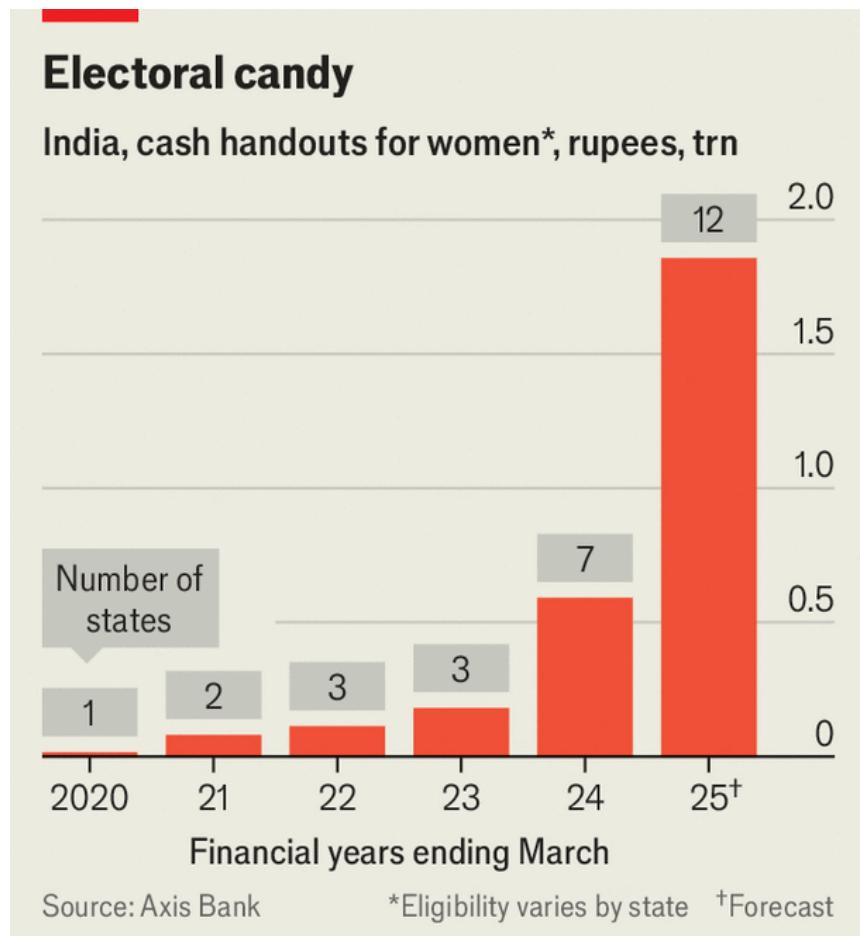
Jan 23, 2025 03:32 PM | DELHI



WHEN THE Aam Aadmi Party (AAP), which leads Delhi's government, unveiled a new programme handing out 1,000 rupees (\$11.50) a month to most women in the capital, the response from political rivals was predictable. The opposition Bharatiya Janata Party (BJP), which runs the national government, staged a protest and called the scheme a "deceitful act", a ruse to win local elections in February. Even more predictable, though, was the BJP's unveiling on January 17th of its own scheme, one that outgunned the AAP's with a promised handout of 2,500 rupees.

Across the political spectrum, India's parties are embracing cash transfers as a political and policy tool. Alongside Delhi, some 11 states now implement cash-transfer programmes for women (see chart), and more are expected to do so later this year. All told, these schemes reach around 134m women, or a fifth of India's adult female population, according to research by Axis Bank. The total

splurge amounts to 2trn rupees, equivalent to 0.6% of India's GDP. In some states, transfers exceed 5% of total government expenditure.



The Economist

Cash transfers are not limited to women. Farmers are another favoured group. Telangana, a southern state, began doling out stipends to farmers in 2018, worth 4,000 rupees an acre per season. Odisha in the east soon followed. Eventually, so did the national government. Nor are freebies limited to humans. In the western state of Maharashtra, cows in public shelters are eligible for a 50-rupee-a-day subsidy.

Although handouts seek to improve the lot of women and farmers (and cows), expediency is foremost in politicians' minds. Schemes tend to be announced on the eve of elections. Last year in Maharashtra, state elections were reportedly postponed so that

money from a cash-transfer programme could reach women's bank accounts before they cast their votes.

If votes are the measure, recent elections suggest that largesse is rewarded. In the Maharashtra state elections women who got cash transfers were likelier to vote for the winning BJP-led alliance, according to Lokniti-CSDS, a research outfit; beneficiaries were also likelier to show up to polling booths to vote.

Such programmes are an especially potent political tool because ruling parties can now connect directly with voters in a way they could not before. That is thanks to Aadhaar, the government's universal biometric system that has created digital identities for 1.4bn Indians. A proliferation of bank accounts linked to Aadhaar has allowed officials to transfer benefits directly to people across the country. In 2019 some 507 federal schemes operated in this way; by 2024, that had more than doubled, to 1,206. Crucially, these transfers also make it easier for political leaders to claim credit for their munificence because, unlike other programmes, their implementation does not require middlemen. The BJP has pioneered this type of delivery and marketing. Over the past decade, dozens of the government's schemes have had the name of the prime minister, Narendra Modi, affixed to them. The strategy has tended to yield political returns.

To beat Mr Modi and the BJP other parties reckon they need to emulate them. Research by Neelanjan Sircar and Yamini Aiyar, two political scientists, suggests that regional parties that have implemented cash-transfer policies and linked them to their own leaders have eaten into the BJP's support in their states. India is in an era of "competitive welfarism", the authors say, in which parties vie to woo voters with ever more generous policies.

But does the new welfare model actually improve lives? Giveaways certainly boost consumption. Examining recent cash transfers to women, Axis Bank found that spending in poorer

households can jump by between 7% and 45% in a month. Such handouts can also have other benefits. “Cash transfers bring women dignity and confidence, and help us spend money according to our needs,” says Bushra, a homemaker and recipient of the AAP’s cash transfer in Delhi. Her perspective is borne out in research. A study carried out in central India in 2013 found that transferring money directly to women’s bank accounts gave them greater financial autonomy and even empowerment (by giving women more standing in the family or community, for instance).

In other areas of development, however, the evidence from India is less compelling. In education and health, unconditional cash transfers do not seem to improve how well children do at school or reduce malnutrition. By contrast, transfers linked to meeting certain conditions, such as attending school or completing an immunisation programme, have in some instances proven to be more effective.

In addition, some economists say, cash transfers might actually hurt development by eating into the budgets for other important programmes. At the national level, spending on education and health over the past five years has stagnated and remains below that in Brazil or South Africa as a percentage of GDP. In states that have implemented cash transfers for women, other spending has been compromised. In Maharashtra, for example, the 5% of the state budget allocated to the programme is more than the funds set aside for health (4.6%), rural development (3.9%) or energy (2.3%). In December the central bank raised concerns over states’ deteriorating fiscal positions, which were exacerbated by rising subsidies and cash transfers.

The biggest concern with freebies is what they mean for the role of the Indian state. Cash has emerged as a “one-size-fits-all” solution, says Himanshu, a professor at Jawaharlal Nehru University in Delhi. Yet handouts do little to improve the quality of schools or health-care facilities. Nor do they generate jobs, perhaps India’s

greatest task. Fixing these issues calls for careful policy design and implementation, which Dr Himanshu says Indian policymakers run away from.

For now, they are only running faster, and against each other. For instance, grand schemes appear to be in the works ahead of an election later this year in Bihar, India's poorest state. One day, India's voters, taxpayers especially, may demand better from their politicians. Just 2% of Indians, mainly members of the urban middle class, pay income tax. They are becoming noticeably frustrated about bearing the burden of the state's generosity. Handouts might also lose their allure among beneficiaries. "I would rather see the government invest in health, education and better infrastructure," says Anamika Das, a domestic worker in Delhi. Jobs, she says, are "far more important than handouts". ■

<https://www.economist.com/asia/2025/01/23/indian-politicians-are-becoming-obsessed-with-doling-out-cash>

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Cracking down in Uzbekistan

The fate of a ranting driver raises doubts about the “new” Uzbekistan

It seems free speech is not so guaranteed after all

Jan 23, 2025 04:08 PM | ALMATY



THE JAILING of dissenters is nothing new in Uzbekistan, Central Asia’s most populous country, where faulting the president can land you in trouble. What is unusual is the recent public outcry after the imprisonment of an ordinary motorist, who found himself behind bars after his tirade over fuel shortages went viral.

Gayrat Dustov posted his profanity-laced rant late last year from a petrol station in Tashkent, the capital. He had spent two nights queuing, unsuccessfully, to fill the van he drives trying to make a living in the gig economy. His harangue turned into a jeremiad about precariousness. He tore off his trainers and held them up to the camera to show how his footwear was not, as he put it, fit for a corpse. Mr Dustov touched a chord with many Uzbeks, who, though their country is among the world’s top 20 gas producers, reliably face fuel shortages every winter. Where, some ask, is the bruited “New Uzbekistan”?

That is the slogan of Shavkat Mirziyoyev, an apparatchik who came to power as president in 2016 after the death of his tyrannical predecessor, Islam Karimov. Mr Mirziyoyev embarked on a series of liberal reforms to build what he claims is a people-friendly country that respects rather than tramples on human rights and freedoms. His agenda included market and legal reforms, state pullbacks from swathes of the economy and guarantees of free speech. “Surely in a democratic state where there is freedom of speech, freedom of citizens and supremacy of the law, I have the right to speak?” Mr Dustov asked.

Apparently not. A court slung Mr Dustov behind bars for 15 days on charges of hooliganism, to his countrymen’s anger: he had “simply expressed the opinion of millions of his fellow citizens”, one of them fumed online. A meme did the rounds of a prisoner gripping the bars of his cell with a ball and chain around his ankles, the ball taking the form of a fuel container. Thanks in large part to the outcry, Mr Dustov was freed early on appeal, having spent the new-year holiday in jail. Yet his imprisonment has inflicted “enormous damage on public trust in the state”, says Khushnudbek Khudoyberdiyev, a lawyer with a big social-media following.

The outrage over Mr Dustov’s brief incarceration was not a given. Other critics have been banged up for years with barely a murmur from the public. Few reacted when Dauletmurat Tazhimuratov, a lawyer, was handed a 16-year prison term in 2023 after being convicted of fomenting fatal unrest in Karakalpakstan, an autonomous part of Uzbekistan. International watchdogs called the case a travesty of justice. Dozens of people have been imprisoned under legislation approved by Mr Mirziyoyev in 2021 that makes it a crime, with up to five years in prison, to criticise the president. One woman was even imprisoned last year on charges that included making remarks about Mr Mirziyoyev in private voice messages. Such cases are reminiscent of Karimov’s iron-fisted rule. They make “a mockery of President Mirziyoyev’s reform pledges”, Human Rights Watch says.

Cases of dissenters and their treatment rarely rile the public. By contrast, Mr Dustov's imprisonment blew up the Uzbek internet. That was not despite his lack of prominence but because of it. He is no outspoken intellectual but an Uzbek Everyman, voicing the day-to-day concerns of the working poor. His incarceration was seen as a typically heavy-handed reaction from a government that prefers to silence critics rather than do anything about the problems they raise. Many Uzbeks believe that Mr Dustov received retribution from a state that cannot, despite Mr Mirziyoyev's promises of change, tolerate criticism.

The outcry over his treatment indicates that, after over eight years of talking about, but failing convincingly to deliver, a "new" Uzbekistan, the president and his reform agenda have raised unmet expectations. Mr Mirziyoyev promised Uzbeks the right to speak freely. Now they expect to be able to exercise that right without getting thrown behind bars. ■

<https://www.economist.com/asia/2025/01/23/the-fate-of-a-ranting-driver-raises-doubts-about-the-new-uzbekistan>

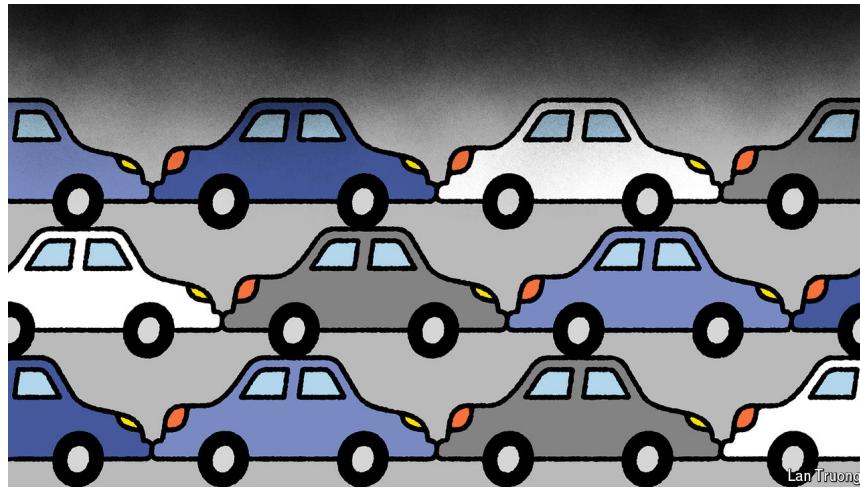
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Banyan

How to end the nightmare of Asia's choked roads

The middle classes love cars but hate traffic

Jan 23, 2025 03:32 PM



INCHING THROUGH Kuala Lumpur, Malaysia's megalopolis, Banyan recently had a back-seat view of one of Asia's monstrous traffic jams. His driver lived in Kota Kinabalu, a sleepy city far away across the water in Malaysian Borneo. So good was business in Kuala Lumpur that he flew in for weeks-long work stints. It seemed clear that much of the money is made sitting nearly stationary on Kuala Lumpur's incongruously named expressways.

Successful cities pack economic activity into dense areas. This produces welcome “agglomeration effects”, but when the agglomeration happens by moving about by car, roads snarl up.

Traffic jams are a scourge. Lost time hurts productivity. There is a human toll on health, both mentally and in terms of air pollution and road safety. Asian cities are world-class for traffic. Of the top 20 slowest-moving cities ranked by TomTom, a navigation service, 12 are in Asia—a mark of fast growth and mismanaged urban development.

The fix is no mystery. Cities with good traffic make private cars less desirable to own and use. Singapore has punishingly expensive ownership quotas, as well as congestion pricing. Tokyo has fees and tolls, and tough limits on parking space. Both cities also have world-class public-transport systems, and housing built near stations.

Yet elsewhere in Asia, politicians are shy about penalising car ownership because it clashes with growing middle-class aspirations. The car is a potent symbol of status and freedom. Nor do governments want to hurt domestic carmakers employing millions. Across much of Asia, car sales in recent years have been on a roll.

So politicians opt to build more roads instead. Two lanes tacked on to the Kuala Lumpur-Karak expressway will let an additional 2,800 cars an hour whizz by, its developer boasts. In India, new lanes will soon be added to Kolkata's eastern bypass. In the Philippines, the previous president's pledge to "Build! Build! Build!" and the incumbent's promise to "Build Better More" mean more car-centric infrastructure. In many parts of Asia, politicians and their cronies skim money off the top of road projects—another incentive to build.

Yet expanding road infrastructure alone nearly always fails. Drivers end up driving more and moving farther from the city centre. The city sprawls, but congestion is little changed. Car-centricity is self-reinforcing, Walter Theseira of the Singapore University of Social Sciences points out. More space for roads and parking means less for greenery and for people on foot.

Many Asian cities have reached a point that serves no one well. Wanting to protect the middle class undermines fairness instead. Car commuters lose time, respiratory health and their sanity. The rich are not immune, but can better insulate themselves: drivers are hired and, in cities like Cambodia's Phnom Penh, obscenely big

and showy SUVs are acquired to serve as mobile offices and entertainment rooms. Pedestrians, especially the poor, are cut out entirely from many benefits of city life and suffer most of the risks of traffic, in terms of fumes and accidents. In Phnom Penh they don't even have the pavements, because the SUVs have parked up on them, engines running, while the boss is at lunch.

Asian cities are not doomed to gridlock. In the 2000s Seoul made ambitious changes. Bus routes were redesigned, and congestion charges, low-emission zones and voluntary no-driving days curbed demand. Traffic speeds rose by up to four-fifths. Elsewhere, the idea of congestion pricing is doing the rounds again, notably in Bangkok. Jakarta has pondered a Singapore-style congestion toll for years, having failed with milder measures. (One such, "three-in-one" carpooling lanes, led to a cottage industry of "jockeys" being paid to sit in cars, and was scrapped.) This year Hanoi will launch a pilot programme restricting high-emissions vehicles in some areas. In the Philippine city of Baguio, north of the capital, Manila, a proposed \$4 congestion fee has sparked controversy, even though other fixes have failed.

The risks for politicians are real. Baguio's proposed fee led to criticism that it would favour the rich; the mayor rushed to clarify that "nothing is final yet." But the criticism gets it backwards. Easing traffic makes a city fairer. What is more, cities that have enacted congestion pricing see public support for it rise over time, as people see the improvements with their own eyes. More politicians should take the gamble.■

<https://www.economist.com/asia/2025/01/23/how-to-end-the-nightmare-of-asias-choked-roads>

Aussie Aussie Aussie

An angry culture war surrounds Australia Day

Conservatives claim that wokeness is destroying the national holiday

Jan 23, 2025 03:32 PM | SYDNEY



Getty Images

BEERS, BARBECUES and beaches are hallmarks of Australia Day. So is the fight surrounding the national holiday. Every year Australians get tangled in an argument over the celebration, on January 26th, which marks the landing of the First Fleet of British convicts in Sydney Cove in 1788. To many Australians, the day is the foundation of their successful and genuinely multicultural nation. To many indigenous Australians, celebrating colonisation feels like a slight. Atrocities that came with European settlement seemed intended to drive their peoples to extinction.

For years, the question of whether to move Australia Day to a less contentious date has loomed over the festivities. Thousands of Australians now join annual protests against what they call “Invasion Day”. Companies increasingly allow staff to swap their holiday if they do not observe the date. In 2022 the centre-left Labor government revoked a conservative-era directive which forced councils to hold citizenship ceremonies, patriotically, on

Australia Day. Dozens of local governments have since moved their events, citing solidarity with indigenous populations.

This infuriates conservatives, who complain that pious lefties are dismantling Australian traditions and shrouding the country in shame. They have inserted the debate into the campaign for the next federal election, due by May. “I don’t want to be told by woke CEOs...that I can’t celebrate Australia Day,” grumbled the opposition leader, Peter Dutton, this month. His Liberal (ie, conservative) Party would go back to insisting local governments hold ceremonies on Australia Day as “a sign of pride and nationalism in our country”.

Mr Dutton likes to rail against wokeness. As defence minister, he identified a “woke agenda” in the armed forces (he was exercised by tea parties held in support of gay rights). He now complains about banks that set environmental targets, objecting to one that denied, on environmental grounds, a loan to a forestry group. And he warns that children at school are being “preached to and indoctrinated on all sorts of agendas”. The Trumpian tone is clear.

As a strategy, stoking culture wars only gets Australian politicians so far, however. The country’s compulsory voting in elections means that they have to appeal to the kind of moderate voter who might not bother to turn out in other countries. This has helped protect the country against the worst populist convulsions that have racked America and Britain, for instance. Yet Mr Dutton is not the first Australian political leader to whip up anger against elites, Greg Barns, a former Liberal adviser, points out. John Howard, a successful conservative prime minister, built his base in the 1990s by pitting Aussie “battlers” (working-class folk) against affluent urbanites. Voters struggling to make ends meet may be drawn to anti-woke arguments. On the question of Australia Day, at least, polling suggests that a majority of Australians, and growing, want to keep the national holiday as it is. ■

<https://www.economist.com/asia/2025/01/23/an-angry-culture-war-surrounds-australia-day>

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Courting disaster

Taiwan's political drama is paralysing its government

Domestic dysfunction plays right into China's hands

Jan 23, 2025 03:32 PM | TAIPEI



TENS OF THOUSANDS of people converged on Liberty Square in Taipei, Taiwan's capital, earlier this month. Placards depicted Lai Ching-te, the president, as a horned devil, with the words: "Recall the dictatorial emperor Lai." The protest is just one act in a political drama that has roiled the island country for weeks.

Mr Lai's detractors accuse him of persecuting Ko Wen-je, an opposition figure who ran for president last year. Mr Ko, who led the Taiwan People's Party (TPP), was indicted for corruption on December 26th. Though Mr Lai handily beat Mr Ko into third place in the election, Mr Ko had support from younger voters. They claim his indictment puts democratic Taiwan on a path back to its authoritarian era, which ended in the late 1980s. His party has fanned the fears. The divisions threaten to paralyse the government, even as Taiwan's position in the world becomes more precarious. China grows ever more aggressive, claiming Taiwan as its own. And Donald Trump's return to power makes Taiwanese wonder

whether America really would defend them in the event of an attack.

Though Mr Lai won the presidency, his independence-leaning Democratic Progressive Party (DPP) lost the legislative elections held at the same time. The Legislative Yuan, Taiwan's parliament, is now controlled by the Kuomintang (KMT), which leans towards China, and its smaller ally, Mr Ko's TPP. The executive and legislature have since been at loggerheads.

Late last month the opposition rammed a number of combative bills through the legislature. One draws the third branch of government into the drama. It requires the 15-member Constitutional Court to have a quorum of ten justices, with at least nine needed to declare any piece of legislation unconstitutional. Mr Lai does not have veto power, but his government can send a bill back to the legislature for reconsideration. On January 10th the Legislative Yuan endorsed the bill for a second time.

Legal scholars think the bill is unconstitutional, not least because it puts the highest court at the mercy of the parliament. Su Yen-tu, a legal scholar at Taipei's Academia Sinica, a research institution, reckons Mr Lai will ask the Constitutional Court itself, which currently has only eight justices, to make a ruling. Either way, the outcome will be contentious.

And now comes perhaps the most disconcerting development in the stand-off. Just when the government wanted to prove to Mr Trump that America's ally is doing its bit to bolster its own defences against China, parliament voted just hours after the new president's inauguration to freeze key parts of Taiwan's defence budget. The freezes included half of Taiwan's submarine programme and 30% of its expenditure on military operations. Military analysts insist that much is politics and that more defence spending will eventually be passed. Still, the damage is done. Mr Trump has long complained that Taiwan is freeriding off America's underwriting of

its defence. It is hard to think of a worse way to start off the relationship with the new administration in Washington.

DPP lawmakers have long accused opposition politicians of being in cahoots with China. Undoubtedly China mounts extensive influence operations on the island. But the accusations are without evidence. No matter. China must be gleeful. As Shelley Rigger of Davidson College in North Carolina points out, the chaos in Taipei plays right into the hands of the government in Beijing.■

<https://www.economist.com/asia/2025/01/23/taiwans-political-drama-is-paralysing-its-government>

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Matters of opinion

How (un)popular is China's Communist Party?

As the economy falters and the social compact frays, Xi Jinping wants to know

Jan 23, 2025 03:32 PM



Getty Images

CHINA'S ANNOUNCEMENT on January 17th that its economy had grown by an estimated 5% in 2024, right on target, was greeted with widespread disbelief on the country's social media. "It feels unreal—everything around me seems so bleak," wrote one netizen. "The folks at the statistics bureau worked hard," said another. On Weibo, a microblogging platform, more than 240 comments were posted below state television's summary of the GDP news. Only a handful remained visible, suggesting that most had failed to meet the account's strict censorship standards. Amid high youth unemployment and a property-market slump, cynics abound.

The government prefers a different spin. Last year "social confidence was effectively bolstered and the economy recovered remarkably," it said in a statement about the economic data. This achievement was "particularly" the result of "timely" stimulus measures, it declared. There is some truth in this. The economy did pick up late in the year, partly helped by a state-subsidised trade-in

scheme that caused sales of household appliances to leap by 39% year on year in December. But the public remains unenthused. Following three years of harsh (and, by the end, widely resented) pandemic restrictions, and two subsequent years of economic malaise, China's social compact is under pressure. For many, the better life they had expected in return for acquiescing to Communist Party rule is not materialising.

The country's leader, Xi Jinping, may wonder whether a warning he gave in 2014, less than a year and a half after he took power, is gaining relevance. "The ancient Roman historian, Tacitus, proposed a theory that when public authority loses credibility, no matter what it says or does, society will view it negatively. This is the 'Tacitus trap,'" he told officials. "Of course, we have not reached this point, but the problems that exist are indeed serious...If we were ever to reach that day, it would endanger the party's ruling foundation and governing position."

Even now there is little evidence that the party is tottering. But the danger of falling into a Tacitus trap clearly haunts it. The term was invented by a Chinese scholar, Pan Zhichang, who wrote about it in 2007. It took off after Mr Xi borrowed it. In China, books and academic literature referring to the trap have since proliferated. It is often mentioned alongside two other potential pitfalls that Chinese officials fret about. One is the "middle-income trap" (so-named by Indermit Gill of the World Bank and Homi Kharas, now of the Brookings Institution). It describes how, having enjoyed rapid growth, some countries fail to become rich. The other is the "Thucydides trap", a term coined by an American scholar, Graham Allison, which is about the risk of war between a rising power and the prevailing hegemon.

A possible reason why Mr Xi appears more hesitant to talk about the Tacitus trap than the other two dangers is that it could invite uncomfortable comparisons between him and the unpopular Roman emperor, Galba, about whom Tacitus was writing. (Galba was

murdered after a few months in power.) But Mr Xi does highlight the dangers of regime collapse, often referring to the fate of the Soviet Union. “The Soviet Communist Party distanced itself from the people and became a privileged bureaucratic group that only safeguarded its own interests,” he told provincial leaders in 2021. Keeping the public on side clearly matters to him.

Poll watchers

The importance to the party of public opinion is reflected in the energy it expends on trying to gauge it. Local officials often commission opinion polls to assess citizens’ views of their policies. They use the public’s “satisfaction level” when conducting officials’ performance reviews. China’s rubber-stamp parliament, the National People’s Congress, last month began soliciting opinions online about what the prime minister should say in March in his annual report to the legislature (don’t bother suggesting faster economic growth: another year at around 5% is very likely to be the target he sets).

Given that the party controls news media, officials pay particular attention to online comments—even as censors (or algorithms) delete those they don’t like. Classified digests of hot topics on social media, and others summarising petitions submitted to the government by aggrieved citizens, circulate among bureaucrats. This intensive monitoring of public opinion is part of what China trumpets as its “whole-process democracy”—a form, it says, that is better than the Western kind.

Amid the current economic gloom, officials regard such efforts as all the more important. They are keen to learn, not least, of public complaints that could cause social unrest. Local governments often prefer to satisfy workers’ demands rather than risk the spread of strikes. Officials have been putting pressure on companies to make sure wages are paid in full before the country celebrates the lunar new year on January 29th. Grumbling about arrears, especially

among construction workers, often triggers protests in the run-up to the holiday.

But a serious souring of the public mood may be difficult for the government to monitor effectively. Fearing repercussions if they speak out, people censor themselves online, or find roundabout ways to express their views. The government appeared to be blindsided by scattered small-scale protests against covid-19-related lockdowns late in 2022, some of which involved rare demands for political freedom and Mr Xi's resignation. These may have hastened the scrapping of the zero-covid policy, but the ensuing crackdown on dissent may also have made it harder for officials to read the public mind (in recent months they have silenced several economists who have dared to express pessimism). Foreign pollsters struggle, too. They are forbidden from carrying out opinion surveys in China without domestic Chinese partners, who have become increasingly wary of getting involved.

Early in Mr Xi's rule, those looking for clues to China's long-term stability found food for thought in another foreign work, Alexis de Tocqueville's book "The Old Regime and the Revolution", published in 1856. It became a bestseller in the country after Mr Xi's anti-corruption chief, Wang Qishan, recommended it. The message many readers took from this work was that reformist regimes face danger after a period of prosperity if they fail to meet rising public expectations. Chinese officials clearly agree that the classics of the West contain disturbing lessons. ■

<https://www.economist.com/china/2025/01/23/how-unpopular-is-chinas-communist-party>

Not as bad as expected

The early days of the Trump administration, as viewed from China

A good start, but it could get worse quickly

Jan 23, 2017 03:32 PM | HONG KONG



Getty Images

CHINA'S STATE media were not impressed by Donald Trump's first days back in charge of the country's great geopolitical rival. Xinhua, the official news service, grumbled that Mr Trump's policies have become more "unilateral and hegemonic". It cited a Cuban researcher who said the president's abrupt reversal of his predecessor's policies weakened America's "national credibility and international trustworthiness". A scholar from Mexico, quoted in the same article, complained of America's rising expansionism.

But don't be misled by the aggrieved tone of this commentary. China's leaders must be quietly satisfied with Mr Trump's start. The new president did not impose fresh tariffs on day one, as some in Beijing had feared. China's currency did not weaken. And though the Chinese stockmarket wobbled, it did not plunge.

The inaugurations of American presidents are normally attended by China's ambassador in Washington or an official of similar stature.

This year, though, China sent Han Zheng, its vice-president. He will have heard Mr Trump promise to “tariff and tax foreign countries to enrich our citizens”. But China was not singled out. Indeed, Mr Trump mentioned the country only in passing—to claim that it was operating the Panama Canal. (A private Hong Kong firm holds the contract to run a port at both ends of the waterway.)

Prior to the ceremony, Mr Han met Elon Musk, the boss of Tesla, which makes more than half of its electric vehicles in Shanghai. China hopes the businessman (who was given a prominent seat at the inauguration and heads the new Department of Government Efficiency) will be a voice for pragmatism in Sino-American relations and a counterweight to the China hawks in Mr Trump’s cabinet.

Mr Musk has even been rumoured as a potential buyer of TikTok, the popular video app owned by ByteDance, a Chinese company. Mr Trump is keen to [save the app](#) from a law which prohibits social networks controlled by “foreign adversaries”. On his first day in office he delayed the ban, hoping that a sale can be worked out. China’s leaders seem newly open to the idea, perhaps because it gives them a bargaining chip. “Beijing could frame its approval for a sale as a generous favour to the US side,” noted Gabriel Wildau of Teneo, a consultancy.

China may have found other crumbs of comfort in Mr Trump’s first day. His decision to withdraw from the World Health Organisation and the Paris Agreement on Climate Change will make it harder to fight future pandemics and global warming. That hurts everybody. But it also cedes leadership and influence to China within the international frameworks that past American presidents helped to build. By the cold logic of great-power rivalry, America’s loss is China’s gain.

Leaders in Beijing may also see new opportunities to drive a wedge between America and its allies. Mr Trump threatened the European Union, Canada and Mexico with big new tariffs. That will introduce tension within the Western bloc of countries, which may redound to China's geopolitical advantage.

The phoney war

China still has much to fear from the new administration. On his second day in office Mr Trump repeated an earlier threat to impose an additional 10% levy on Chinese goods, perhaps as soon as February 1st. The hike is supposed to punish China for failing to stem the flow of fentanyl, a powerful synthetic opioid made from chemicals that often originate in the country. Mr Trump's words prompted a brief fall in China's stockmarket.

But the 10% threat is manageable compared with the 60% tariffs he talked about on the campaign trail. Those higher levies will not be imposed for months (if at all), it seems. Mr Trump has decided to wait until his economic team has carried out reviews of America's trade policy, including an assessment of the "phase one" trade deal he struck with Mr Xi at the end of 2019.

There is no compelling need for such a study. The results of the phase-one deal are hardly a secret: China fell conspicuously short of its commitments to buy American products, food and energy, partly because of disruptions inflicted by the covid-19 pandemic. The real reasons for delay may be different. Mr Trump presumably wants to wait for his economic officials to get their feet under the table before launching another trade war. And he may not want to interrupt the stockmarket rally that greeted his victory in November.

Whatever the reason, Xi Jinping and China's other leaders will welcome the reprieve. But the flurry of decrees and cavalier comments from Mr Trump in recent days is a reminder of his

unpredictable governing style. One of the lessons from the trade war he launched in 2018 is that uncertainty about tariffs can be as damaging to the economy as the tariffs themselves. Businessmen will wait and see where Mr Trump lands before making a decision about where to build a new plant. That hesitation will interrupt the flow of investment and the jobs and incomes it provides.

For now China's leaders are probably taking some pleasure in Mr Trump's treatment of TikTok, his hostility towards allies and the lack of tariffs on Chinese goods. But if the president's first term is any indication, things can change quickly. ■

<https://www.economist.com/china/2025/01/23/the-early-days-of-the-trump-administration-as-viewed-from-china>

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Star signs and tarot cards

It's a good time to be an astrologer in China

In the face of hardship, the country's youth are embracing superstition

Jan 23, 2025 03:32 PM | BEIJING



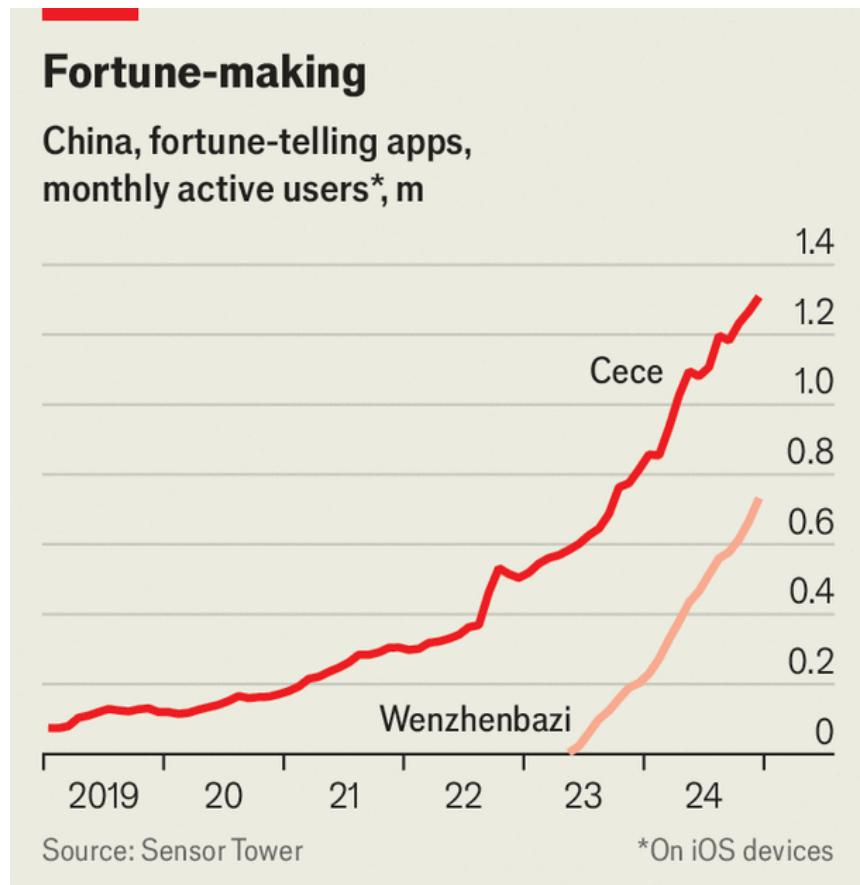
Getty Images

YOUNG PEOPLE have always come to Ms Xia with questions about their relationships. Now they often ask the astrologer about their finances and job prospects, too. “People feel a sense of powerlessness,” says the 27-year-old from Changsha. She won’t give them definite answers about their future. But for 200 yuan (\$27) per session, she will read their star signs and let them know when their luck might turn.

Such guidance is increasingly sought by young Chinese, who face a sluggish economy, a tight job market and intense competition in many aspects of life. “They don’t have hope,” says Chen Jinguo, a professor of philosophy and religion at Minzu University of China. To find some, many are turning to divination, spiritualism and superstition. These act as a “pressure-relief valve”, says Mr Chen.

Most of the action is happening online. An app called Cece—which offers horoscopes, tarot-card reading and fortune-telling—has been

downloaded more than 15.5m times from Apple's app store in China, according to Sensor Tower, a research firm. The number of monthly users has shot up in recent years (see chart). Another fortune-telling app, called Wenzhenbazi, has experienced a similar surge. On Bilibili, China's version of YouTube, people have taken to using the word *jie* (receive) when responding to upbeat videos. By doing so, they hope to capture the positive energy.



The Economist

Around 80% of Chinese under 30 have had their fortunes told, reports NetEase, an internet company. Apps are the most common forum, but the trend can also be seen in real life. "Metaphysical bars", where drinks are served with a side of fortune-telling, are popular in Beijing. Streets devoted to psychics can be found in cities across China. In 2024 sales of 18-bead bracelets, known for luck, jumped 11-fold, year on year, according to data from JD.com, an e-commerce giant.

The Communist Party has long tried to rid itself of what it calls “feudal superstition”. Last year the Central Party School, a training academy for officials, expressed concern about the number of members and cadres “believing in ghosts and gods”. It tried to clarify the party’s restrictions by publishing a Q&A on the matter. Occasionally participating in local folk customs or consulting a fortune-teller on a name for your baby? That’s fine. Spending a lot of time and money, especially public funds, on superstitious activities? Unacceptable.

The masses are also discouraged from embracing such practices. A notice issued by the city of Sanming in 2023 stated: “The public should improve their scientific literacy, enhance their psychological immunity to superstitious activities and not seek spiritual comfort through ‘fortune-telling’ when encountering real setbacks.” Other cities have followed suit. Last year some local governments cracked down on the burning of fake money and other paper offerings to the dead during the annual grave-sweeping festival.

State censors, with the help of internet firms, have tried to curb the spread of superstitious beliefs and divination services online. Search terms such as “astrology” and “fortune-telling” have been blocked on Taobao, an e-commerce market. But on Weibo, a social-media site, popular astrologers have accumulated tens of millions of followers. Some speak of playing a cat-and-mouse game with the authorities. A 24-year-old tarot-card reader in Shanghai jokes that she tries to divine her own fate—to see if jail time is in the offing. ■

<https://www.economist.com/china/2025/01/23/its-a-good-time-to-be-an-astrologer-in-china>

Middle East & Africa

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A terrifying knock-on effect :: Hamas and the Israeli far right both want to destabilise the West Bank

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A terrifying knock-on effect

The Gaza ceasefire is stoking violence in the West Bank

Hamas and the Israeli far right both want to destabilise the West Bank

Jan 23, 2025 03:32 PM | JERUSALEM



Imago

THE PALESTINIAN villages of al-Funduk and Jinsafut have been under unofficial curfews since January 20th. Armoured vehicles of the Israel Defence Forces (IDF) patrol their deserted streets. At the exits from other towns and villages in the [West Bank](#), long queues of vehicles wait hours for inspection at Israeli checkpoints.

The official reason for the clampdown given by the IDF was a spate of shootings and stabbings in recent weeks, in the West Bank and in Tel Aviv, and explosive devices hidden on the roads which killed and wounded Israeli civilians and troops. But the immediate trigger was riots by [Israeli settlers](#), enraged that Palestinian prisoners were returning to their homes as part of the deal between Israel and Hamas in Gaza. Al-Funduk and Jinsafut were the main targets; settlers torched cars and buildings on January 20th. Israeli security forces were slow to arrive and repel the attackers.

The next day two Israeli brigades, with covering fire from drones and attack helicopters, descended on Jenin. The main Palestinian city in the northern West Bank has long been a centre of militant activity. But in recent months the security forces of the Palestinian Authority have fought to restore order there. Now the IDF, which has struck Jenin twice in the past 20 months, has returned in another show of force. Israeli security officials deny the operation was to assuage the settlers. They maintain that they were acting on intelligence that Hamas is working in Jenin to open up a new front in the West Bank.

“We are determined both to fight Hamas wherever it tries to operate and to prevent violence by Israeli citizens,” insists one senior Israeli officer. These two missions do not sit comfortably together. Many Israeli soldiers are settlers; some have joined the rioters. Many of the IDF’s West Bank bases are next to the settlements, and the main job of troops stationed there is to protect their residents. And though the army claims to be fighting settler violence, its political boss, the defence minister Israel Katz, announced a few days ago that he was releasing suspected organisers of past attacks on Palestinians from administrative detention.

Both the settlers and Hamas, the Islamists who run Gaza and also have a presence in the West Bank, are keen to foment violence there. For now, Hamas wants to preserve the ceasefire in Gaza. It has provided the movement with some much-needed respite from the IDF’s incessant attacks since October 2023. However, it also needs to prove that it is still a fighting force. It is using the West Bank to do so.

Meanwhile, the settler movement has made no secret of its desire to rebuild its communities in Gaza, which Israel dismantled in 2005. For that, they need the war in Gaza to continue indefinitely, thus perpetuating Israeli control of the strip. Provoking a new conflagration with the Palestinians in the West Bank might achieve

that. More violence there could scupper the next round of ceasefire talks. It could also lead to attacks against the IDF in Gaza by Hamas. Squeezing Binyamin Netanyahu, Israel's prime minister, politically might also achieve their goals. One of the settlers' leaders, Bezalel Smotrich, is the finance minister and an important ally of Mr Netanyahu. He has promised to topple the government if Israel does not restart the war in Gaza within six weeks.

On the ground in Gaza the ceasefire, which came into effect on January 19th, is holding, so far. The first hostages have been released as have 90 Palestinian prisoners. Aid has begun to flow in. The IDF has begun to dismantle some of its bases. Displaced Gazans are returning to the rubble of their homes.

Will the truce hold beyond this first stage? Much depends on Donald Trump. In the weeks before he took office he exerted significant pressure on Mr Netanyahu to accept the agreement with Hamas. But in the first hours of his presidency, he repealed sanctions placed by the Biden administration on some Israeli settlers. A number of his key diplomatic appointments, including the new secretary of state, Marco Rubio, and the future ambassador to Israel, Mike Huckabee, have supported Israeli settlement in the West Bank. In her Senate confirmation hearing on January 21st, Mr Trump's choice as the next ambassador to the UN, Elise Stefanik, affirmed her belief in Israel's "biblical right to the entire West Bank".

Nevertheless, the impression of senior Israeli officials and diplomats working with the Americans is that Mr Trump wants to prioritise building a regional alliance in which Israel and Saudi Arabia are central. Ending the war in Gaza is a key part of any such plan.

That leaves Mr Netanyahu in a political bind. Itamar Ben-Gvir, the former national-security minister and leader of one of the two far-right parties in his coalition, has already resigned from the

government in protest over the Gaza deal. If Mr Smotrich makes good on his threats, Mr Netanyahu's coalition will lose its majority. The opposition has promised to support him until the ceasefire is complete; but ultimately this would mean holding an early election.

Mr Netanyahu is facing increasing calls for a reckoning over the failure of Israel's leadership to anticipate the catastrophic attack by Hamas in October 2023 that sparked the war. On January 21st the IDF's chief of staff, Lieutenant General Herzi Halevi, announced his resignation, taking responsibility for the debacle. The man who led Israel on that day still refuses to do so. An explosion of violence on the West Bank would help him defer the fateful day when he is called to account. ■

<https://www.economist.com/middle-east-and-africa/2025/01/22/the-gaza-ceasefire-is-stoking-violence-in-the-west-bank>

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The Middle East's wars

Trump should try to end, not manage, the Middle East's oldest conflicts

And he should see the region as more than a source of instability and arms deals

Jan 23, 2025 03:32 PM | DUBAI



IT IS BECOMING an odd tradition: America's secretaries of state use their final days to catalogue their failings in the Middle East. John Kerry did it in 2016. Antony Blinken took his turn on January 14th. In a speech at the Atlantic Council, a think-tank, he described a litany of problems in Gaza: the misery of civilians; the failure to find an alternative to Hamas; the lack of a broader peace plan. As a piece of analysis, it was spot-on; as a farewell from America's top diplomat, it was self-indictment.

Joe Biden never worked out how to exert American power to achieve his goals. For a year his aides begged Binyamin Netanyahu to moderate Israel's scorched-earth tactics in Gaza and to accept a ceasefire. Israel's prime minister faced no consequences for ignoring them. If allies did not fear Mr Biden, adversaries certainly did not. He wanted to force Iran into a new nuclear deal, yet failed to enforce the sanctions that were his main tool of pressure.

At other times, he did not even know his goals. Take his relationship with Saudi Arabia. Mr Biden promised to make the kingdom a “pariah”. Then he begged it to pump more oil. Eventually he offered the Saudis a package of goodies to recognise Israel. He accomplished none of this.

He was not an aberration. America has not had a Middle East policy for almost two decades. George W. Bush was the last president with an ambitious regional agenda; unfortunately, the centrepiece was a disastrous invasion of Iraq. Since then, presidents have viewed the region as a headache, and their policy was an exercise in contradictions. They talked about disengaging but never actually did. They managed endless crises but rarely resolved them (and often made them worse).

Donald Trump’s in-tray is already overflowing: fragile ceasefires in Gaza and Lebanon, a fraught transition in post-Assad Syria and an Iranian nuclear programme that has advanced to record levels. If he is to tackle these crises, he should learn from his predecessors’ mistakes.

First is to stop acting like an absentee hegemon. When Hamas attacked Israel on October 7th, no one was particularly interested in how Russia, China or the European Union would respond. Like it or not, America is still the only outside power with real influence in the Middle East.

It should behave accordingly. Under the past two administrations, key diplomatic posts often sat empty. Both Mr Biden and Mr Trump took more than a year to nominate ambassadors to Saudi Arabia. Advisers in the White House micromanaged their pet projects, while everything else was ignored. The goal was to keep the Middle East off the president’s desk, which left America in reactive mode.

When events forced it onto their desks, presidents became enamoured of shortcuts. Barack Obama talked of Iran and Saudi Arabia needing to “share” the region: Arab states should accommodate the Islamic Republic and its network of proxies, because they were too strong to confront. Then came Mr Trump, who saw Arab-Israeli normalisation as a magic wand that would isolate Iran and stabilise the Middle East. Mr Biden embraced that idea too.

The events of the past 15 months should dispel such illusions. Iran’s “axis of resistance” was strong only because its enemies were weak: faced with a real challenge, it crumpled. At the same time, Israel’s new Arab allies wanted no part of the regional war. They sat on the sidelines.

The path to regional stability is to end the region’s oldest conflicts. It is fanciful to think that any American president could end the Israeli-Palestinian conflict in the next four years: circumstances are too bleak. But Mr Trump has unique freedom to break with Republican orthodoxy and present a fair-minded peace plan. That could offer a road map for future presidents, constrain Israel’s far right and offer the Palestinians some needed hope.

He must also decide what sort of deal he wants from Iran, and how far he is willing to go if negotiations fail, two questions he ducked in his first term. For once, there is a chance of a grand bargain: Iran is weak, and Saudi Arabia, which once opposed diplomacy with its rival, now supports it.

Many of America’s relationships in the Middle East are based on outdated notions of stability. The oil-for-security bargain with Saudi Arabia is creaky: America is the world’s largest oil producer, and imports of Saudi crude are at their lowest in decades. Yet presidents still approach the kingdom on transactional terms. On January 20th Mr Trump joked that he would trade a presidential

visit for a pledge to buy \$500bn of American weapons (a hard sell: that is around 50% of Saudi GDP).

Gulf states are desperate to transform their oily economies. A deal-minded president should look for more opportunities to boost ties around artificial intelligence (AI), clean energy and other vital sectors. Mr Biden did that in September, when he struck a deal with the United Arab Emirates to co-operate on AI. Oil and guns were a foundation for America's ties in the Gulf in the 20th century. Trade and investment make for a better foundation in the 21st.

Presidents are used to seeing the Middle East through the lens of hard power—but economics is also a threat to regional stability. Sanctions are too often a wheel that turns in only one direction. Leaving them in place against post-Assad Syria will make that country more unstable.

Egypt is another example. America sends it \$1.3bn in annual military aid in the name of regional stability. Yet one of the biggest threats to Egypt's stability is the army itself, which gobbles up an ever-larger share of the economy. America has enormous influence at the IMF, which has \$9bn in outstanding loans to Egypt. Mr Trump should insist that the fund pushes Egypt for serious economic reforms.

America has tried to ignore the region's problems. They only get bigger. If Mr Trump wants the region off his desk, he will need to start by making it a priority. ■

<https://www.economist.com/middle-east-and-africa/2025/01/23/trump-should-try-to-end-not-manage-the-middle-easts-oldest-conflicts>

Turkey in Syria

How Turkey plans to expand its influence in the new Syria

Its influence could cause tensions with the Arab world—and Israel

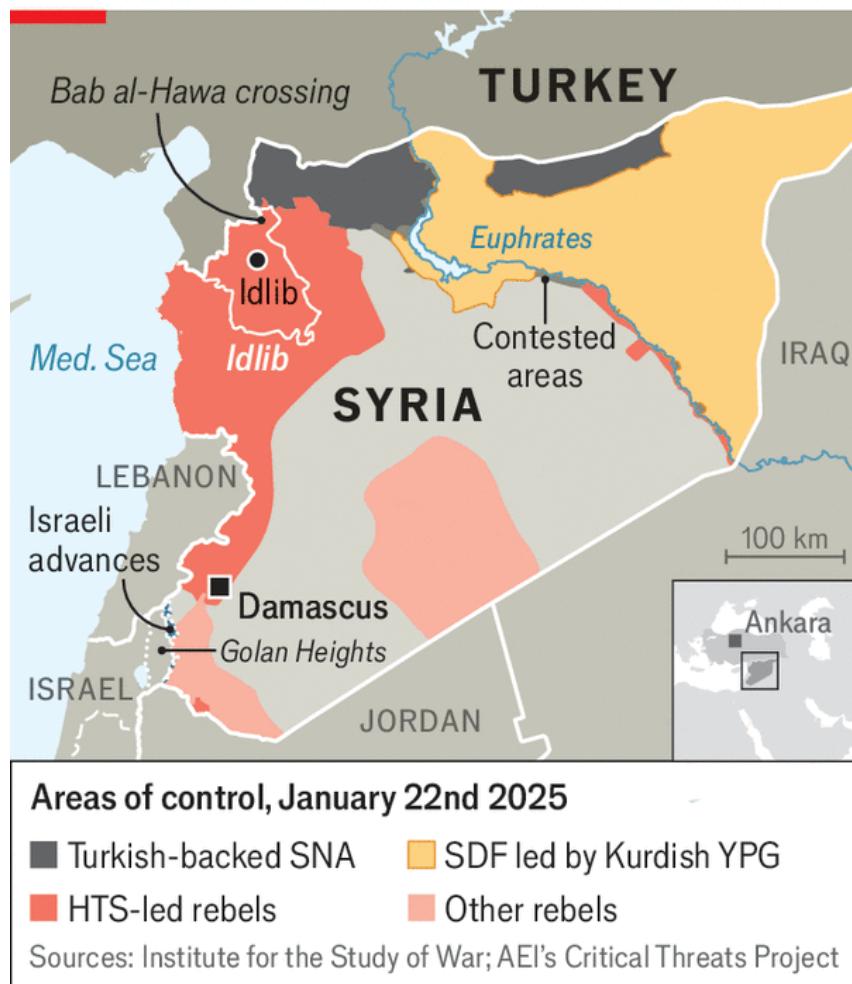
Jan 23, 2025 03:32 PM | ISTANBUL AND IDLIB



ASAAD AL-SHAIBANI'S professors were puzzled when the postgraduate student, a Syrian refugee, told them in November that he would have to miss a few classes. A few weeks later, Mr al-Shaibani resurfaced in Damascus in the cabinet of [Syria's](#) new interim government. On January 15th he made an official visit to Turkey, where he had lived for over a decade, as Syria's new foreign minister.

No country has as much to gain from a stable Syria as Turkey, and few have as much to lose if it implodes. Turkey is home to more than 3m Syrian refugees, and wants Syria to be safe enough for many to return. Nor does any other outside power have as far-reaching an agenda for Syria. Turkey wants to smother Kurdish autonomy in Syria's north, help build a new Syrian army and regain influence in a country it once controlled for 400 years.

Turkish officials have brushed aside claims, aired by Donald Trump, America's newly inaugurated president, that their country was behind the rebel offensive that ousted Bashar al-Assad, Syria's former dictator. But signs of the outsize role Turkey expects to play in the new Syria are hard to miss. Turkey's president, Recep Tayyip Erdogan, has offered to help Syria come up with a new constitution. Turkey's foreign minister, Hakan Fidan, and its top spy were the first high-level foreign dignitaries to visit Damascus after Hayat Tahrir al-Sham (HTS) took power. Turkish businessmen rushed after them. A day after the rebels entered Damascus, Turkey's top construction and cement companies saw their shares surge. The country's national carrier, Turkish Airlines, will resume flights to Syria on January 23rd.



The Economist

As a result of offensives Mr Erdogan launched against Kurdish insurgents in Syria's north, Turkish troops already occupy parts of the country. Syrian rebel groups bankrolled by Mr Erdogan's government police the enclaves. Turkey provides basic services, including education and health care. Turkey also propped up the quasi-state HTS carved out in Idlib province, in Syria's north-west.

Were it not for the destruction of over 13 years of war, you could almost mistake parts of the north-eastern province of Idlib for Turkey. Shops offer Turkish products. Many businesses accept only Turkish lira. Power lines from Turkey provide electricity around the clock; in Damascus people make do with barely four hours per day. (Over the next year Turkey plans to supply power to Aleppo.) On the road to Idlib, taxi drivers pull over to switch from Syrian SIM cards, which do not work there, to Turkish ones. But with Syria's new government committed to unifying the country, Turkey's occupation of northern Syria could be harder to sustain—or justify.

Turkey is unlikely to withdraw its troops soon, nor has the new Syrian government asked it to do so. Instead, Turkey is threatening to launch a new offensive against the People's Protection Units (YPG), American-backed Kurdish insurgents. It wants the YPG's foreign fighters to leave Syria, and the group to disarm. HTS, however, is talking to YPG about folding them into Syria's new army. It does not want a war with the Kurds. Ahmed al-Sharaa, the head of HTS and Syria's de facto leader, has asked Turkey for time to integrate the YPG. For now, under pressure from America, Turkey is holding fire. But its patience will not last indefinitely. "Either someone else will take action," says Mr Fidan, "or we will."

Those around Mr Sharaa worry more about the 90,000-odd fighters of the Syrian National Army (SNA), a motley bunch of Turkish proxies, who outnumber those of HTS. The SNA has been accused of extortion, kidnappings and other human-rights abuses, especially

against Kurdish civilians, in areas occupied by the Turks. More recently, some of its members have been involved in attacks on Alawites near Latakia and Homs.

Mr Erdogan's government has promised to help. That means leaning on the SNA to dissolve and come under the control of Damascus, says Dareen Khalifa of the International Crisis Group, a think-tank. Turkey could stop funding the SNA and instead contribute directly to Syria's central budget and thus its new army. Uniting Syria's armed groups under one umbrella would be almost impossible without Turkish support, says Ms Khalifa.

HTS, for its part, does not view itself as a Turkish vassal. Mr Sharaa is keen on getting support from all sides. Saudi Arabia is already sending aid and has offered to replace Iran as Syria's main oil supplier. It can far outspend Turkey in rebuilding Syria and hopes to use that to its advantage. Turkey wants to train and equip Syria's new army, but another Middle Eastern country has made a better offer, according to one HTS official. "We are grateful," he says, referring to Turkey, "but we don't need to put ourselves in any single camp."

Influencers

For now, at least publicly, Turkish officials are making a point of showing respect for Syria's sovereignty and its government. "They're not trying to pressure them into taking specific actions," says Ms Khalifa. But the magnitude of Turkey's involvement in Syria is making some Arab governments uneasy. The Saudis see Turkey as a rival for leadership in the Sunni world. The United Arab Emirates and Egypt resent Mr Erdogan's support for Islamists. Because this caused a painful standoff with the Arab world a decade ago, the Turkish president will be wary of fanning the flames of political Islam once again. The Assad regime publicly embraced pan-Arabism but ultimately served as an Iranian foothold

in the Arab world. Syria's neighbours do not want it to break free of Iran's influence only for it to come under Turkey's.

Turkey sees Israel as the main obstacle to its ambitions in Syria. It has already chastised the Israelis for strikes that destroyed much of Syria's surviving military infrastructure, and for approving new settlements in the occupied Golan Heights. Calls from Israel's foreign minister for more co-operation with Syria's Kurds have compounded fears in Ankara that Israel is backing the YPG against Turkey.

Meanwhile, a recent Israeli government report warned that Turkey's growing influence in Syria could place the two countries on a collision course. War between one of NATO's biggest powers and Israel is unlikely. But the tension is a reminder of what is at stake for Turkey. If the new Syria thrives, the rewards for Turkey will be greater than for anyone else. If chaos returns, it will suffer the blowback. ■

<https://www.economist.com/middle-east-and-africa/2025/01/21/how-turkey-plans-to-expand-its-influence-in-the-new-syria>

The world's first **WhatsAppocracy**

Government by social media in Somalia

Cheap data, social media and creativity are filling in for an absent state

Jan 23, 2025 03:32 PM | ADDIS ABABA



THIRTY YEARS ago, making a phone call from Somalia meant crossing the border into better-connected Kenya or Ethiopia. Yet by 2004 the lawless nation had more telephone connections per capita than any other east African country. Today, the Somali state is still fragile: insecurity is rife and government services are poor. But mobile data in Somalia is cheaper than in Britain, Finland or Japan—and the signal is good, too. Jethro Norman, a Mancunian anthropologist who does research in Somalia, says he gets better mobile coverage in some of the remotest parts of the country than he does in Manchester.

How has dysfunctional Somalia managed to develop such an outstanding telecoms network? The answer lies in the state's very weakness. Three decades of chaos and conflict have forced hundreds of thousands of Somalis to flee their country. Those who have stayed depend on them: the diaspora sends home around \$2bn a year, roughly double the government's budget. An extensive

phone network was needed to handle those vast remittance flows. In Somalia's radical free market, the invisible hand did the rest. The upside of a lack of government is that there is no need to pay for licences or to bribe corrupt officials to get the job done.

If telecoms flourished at first in the absence of the state, cheap internet is now helping to replace it. A recent research paper by Mr Norman shows how clan-based WhatsApp groups are increasingly being used to crowdsource capital from "investors" in the diaspora, and then to co-ordinate the building of schools, hospitals and roads with the money that is raised.

Social media is filling in for the failing state in other ways, too. WhatsApp groups serve as virtual courts, for instance, where clan elders, rather than corrupt or distant judges, resolve disputes. These online groups have revenue-raising powers; members are required to make monthly contributions, which are then used to offer payments if someone is short of money, or as a kind of health insurance to pay if they or a family member are ill. Those who do not pay are blocked from the groups.

The rise of this WhatsAppocracy is not without its flaws. Hate speech that deepens clan conflict is common, particularly among the diaspora. And WhatsApp groups can raise money to buy guns as well as schools. Still, for now, governance via WhatsApp seems to beat rule by warlords. Somalis are making do with what they have.■

<https://www.economist.com/middle-east-and-africa/2025/01/23/government-by-social-media-in-somalia>

Africa v big tech

Three big lawsuits against Meta in Kenya may have global implications

One was prompted by the murder of an Ethiopian professor

Jan 23, 2025 03:32 PM | NAIROBI



AS SOON AS the posts appeared on Facebook, Abrham Mearag feared they would be a “death sentence” for his father. A civil war was raging in Ethiopia and Mr Abrham’s father, a chemistry professor, was of the wrong ethnicity in the wrong place at the wrong time. His name, photo and place of work all appeared on Facebook in October 2021, along with allegations that he was affiliated to rebels fighting the Ethiopian government. Mr Abrham reported the posts to moderators at Meta, Facebook’s parent company, in a desperate attempt to get them taken down. But his pleas were ignored—and on November 3rd 2021 his father was murdered.

On January 29th Kenya’s high court will decide whether it has jurisdiction to hear a \$2.3bn case brought against Meta by Mr Abrham and two others. The group claim that Facebook’s algorithms amplified hateful speech which directly led to real-world harm, including the death of Mr Abrham’s father. Since the

moderators vetting Facebook's Ethiopian content were based in Kenya, the plaintiffs argue, the company ought to be sued there. The lawsuit is the third to be brought against Meta in Kenya. They all concern the invisible army of moderators used by tech firms to cleanse their platforms of violent or illegal content. Together the cases illuminate the grim reality for low-paid African workers of the global tech boom. And they raise an important question: can big tech be sued in African countries, and thus others?

In each case Meta argues that it cannot be held liable in Kenya because it is registered in America. Like other big internet platforms, the firm outsources content moderation to third-party contractors. Around 100,000 people worldwide work for companies such as Sama, the local contractor hired by Meta until 2023 to screen African-language content. Working like this meant tech firms could hire cheap English-speakers in places such as Kenya, and avoid the costs of incorporating there. They also believed doing so would shield them from potential litigation overseas.

The laws they are a-changin'

That no longer seems to be true. In the two other cases brought against Meta in Kenya, former employees accuse Sama and another contractor of, *inter alia*, unlawful termination and forced labour. They also allege that sifting through graphic content without adequate psychiatric support seriously damaged their mental health. "You are forced to watch, you cannot skip," says Robel Kahsay, one of 186 former Sama workers taking the company to court. Among the horrors which live "rent-free" in Mr Robel's mind is the image of his cousin's bloodied corpse in Ethiopia's civil war, which he encountered on the job. Sama denies failing to provide sufficient mental-health services. It says they were (and remain) available on site from licensed professionals at all times. Meta argues that it should not face charges since it did not hire the workers directly.

In 2023, however, a Kenyan judge concluded that Meta was, in fact, their “true employer”. That opened the door to other lawsuits against any of the big tech firms working with third-party contractors in Kenya. In a similar case involving 10,000 content moderators in California, Meta agreed to pay \$85m in compensation for failing to protect the litigants from mental-health harm. But this is the first time Meta could be “significantly subjected to a court of law in the global south”, notes Amnesty International, a rights group. The company is appealing to Kenya’s supreme court.

Mr Abrham’s lawsuit demands not only compensation but also changes to Facebook’s algorithm to make it less potentially deadly. Though Mr Abrham’s father was murdered in Ethiopia, Meta’s terms of service require any claims to be filed in America. At home, American internet companies are usually protected from liability for content disseminated through their platforms. “It doesn’t matter where the company is registered, the actual action which caused the harm took place in Kenya,” says Mercy Mutemi of the Kenyan law firm representing the plaintiffs in all three cases. But there are few precedents elsewhere. Lawsuits brought against Meta for its alleged role in spreading hate speech during the Rohingya genocide in 2017 have stalled in courts in Britain and America.

Faced with potential damage to its reputation in Africa, an important and growing market, Meta might settle. But given today’s politics, it could “ignore a court ruling it doesn’t like,” says Eugenia Siapera of University College Dublin. Donald Trump’s return has boosted America’s tech titans. This month Meta announced that it would stop fact-checking content on Facebook, which could prompt it to rethink how it does moderation in Africa. Mark Zuckerberg, Meta’s CEO, said recently that he hoped to work with Mr Trump “to push back on governments around the world”.

Mr Zuckerberg has an ally in Kenya's president, William Ruto. Mr Ruto wants to promote Nairobi, its capital, as a tech hub. Meta has already shifted its content-moderation work out of Kenya to an undisclosed location in Africa, so the president has less bargaining power. (A spokesperson for Meta cited "the security of our clients" and ongoing litigation as reasons for the lack of transparency.) Anxious not to lose out on investment and jobs, Mr Ruto has rushed to pass a bill which would make it even harder to sue the biggest tech firms. Kenya's government faces an impossible choice, says Mark Graham of the Oxford Internet Institute: "bad jobs or no jobs." ■

<https://www.economist.com/middle-east-and-africa/2025/01/23/three-big-lawsuits-against-meta-in-kenya-may-have-global-implications>

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Vigour on the Vistula

How Poland emerged as a leading defence power

Will others follow?

Jan 23, 2025 03:32 PM | Warsaw



IT HAS BEEN centuries since Poland was last a great armed power, but the winged hussars are back. When Russia seized Crimea in 2014, Poland's armed forces were the ninth-biggest in NATO. Today they are third after America and Turkey, having doubled in manpower to over 200,000. The budget has tripled in real terms to \$35bn; in Europe, only Britain, France and Germany spend more (see chart). As a percentage of GDP, Poland is well in front.

This month Poland assumed the six-month presidency of the EU Council. Its theme, unsurprisingly, is security. With Russia advancing on the battlefield and Donald Trump's commitment to NATO uncertain, Europe's eastern border is looking wobbly. Poland has a fast-growing economy and an able prime minister in Donald Tusk. Can it become Europe's new eastern security anchor?

Leading from the front

NATO members' defence spending, % of GDP

2024 estimate, selected countries



Source: NATO

The Economist

Wladyslaw Kosiniak-Kamysz, the defence minister and a deputy prime minister, thinks so. “We are facing an enormous threat. If we did not take advantage of this opportunity to build up our security, it would be a historic, tragic failure.” Poland is buying hundreds of new tanks, howitzers and multiple-launch rocket systems from South Korea. But the minister gives pride of place to nearly \$60bn-worth of purchases from America, including a \$10bn deal for 96 Apache attack helicopters and \$2.5bn for the Integrated Battle Command System, a digital hub for Patriot air-defence missiles.

If Mr Kosiniak-Kamysz stresses American kit, it is because his true audience is in the White House. Mr Trump has floated a defence-spending target of 5% of GDP for NATO members; Poland, the

minister notes, is the only member already planning to meet it. It reckons it spent 4.1% in 2024 and will hit 4.7% this year. “We have done what Mr Trump expects,” says Mr Kosiniak-Kamysz. Poland can be “a bridge between the European Union and America”.

For all Poland’s newfound strength, its priority is keeping America engaged. One of the EU’s most Atlanticist members, Poland long waved off initiatives for European strategic autonomy, especially under the Law and Justice (PiS) party that governed between 2015 and 2023. (In 2018 that government tried in vain to get America to build an army base in Poland by promising to name it “Fort Trump”.) Mr Tusk is more EU-minded, and Mr Trump’s equivocation has convinced the Poles that the continent must do more for itself. But they still see this as a way to keep the Yanks in. “Without America, NATO does not function,” says Mr Kosiniak-Kamysz.

Poland’s hesitancy has been clearest on the issue of stationing NATO troops in Ukraine, if a ceasefire can be reached. Emmanuel Macron, France’s president, proposed the idea, and it gained momentum in December as Mr Trump vowed to end the war quickly. Britain and Germany neither endorsed nor dismissed it. But Mr Tusk was reluctant, saying Poland was “not planning” to send soldiers—an attitude seemingly at odds with aspirations to greater security heft. Mr Kosiniak-Kamysz says any decision would have to be made by NATO as a whole.

The main reason for the caution is political. A two-round presidential election starts on May 18th, and the fate of Mr Tusk’s government hinges on it. The prime minister has been trying to root out the autocratic legacy of PiS, which packed the courts, inserted cronies in government and turned the state media into propaganda. But the current president hails from PiS, and has been vetoing Mr Tusk’s efforts.

If the election is won by Rafal Trzaskowski, the liberal mayor of Warsaw and candidate of Mr Tusk's centrist Civic Coalition, the reforms may move ahead. If it goes to Karol Nawrocki, the conservative historian nominated by PiS (who is sceptical of EU and NATO membership for Ukraine), the deadlock will go on. Polls give Mr Trzaskowski a narrow lead.

The ruling coalition is fragile. Mr Tusk has failed to liberalise abortion, one of his main campaign promises. That has disappointed left-wing parties allied with him. The centre-right Poland 2050 party has conservative views on abortion, and has slowed reform. The farthest-right coalition member is the small agrarian Polish People's Party, led by Mr Kosiniak-Kamysz. This month he helped the Catholic church restrict sex education in schools.

A second reason for Poland's reluctance to commit to a hypothetical deployment in Ukraine is bilateral tension. The two countries have a long-running argument over massacres in Volhynia during the second world war, when Ukrainian partisans staged an ethnic-cleansing campaign that killed some 100,000 Poles. Polish historical researchers want permission to exhume victims. But many Ukrainians consider the partisans heroes, and officials have angered Poles by playing down the atrocities.

Ukraine agreed this month to allow exhumations. But at a deeper level, Polish ambivalence stems from a perception of ingratitude. Many Poles feel Ukrainians have not thanked them enough for welcoming over a million refugees and acting as the main logistical hub for military aid. More important is a sense that in dealing with allies, Ukraine bypasses Poland. Volodymyr Zelensky, Ukraine's president, prefers to speak to America, Britain, France, Germany and the European Commission. His administration has little understanding of its western neighbour.

Mr Zelensky illustrated the point in a visit to Warsaw on January 15th, irritating PiS by saying that if Mr Nawrocki opposes Ukraine's NATO membership, he should start military training to prepare for war with Russia. Justyna Gotkowska, a defence expert at the Centre for Eastern Studies in Warsaw, says Poland would find it hard to deploy a brigade in Ukraine anyway. The army's new capabilities will be fully operational only in 2026-27.

Mr Zelensky's visit reportedly aimed to find ways to persuade Mr Trump to stay committed to NATO. Poland's main offering is its rising defence budget. Unlike other NATO members, it may not need to cut elsewhere: new defence spending is financed by GDP growth of nearly 3% last year, says Michal Baranowski, a deputy minister of economic development. Mr Tusk's government will push to get Ukraine into NATO and the EU, however distant the prospects—if only out of self-interest. “The strategy of the Polish army is to keep Russia as far away as possible,” says Mr Kosiniak-Kamysz. ■

<https://www.economist.com/europe/2025/01/22/how-poland-emerged-as-a-leading-defence-power>

Death from above

Russian pilots appear to be hunting Ukrainian civilians

Residents of Kherson are dodging murderous drones

Jan 23, 2025 03:32 PM | KHERSON



KHERSON, A CITY in southern Ukraine, endured eight months of Russian occupation before [Ukrainian forces](#) liberated it in November 2022. The Russians retreated to the other side of the Dnieper river, but have indiscriminately pounded the city ever since, no doubt fuelled by rage at having swiftly lost the only provincial capital that they have managed to capture during the entire three-year course of the war so far. In June 2023 they blew up the nearby [Kakhovka dam](#), flooding low-lying areas of Kherson. Now the city's 80,000 inhabitants, down from a pre-war population of 280,000, face a new sort of misery. For six months [Russian drones](#) have been attacking civilians daily, chasing cars and pedestrians through the streets in what locals call a "safari".

There have been more than 1,000 drone strikes since last summer, injuring over 500 people and killing 36, according to municipal authorities. Surveillance drones patrol high up in the skies; smaller attack drones (known as FPVs, or first-person-view drones), with a

flying time of between 20 and 40 minutes, sit on rooftops to conserve battery power. The munitions dropped are often makeshift: mortar shells, grenades, canisters containing shrapnel or darts, or bottles of petrol that ignite.

Shops, schools, clinics, private houses, delivery vans, buses, fire engines and other first responders are routinely targeted. Several administrative officials have been wounded. In one case, says Roman Mrochko, the head of the military authority in Kherson, a minibus “was almost completely destroyed, but the driver heroically saved the injured people by driving, you could say on scrap metal, to the hospital.” In the riverside neighbourhoods where the attacks are concentrated, designated “red zones” by Russians on Telegram channels, life has been throttled. There is no gas, water, electricity or municipal heat. Public transport is suspended. Ambulances wait outside the area for police in armoured cars to ferry the wounded to them.



The Economist

The very few people still living in these areas, mostly pensioners, hardly dare to go out. People listen for the tell-tale buzz and run from wall to wall, taking cover under trees. They avoid using cars, which are easy targets, in part because it is hard for drivers to hear approaching drones. When people do drive, they speed to outrun the attackers. Rain, which hampers drone flights, sometimes provides a bit of respite.

Iryna Sokur, the director of the Kherson Oncological Hospital, which was the only cancer facility in the region, describes a litany of attacks against patients, staff and ambulances. “On November 11th two ambulances were burnt in a drone attack. The next day a third was hit. On November 26th the head of our lab was killed on her way to work.” One man was killed in his car in the parking lot

as he waited to pick up a relative after their treatment. Ms Sokur herself has been chased by drones on two occasions. In early winter, as the situation became untenable, almost all the patients were evacuated. On December 20th two glide bombs destroyed the hospital.

The purpose of the latest Russian campaign is not clear. Mr Mrochko suggests that the Russians are training drone pilots on Kherson's civilians. Or it may be a tactic to establish a buffer zone, or to prepare for an offensive to retake part of the west bank of the river. The incidence of artillery strikes in Kherson has also been rising. The bombardment that smashed the oncological hospital on December 20th was the largest since the city's liberation, a barrage of more than 1,000 shells that covered a failed attempt by Russian forces to advance closer to the city.

Belkis Wille of Human Rights Watch, a rights watchdog, is compiling a report on the Kherson attacks. She says they are "deliberate" and may be calculated "to force civilians to leave the area". Civilian casualties often result from indiscriminate or disproportionate attacks, Ms Wille notes, but the drones target civilians precisely.

Reports of Russian drone attacks on civilians elsewhere near Ukraine's front lines are increasing. On the battlefield, some lethal drones already have a degree of autonomy, with artificial intelligence and object-recognition software to keep homing in on their targets even in the face of electronic jamming. Lethal drones with human pilots seem brutal enough, but the step to fully autonomous ones seems inevitable. Intentionally targeting civilians with drones is a war crime, but it is effective at depopulating areas. "I think what's happening in Kherson is a harbinger," says Ms Wille. ■

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Forensic examination

Ukrainian scientists are studying downed Russian missiles

And learning a lot about sanctions-busting

Jan 23, 2025 03:32 PM | KYIV



Getty Images

THE BACK of the Kyiv Scientific Research Institute of Forensic Expertise does not seem an unmissable attraction, especially on a damp winter morning. But for weapons experts and intelligence types, the place is a major draw. Fragments of Russian missiles, drones—some of them almost wholly intact—and artillery shells lie on the ground, overlooked by rows of Soviet-era apartment blocks.

Inside nearby shipping containers, Ukrainian researchers are dissecting the wreckage of the weapons with pliers and screwdrivers, and recording what they extract, especially components sourced from abroad. The catalogue, a sobering reminder of Russia's ability to bypass Western sanctions, grows by the day. "Here is a block, Japanese, Sony company, here's the Shahed launch button, Bosch," says Andriy Kulchytskyi, the head of the laboratory. "Here's a Chinese engine with a screw that says, Made in the USA."

Some of the latest arrivals are charred bits of the Oreshnik, a new Russian missile, which the institute's experts are cleaning and untangling. Russia fired the Oreshnik against Ukraine in November, the first known use of a multi-warhead weapon in combat. Vladimir Putin has since threatened to do so again, against Kyiv, boasting that Ukraine's air defences are no match for the nuclear-capable missile. He bills the "hypersonic" Oreshnik as a new marvel of Russian technology. But its remains tell a different story. One part dates from 2017. Another, inside one of the missile's warheads, dates to 2016. This would confirm suspicions that the Oreshnik is no more than a souped-up version of an older model, the RS-26 Rubezh intermediate-range ballistic missile.

Rather than a major threat, the Oreshnik is a show of force, made with a Western audience in mind, and a reminder of Russia's nuclear capacity. For Ukraine, a more pressing concern is the new Shahed-136 suicide drone, which Russia is now producing at home having previously relied on imports from Iran. To date, Ukraine has been able to divert or intercept more than 80% of the drones. Very few have managed to strike Kyiv's centre. But the Shaheds are becoming more resistant to spoofing or jamming, Ukrainian engineers say.

Upgrades have also made the Shaheds faster, more manoeuvrable and capable of flying higher. A wake-up call came on January 1st, in one of the biggest drone attacks since the start of the invasion, when at least two Shaheds were able to breach Kyiv's Pechersky district, home to the government quarter. One of them smashed into a building only 150 metres from the presidency building. Two people died.

The earlier Shaheds used GPS technology to navigate. Many of those now being used are packed with 4G data modems and Ukrainian SIM cards, which allow them to travel using Ukrainian cell-phone towers, as well as Chinese satellite navigation antennas. This makes them more accurate and capable of dodging Ukrainian

electronic-warfare (EW) defences. Recent reports indicate some may be equipped with artificial intelligence, which Russia hopes to use to launch autonomous drone salvos. “In the near future,” says Anatoly (not his real name), a Ukrainian engineer, “our EW systems may not be able to affect the flights of the Shaheds at all.”

He and others are also seeing an increase in the use of Russian parts. At the start of the war the Kalibr, one of Russia’s most destructive cruise missiles, used mostly Western electronic components. Today, most of what the researchers call the Kalibr’s “brains” come from Russia.

China is making up for the shortfall, says Anatoly. He picks up a servo motor found in a Russian KAB guided bomb, produced by a Chinese company but falsely labelled as German. “Almost everything you see here”, he says, “has a huge number of Chinese elements.” Western sanctions are always one step behind, he says. “It’s impossible to control what the Chinese have handed over to the Russians.”

To Anatoly, the wreckage gathered in his lab is a treasure trove. His one complaint is that Ukraine does not have enough people to reverse-engineer some of the weapons Russia has been dropping on its cities. “Our main task is to technologically outpace the Russians,” he says. “But our best guys are in the trenches.” ■

<https://www.economist.com/europe/2025/01/23/ukrainian-scientists-are-studying-downed-russian-missiles>

Spend, baby, spend

Germans are growing cold on the debt brake

Expect changes after the election

Jan 23, 2025 03:32 PM | BERLIN



Getty Images

WHAT DO ANGELA MERKEL, Olaf Scholz, the Bundesbank, the IMF, the OECD, Germany’s biggest trade union, its state-appointed council of economic experts and most of its European allies have in common? Not much, on the face of it. But they all share the view that Germany’s “debt brake” is no longer serving the country well.

The debt brake is a blunt instrument placed in the constitution by Mrs Merkel’s government in 2009. It limits the federal government’s annual deficit to 0.35% of GDP, after adjusting for the economic cycle. It prevents the 16 states from borrowing at all. Now, as Germany’s flatlining economy holds down revenues while spending demands mount, it is biting harder than ever. The country needs hundreds of billions for infrastructure, decarbonisation and education in the coming years. Add to that an extra €30bn (\$31bn, or 0.7% of GDP) a year that will be needed for defence once a special fund created after the invasion of Ukraine runs out in 2028.

Germany's public-debt stock, at 64% of GDP and falling, is lower than that of most of its peers. Little wonder calls for reform are growing, including from Mrs Merkel herself. Crucially, voters seem to agree. A forthcoming opinion poll conducted for the German Council on Foreign Relations (DGAP) finds that a majority of Germans want reform of the debt brake to allow for higher investment. "Present German voters with trade-offs, and it's clear what they want," says Shahin Vallée of the DGAP. He thinks the focus on the debt brake in the campaign for Germany's federal election on February 23rd has concentrated minds. (A dispute in November over whether to relax the rule precipitated the collapse of Mr Scholz's government.)

Will they get their way? Much depends on Friedrich Merz, who polls suggest will take over from Mr Scholz as chancellor. His centre-right Christian Democrats are split, but Mr Merz has hinted he could ease the rule. Now Germany's brightest economic brains are buzzing with ideas for reform. These include lifting the 0.35% limit; creating giant funds for infrastructure or defence; or even replacing the rule with fuzzier guidelines with a role for parliament.

The last of those seems unlikely. Constitutional changes require two-thirds majorities in parliament, and a proposal will emerge only after delicate coalition talks. Mr Merz would have to be mindful of the fiscal hawks in his own ranks. Reform is likelier than revolution.■

<https://www.economist.com/europe/2025/01/23/germans-are-growing-cold-on-the-debt-brake>

The Francis and Giorgia show

The pope and Italy's prime minister tussle over Donald Trump

Giorgia Meloni was the only European leader at the inauguration

Jan 27, 2025 04:57 PM | ROME



Reuters

CONFLICTING SIGNALS are reaching the new American administration from Rome. And some carry a whiff of incense. While Italy's prime minister, Giorgia Meloni, was preparing to fly to Washington to schmooze President Donald Trump and his chums, a leader on the other side of the Tiber was communicating stark disapproval of their plans.

In a television interview on January 19th Pope Francis described the president's much-vaunted scheme for mass deportations of unauthorised immigrants as a *disgrazia*. Though widely translated as a "disgrace", the term in Italian is arguably even stronger. It can signify a "tragedy" or "calamity". Francis added, with visible indignation: "This won't do! You don't resolve things this way."

Immigration is a touchy subject for the pontiff: his grandparents emigrated to Argentina. In his [autobiography](#) he describes how the ship they were to have boarded with their son, the future pope's

father, sank in the Atlantic with the loss of almost 300 lives. Mr Trump's plans are largely directed at the pope's fellow Latin Americans.

This was not the first time the pope had shown his readiness to clash with the new administration. On January 6th he named Cardinal Robert McElroy, the bishop of San Diego, as archbishop of Washington, DC. In so doing, he planted on Mr Trump's doorstep a prelate best known as a spirited defender of America's immigrants. Anticipating the president's future plans, then-Bishop McElroy had declared during Mr Trump's first term: "We must disrupt those who would seek to send troops into our streets to deport the undocumented, to rip mothers and fathers from their families."

The appointment of the feisty cardinal was seen in Rome as being a form of retaliation for Mr Trump's proposal of a hardline MAGA supporter for the job of American ambassador to the Holy See. Brian Burch, who heads a political activist group, Catholic Vote, has publicly rebuked Francis and accused him of spreading confusion among the members of his church.

Neither Mr Trump nor Pope Francis would seem to be in a mood to co-operate. Yet both have a common interest in ending the war in Ukraine. And Pope Francis's stance has been more in tune with Mr Trump than with most European leaders. Last year he infuriated the Ukrainian government when he appeared to say it should have "the courage of the white flag" and start peace negotiations.

Peacemaking has also been on Ms Meloni's mind. The only European leader to attend Mr Trump's inauguration, she had already been described by the president—at an earlier meeting in his Mar-a-Lago residence—as a "fantastic woman". Enveloped in the aura that American presidential approval confers, Ms Meloni seems determined to give Italy a wider and weightier role in international affairs. While she was in Washington her foreign

minister, Antonio Tajani, was flying out of Rome for talks with his Israeli counterpart, Gideon Sa'ar, Israel's president, Isaac Herzog, and the Palestinian prime minister, Mohammad Mustafa.

Ms Meloni herself will travel to the Middle East on January 26th for a visit to Saudi Arabia. Her talks there will no doubt touch on Saudi Arabia's conditions for joining Italy, Japan and Britain in a project for the construction of a next-generation combat aircraft. But it would be surprising if Ms Meloni did not also discuss with her hosts a more lasting solution to the conflict between Israel and Hamas. In Jerusalem, Mr Tajani announced that Italy was ready to send troops to Gaza as part of an Arab-led international peace mission.

This is heady stuff for Italy. Though it is a member of the elite G7 group of rich Western countries, it has long wielded much less diplomatic clout than its economic importance would justify. It remains to be seen whether Italians will react with more pride than concern to an expanded international role. But with Germany and France both hamstrung by their domestic politics, an opening for European leadership exists. And Ms Meloni seems determined to grasp it. ■

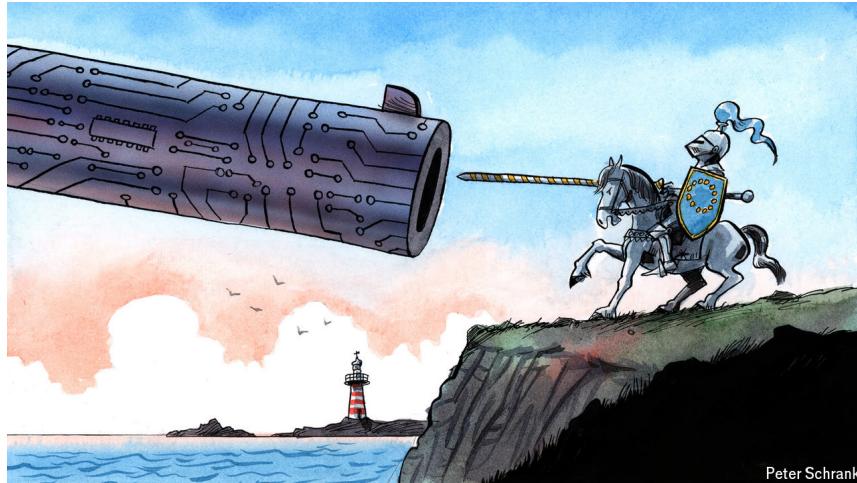
<https://www.economist.com/europe/2025/01/23/the-pope-and-italys-prime-minister-tussle-over-donald-trump>

Charlemagne

Europe faces a new age of gunboat digital diplomacy

Can the EU regulate Donald Trump's big tech bros?

Jan 23, 2025 03:32 PM



IN AN ERA dominated by tech giants worth trillions of dollars, no European firm started from scratch in the past 50 years is today valued at more than a mere hundred billion (Spotify, a music-streaming service based in Sweden, hovers around the mark). The absence of entrepreneurial vigour is a recurring source of frustration for European politicians in search of economic pep and tax receipts. With no local corporate tech titans to berate into creating jobs, German chancellors, French presidents and their like have had to grit their teeth as they beseeched one visiting American bro after another to consider setting up a research facility, artificial-intelligence (AI) hub or gigafactory in their country. As both sides posed for the obligatory selfie, it could be hard to tell who had the upper hand: the elected leaders, or the globally known plutocrats with net worths bigger than most EU countries' budgets? At least, the politicians could tell themselves, even the mightiest Amazons or Facebooks of the world would have to follow European laws as a condition of doing business there.

It turns out that this may be an imposition too many for the world's techies. Even before their bosses flexed their political muscles by snagging prime seats at the inauguration of Donald Trump on January 20th, a refrain could increasingly be heard that the European Union's nagging regulations are an annoyance that some of them would rather not abide by. Newish EU rules designed to ensure that digital markets do not turn into cosy monopolies, to limit the spread of harmful bilge on social networks and to regulate AI are increasingly being painted as a Euro-ploy standing in the way of Trumpian plans to make America great again (again). Europe is already dreading the prospect of a trade war with its biggest commercial partner by far, not to mention the future of its decades-old security guarantee from America as war rages in Ukraine. If Mr Trump orders Europe to ease up on American tech firms to please his new corporate chums, can his demands be resisted?

Tech firms have three gripes about EU regulation. The first concerns its enforcement of antitrust rules, which has long been more stringent than America's (bar a burst of hyperactivity under the Biden administration). This has resulted in a slew of fines on Apple, Alphabet and the like; throttled their acquisition drives; and even raised the prospect that some firms may be broken up. Another gripe is that Europe insists content that would be illegal offline is also illegal when posted on a social network, and demands that algorithms that sway public discourse by pushing some users' posts over others must be subject to transparency rules. Lastly, the EU (with the help of America, under previous management) has cracked down on what it deems unfair tax arrangements, which siphon profits to low-tax jurisdictions.

The tech outfits' hordes of lobbyists have long muttered that Brussels hyper-regulation is not only bad for them but for Europe, the very reason the continent's economy is stuttering. As if to warn Europe, Apple and Meta are among those that have delayed the launch of products in the EU market. Now they seem to be goading

Mr Trump to act on their behalf. Mark Zuckerberg, Meta’s founder, has painted the fines imposed on big tech by the EU as akin to tariffs—the kind of thing Mr Trump should retaliate against, in other words. Earlier this month he described EU rules as “institutionalising censorship”, as if Eurocrats’ demands that rape videos must be taken down were like North Korean brainwashing. In October Mr Trump railed at American companies being “taken advantage of” by the EU. His running-mate, now vice-president, J.D. Vance, questioned whether America should keep defending Europe through NATO if Europe regulates X, the social network owned by Elon Musk, who is now an adviser to Mr Trump.

At home, the new president has already kiboshed some of the global tax rules that big tech railed against. Getting the EU to stand down will be harder. Much of the regulation it has crafted reflects its ancestral wariness of big business. Ensuring dominant companies do not profit unduly from their market power is not some fad: it is enshrined in the treaties that govern the EU. Limiting big tech’s sway over users is a matter of human rights, not easily circumvented. Something of a consensus exists that bits of EU regulation are indeed too cumbersome; there are moves to roll some of it back. But most Eurocrats believe that its rules are on the whole working as intended.

Regulators at the gates

Getting the EU to stand down would be a win for big tech. Not only is the European market second only to America when it comes to rich users, but regulations crafted by the EU are often copied by jurisdictions far beyond its borders. This “Brussels effect” is a point of pride for Europeans. Anu Bradford, a tech expert at Columbia Law School who coined the term, says she expects the EU will hold firm. “Nobody in Europe will look at big tech companies this week and think, ‘We wish they were more powerful.’” The fact that Mr Musk has used X to boost hard-right parties in Europe has made policymakers there all the warier.

Various EU officials insist it is business as usual and that its many investigations of big tech firms will be concluded and made public soon, fines and all. But the president of the European Commission, Ursula von der Leyen, told the World Economic Forum in Davos the day after Mr Trump's inauguration, that Europe would have to be "pragmatic" in dealing with the new administration. The final stage of punishing tech giants is in part a political decision. There are reports of the commission "reassessing" how this might be done, though no clear sense of how this will happen in practice. Europe will find it very hard to stand down against big tech—but it may not like the price of standing firm. ■

<https://www.economist.com/europe/2025/01/23/europe-faces-a-new-age-of-gunboat-digital-diplomacy>

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A mountain to climb

The Rachel Reeves theory of growth

The chancellor says it's her number-one priority. We ask her what that means for Britain

Jan 23, 2025 07:10 PM | DAVOS



Getty Images

SPEAK TO THE world's financiers assembled at Davos this week, and Britain rarely comes up. When it does, the mood is hardly complimentary. One banker remarks on how many millionaires have recently left the country. Another financial executive says that Brexit has shrunk the investor base. Others raise a comment by Ray Dalio, a billionaire, who warned on January 21st of a "debt death spiral" in Britain if public spending is not reined in.

That left Rachel Reeves, Britain's chancellor, with an uphill task when she arrived at the Swiss alpine town to court investors at the annual meeting of the World Economic Forum. She met a raft of Wall Street bosses, asset managers and pension funds in an effort to convince them that Britain really is open for business, and that she is single-mindedly focused on growth. We asked her what all that really meant. (Listen to our interview with Ms Reeves in the [Money Talks podcast](#).)

Britain, she says, faces “a long-standing supply-side issue”. Demand is not the problem, but “there are too many things holding back investment”. What is needed is “an active supply-side approach, to improve the productive capacity of our country”. By that logic, the government’s job is to remove barriers to investment, making space for the private sector to direct capital to productive uses. That emphasis on deregulation marks a shift for Ms Reeves, who in opposition took inspiration from Bidenomics—a more heavy-handed approach where private investment is guided, and sometimes subsidised, by the state.

The diagnosis, then, was clear. What about the remedy? Britain’s economy is in dreadful shape. Growth has been feeble for nearly two decades, a slowdown that has worsened recently (see chart 1). On the campaign trail, Ms Reeves said that investment would perk up under her more stable stewardship. But there has been no economic growth at all since she took over as chancellor last summer. Will she be bold enough to turn things around?

A gentler slope

1

Britain, GDP per person*, £'000



*Chained-volume market prices, seasonally adjusted annual rate

Source: ONS

The Economist

“Britain is going for growth,” she says. “I don’t think what we’re doing on planning, on regulation, on capital-markets reform is timid.” But the Davos set’s indifference to her agenda is telling. Many bigwigs say they haven’t seen enough to persuade them to give Britain another look. The government has struggled to sell a confident story about its plans.

Ms Reeves’s most consequential choices so far came in her budget in October, which raised taxes by roughly £40bn (\$49bn, 1.5% of GDP) and spending by £70bn annually, ramping up borrowing to fill the gap. Notably absent was a growth agenda; she left the clunky structure of Britain’s tax system untouched and picked employers’ national insurance, a fairly inefficient and distortive tax, as her main revenue-raiser. Ms Reeves contends that righting the ship was itself a growth strategy: “Returning stability to the public finances is absolutely essential for stability, and stability is absolutely essential for economic growth.” Still, at her moment of

maximum political opportunity, she passed up on an all-out push for growth.



The Economist

The one part of the budget that did reflect “a more active supply-side approach” was the way Ms Reeves targeted the rise in employers’ national insurance, hitting the lowest-paid jobs hardest (see chart 2). Was that a deliberate strategy to deter employers from hiring cheaply and nudge them to invest more in human and physical capital instead? Her main economic adviser, John Van Reenen, has spent much of his academic career working on underinvestment and Britain’s long tail of low-productivity firms. But Ms Reeves denies that this was her motivation. “I wouldn’t put it quite like that,” she says. “We needed to raise revenue.”

Only now is her government laying out more of its plans for boosting growth. The centrepiece is reforming Britain’s planning system to make it easier to build. “The planning stuff that we’re

doing is massive,” she says. She and her colleagues have already waved through totemic projects that were gummed up under the Tories, including a vast solar farm in Suffolk and a flagship Marks & Spencer store on London’s Oxford street. She seems poised to back [airport expansion](#) at Heathrow, Gatwick and Luton.

But saying “yes”, even repeatedly, is not the same as wholesale reform. That, Ms Reeves promises, will come in a new planning bill due to be introduced in Parliament in the next month or two. Some details have already been trailed, like “brownfield passports” to speed up approvals on already-developed sites, and reforms to the green belt, which prevents building around big cities. The real test will be whether the new rules manage to encourage construction in and around those cities, where the economic benefit will be highest.

Another part of Ms Reeves’s agenda is a rethink of regulation. The government has taken a consultative approach, asking regulatory bodies to suggest ideas for how to boost growth. Pressed on whether that isn’t rather like asking children to come up with ideas for how they could work harder, Ms Reeves says that the regulators should put forward ideas and leave the government to decide. She points to the departure of Marcus Bokkerink, the chair of the Competition and Markets Authority, on January 21st as proof of her seriousness. The competition regulator has been relatively trigger-happy about holding up mergers in recent years. But the lack of ideas and direction from the top is a worry.

Then there is the labour force. One in ten working-age Britons are now receiving health-related benefits, up from 7.5% in 2019. The chancellor acknowledges that this is a concern, and that more claimants need to be moved off benefits into work. New proposals are coming, she promises. In the meantime, the plan is to work with local authorities to better target job support—a worthy but small-bore approach.

The problem, says one executive at an asset-management firm, is that the chancellor lacks a narrative: a bumper sticker that shows why Britain is a place to do business. One striking contrast is with the flurry of activity since Donald Trump began his second term. Next to that, Labour's method in office looks sluggish, even though a British government—especially one with a big majority in Parliament—has a freer hand to act than an American president. There is plenty of [scope to ease restrictions](#), both at home and in overseas trade, including with Europe. But time is ticking, and the competition for investment is heating up. ■

<https://www.economist.com/britain/2025/01/23/the-rachel-reeves-theory-of-growth>

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Brexit at five

Britain's government lacks a clear Europe policy

It should be more ambitious over getting closer to the EU

Jan 26, 2025 04:52 PM | BRUSSELS AND LONDON



IT SOMETIMES SEEMS that Brexit will never end. The end of the month marks the fifth anniversary of Britain's formal withdrawal from the European Union. A few days later Sir Keir Starmer will attend his first informal summit of EU leaders. A formal EU-UK summit will follow in April to kick off talks on a “reset” in relations. Sir Keir wants to build on the needlessly thin trade deal agreed by Boris Johnson, a former prime minister. Most EU leaders favour closer links with an important neighbour.

Yet even with a foundation of goodwill on both sides, tricky obstacles to a new, closer agreement remain. And, as ever in negotiations with a hard-nosed EU, the devil will be in the details.

Five years on, the costs of Brexit have become clearer. A forthcoming report from the UK in a Changing Europe, a think-tank, concludes that trade in goods has suffered most (see chart 1). Since 2019 British goods exports globally have risen by just 0.3% a year, it says, compared with an OECD average of 4.2%. Small

businesses have done worst, with exports dropping by 30% and 20,000 small firms stopping all exports to the EU. A new study by the London School of Economics finds that goods exports have fallen by 6.4% since the trade deal came into force in 2021. Services trade has been less affected, overall, though financial-services exports have struggled. All this suggests that there would be clear gains from reducing today's barriers.



Given that broad background, the EU is frustrated that the British still seem vague over exactly what they want. Like his Tory predecessors, Sir Keir is firmer on his red lines—no single market, no customs union and no free movement of people, all of which he ruled out during the election campaign—than his asks. He frets about a pro-Brexit backlash and the growth of Nigel Farage's Reform UK party.

But the atmosphere for a rapprochement has improved. The geopolitical backdrop of an aggressive Russia, an assertive China and the return of Donald Trump in America makes closer cross-channel ties more urgent. And despite his red lines, the EU sees Sir Keir as refreshingly non-ideological over such issues as the alignment of regulations or the involvement in dispute resolution of the European Court of Justice (ECJ), notes Mujtaba Rahman of the Eurasia Group, a consultancy.

The obvious place to start with is closer co-operation on foreign and security policy, including defence. This is easier territory than trade partly because it is largely inter-governmental, though even here the role of the EU institutions is growing. Britain and the EU already work closely on Ukraine and sanctions against Russia. As a former prosecutor, Sir Keir is also well-placed to argue for tighter links with European policing and justice bodies.

There may be more problems over defence, as some countries, notably France, think that any EU-linked funds should be largely spent in EU members. However, as Europe struggles to respond to Mr Trump's demands to raise defence spending, it would be bizarrely counterproductive not to find a way of including Britain.

On the menu

A foreign-policy and security pact could also help with trade talks. Brussels is wary of reopening the trade deal, which suits the EU better than Britain, and of any effort to “cherry-pick” selective access to parts of the single market. But there are areas where both sides would benefit from lower friction.

One is a veterinary (in the jargon, sanitary and phytosanitary) agreement that would remove technical obstacles to food trade. Such a deal would require dynamic alignment with current and future EU plant and food standards, and would also imply a role for the ECJ. It would make a trade deal with America near-impossible;

but despite continuing chatter about a UK-US agreement, its chances are in truth remote. A veterinary deal would boost food commerce in both directions, do much to reduce barriers between Great Britain and Northern Ireland under the Windsor framework and help British farmers, who are cross with Sir Keir over inheritance tax.

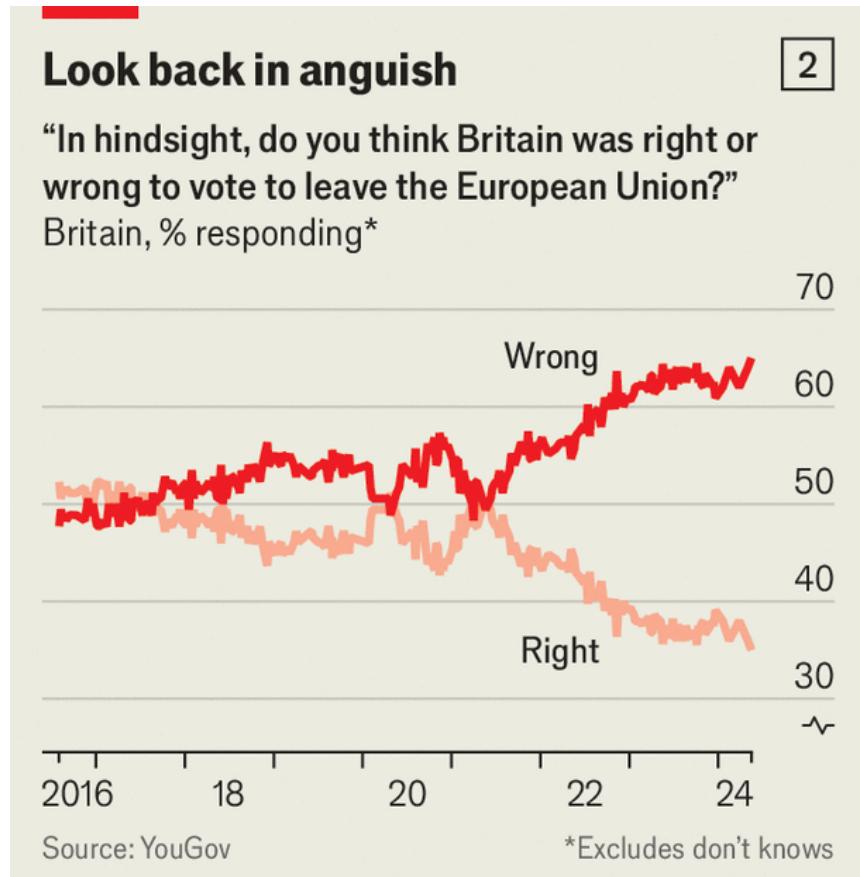
Next is energy, where more co-operation across the North Sea would bring mutual benefits. Better electricity connectors would be good for both Britain and the EU. There is also an urgent need to link emissions-trading schemes. In January 2026 the EU will impose its carbon border-adjustment mechanism to penalise carbon-intensive imports. If Britain stays outside the EU's system, that could mean tariffs on many exports to Europe, which aligning the two schemes would avoid.

The EU wants to cut red tape and visa obstacles to mobility, especially of the young. This is not a return to free movement by the back door but a time- and age-limited attempt to regain something young people on both sides have lost in travel, short-term jobs and university studies. Almost half of businesses responding to a recent British Chambers of Commerce survey said they wanted it to be easier for staff to work in the EU.

And there is hope of an early return to the Erasmus scheme of student exchanges. Since it started, Erasmus has sent some 60% more European students to British universities than the other way round. This imbalance may impose a net cost on Britain's Treasury, but as one diplomat says, if the only issue is money, it can surely be resolved in negotiation.

More problematic are British hopes for mutual recognition of professional qualifications, a deal for touring musicians and the easing of barriers to trade in chemicals. All three raise EU fears of cherry-picking. But the passage of the government's product-regulation and metrology bill will make it simpler to choose to

align with EU product-safety standards. When asked if it would be more sensible instead to join with Mr Trump's America, Sir Keir responds that it is unnecessary to choose. But if a tariff war makes a choice unavoidable, the politics and the economics both suggest that Britain would do better lining up with the EU.



The Economist

A final issue concerns some time-bombs left in the current trade deal. The most likely to cause trouble, despite being of little economic significance, is fish. The agreement on quota shares finishes in June 2026. The EU wants it renewed, but British fishers are hoping for larger quotas. A British concession could facilitate the more valuable veterinary deal.

Britain also wants the EU to renew its approval of British data-protection standards, which will expire in June this year. And in 2027 an agreement not to impose 10% tariffs on electric vehicles

traded across the channel will come to an end unless renewed. Deals on all three would smooth the path to a broader accord.

Bregrets? I have a few

The economic benefit for Britain of such a package may not seem that large: the Centre for European Reform, another think-tank, puts it at between 0.3% and 0.7% of GDP. Yet in a near-stagnant economy, that would be well worth having. And the politics may not be as tricky as Sir Keir fears. Public opinion has shifted since 2016 to the view that Brexit was a mistake (see chart 2). The success of Reform reflects resistance to immigration more than hostility to the EU. It is high time for Sir Keir to be bolder in his approach. ■

<https://www.economist.com/britain/2025/01/23/britains-government-lacks-a-clear-europe-policy>

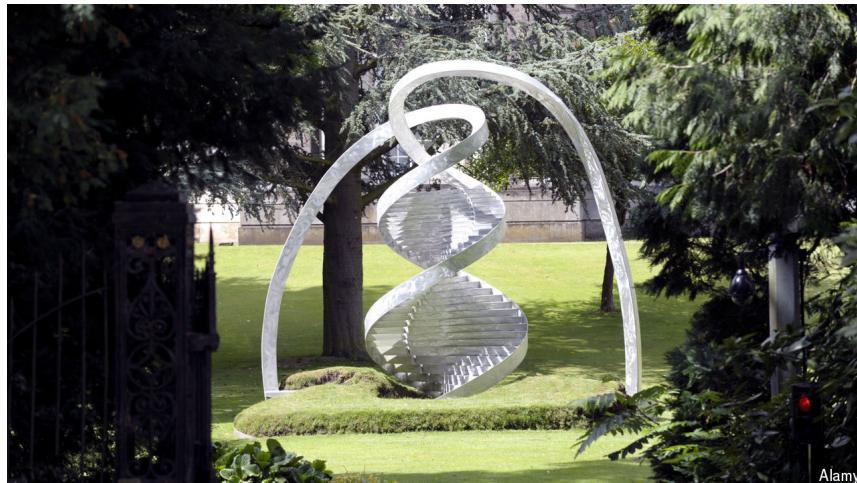
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Quotient Therapeutics

What a buzzy startup reveals about Britain's biotech sector

Lots of clever scientists, not enough business nous

Jan 23, 2025 03:32 PM | GREAT CHESTERFORD



OVER THE past century, two breakthroughs have changed the course of biology most. Both were Anglo-American efforts, propelled by Cambridge laboratories. First came the unravelling of the double helix by scientists including James Watson (an American) and Francis Crick (a Brit). Then came the Human Genome Project, which mapped the genetic code that acts as an instruction manual for human beings. That project was led by Americans, but the largest contribution came from Cambridge's Sanger Institute, which sequenced a third of the billions of letters of code. These advances transformed the way scientists understand disease.

Quotient Therapeutics, a biotech company founded in 2022, hopes to take this transatlantic model and commercialise it. Its main research lab is in Great Chesterford, a village just outside Cambridge, England. Its commercial headquarters is in Cambridge, Massachusetts. The company is among dozens spun out by

Flagship Pioneering, an American venture-capital firm which also incubated Moderna, a trailblazer in covid-19 vaccines based on mRNA technology. Its aims—to revolutionise treatment for a spectrum of diseases—are no less ambitious. The company also neatly illustrates the strengths and weaknesses of Britain's biotech sector.

The country's strengths in scientific research remain obvious. Quotient is a pioneer in the study of the genetic changes that occur within the trillions of cells in the human body over a person's lifetime, a field known as somatic genomics. One of its co-founders is Professor Sir Mike Stratton, who led the Sanger Institute's Cancer Genome Project. Sir Mike's team discovered that melanoma, a type of skin cancer, could be caused by mutation in a gene known as BRAF. By inhibiting the protein that this mutated gene produces, says Sir Mike, an "untreatable cancer was turned into a manageable one". Now, using the latest technology, the team hopes to do the same with mutations in normal tissues which may drive other diseases.

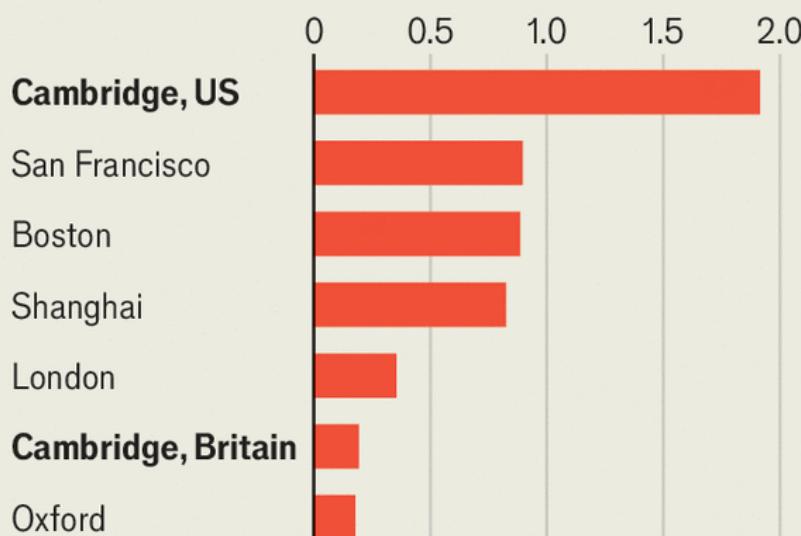
The findings of this kind of analysis could be hugely valuable to pharmaceutical firms. Drugs generally work best when they have a specific molecule within the body to target. In clinical trials only about one in ten drugs are ever approved by regulators. But a recent paper by Eric Minikel of the Broad Institute, a genomics-research centre, and his colleagues found that they are 2.6 times more likely to succeed when there is genetic evidence underpinning how they might work.

Cells pitch

Venture-capital investment in life-science

companies, Jan-Jun 2023, \$bn

Selected cities



Sources: Savills Research; PitchBook

The Economist

Yet the involvement of Flagship speaks to a commercial savvy that is missing in Britain. Much comes down to the deeper and more educated capital pools and greater appetite for risk in America. The two Cambridges are similarly matched for research output, but life-sciences firms in the American city raised nearly ten times as much venture-capital investment as their British counterparts in the first half of 2023 (see chart). Flagship, which raised \$3.6bn in a funding round that concluded in July, is now looking for more opportunities abroad. The incubator recently opened offices in London and Singapore; Quotient was its first foreign venture. “We’re bringing Cambridge MA to Cambridge UK,” says Jake Rubens, Quotient’s boss.

Flagship approached the Sanger scientists after scouring the literature for promising ideas. “If we’d had to develop a company ourselves, we would never have done it,” says Iñigo Martincorena, a researcher at Sanger. Helped by the American incubator’s

connections, Quotient has already secured a deal to supply Pfizer, a pharma giant, with drug targets for renal and cardiovascular diseases. Dr Rubens expects the firm to create its own pipeline of new therapies.

Somatic genomics is not the only new kind of analysis with potential. On January 10th UK Biobank, a research body, announced the largest-ever study to use proteins to find new drug targets, backed by a consortium of 14 pharma firms. Most biotech firms fail before producing a drug. Yet so far Quotient has managed to mix British scientific ingenuity with American commercial nous. In the next two years Dr Rubens hopes to launch a host of new drug programmes, including for autoimmune diseases, cancer and respiratory illnesses. “There’s no realm of human health and disease that somatic genomics won’t be able to touch,” he says. ■

<https://www.economist.com/britain/2025/01/23/what-a-buzzy-startup-reveals-about-britains-biotech-sector>

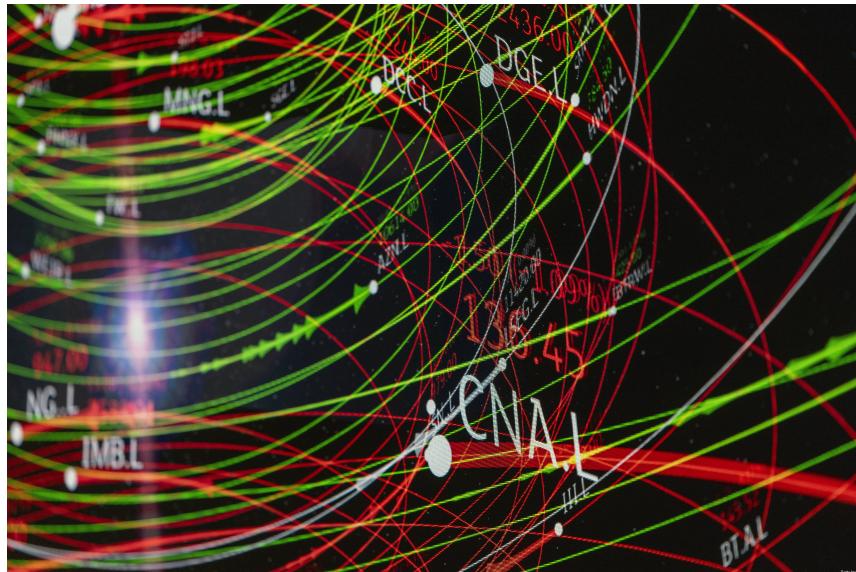
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A very British affair

Britain's brokers are diversifying and becoming less British

London's depleted stockmarket is forcing them to change

Jan 23, 2025 03:32 PM



CORPORATE BROKERS are a peculiarly British phenomenon. Serving as a bridge between founders and investors, brokers have worked at their clients' beck and call for a fraction of the cost of an investment banker in the hope of more lucrative mandates down the road. But as listings have dried up, their fate has become perilously entwined with another British phenomenon: an ailing stockmarket.

Many stock exchanges around the world are shrinking. But London's has become glaringly depleted. Last year 86 companies (roughly one in 20 of all listed firms) delisted or transferred their primary listing, making 2024 the worst year for exits since the global financial crisis. Just 20 joined. For Peel Hunt, a City broker founded in 1989 by old Etonian chums, Charles Peel and Christopher Holdsworth Hunt, this means fewer opportunities to

generate fees. “The London market has had a lousy three years,” concedes Steven Fine, the firm’s current boss.

Higher valuations and deeper pools of capital explain some of the exodus. London-listed firms trade at an average discount of 52% to their American counterparts, according to Goldman Sachs, a bank. Flutter Entertainment, a gambling company, and CRH, a building-materials firm, are among the firms that have moved their main listing to New York as a result. In all, 150 firms listed their shares across the pond last year. “If London could get a handful of listings each month, we’d be doing cartwheels,” Mr Fine says.

Private markets are another reason for the exodus. Abundant alternative sources of funding have enabled businesses to stay private for longer, delaying the shareholder scrutiny that comes from going public. There are upsides to this approach, as Peel Hunt’s own listing demonstrates. Since it went public on London’s Alternative Investment Market in 2021, its stock price has plunged by more than three-fifths.

Private markets bring risks, too: they are more opaque and less regulated than public ones. They are also less liquid. An end to cheap borrowing signals new financial realities for private funds that will, at some point, expect a return. The pressure to exit companies now “too big to be private”, according to Mr Fine, will shift the momentum back to public markets.

This is happening to a degree. In December London welcomed the blockbuster listing of Canal+, a media company previously owned by Vivendi, a conglomerate backed by France’s billionaire Bolloré family. The deal marked the largest debut on the London Stock Exchange since 2022. Shein’s proposed stockmarket debut this year is set to be even bigger: the fast-fashion group has an estimated valuation of £51bn (\$66bn).

New listing rules should also boost public offerings. They loosen restrictions on dual-class shares, offering founders more powerful voting rights. And they drop the requirement for shareholder votes on acquisitions or disposals. The overhaul, announced in July by the Financial Conduct Authority, Britain's financial watchdog, brings the rules in line with New York's, but will take time to bear fruit.

Mr Fine would like to see more done to incentivise domestic investment in British equities. A third of British stocks are held at home, compared with more than four-fifths in the mid-1990s. The Labour government's plans to consolidate local-government pension schemes into megafunds could unlock billions of pounds for British stocks. But the best prospects for stockmarkets lie with private-equity investors seeking to cash out.

Until then, brokerage firms are working to mitigate the impact of Britain's languishing capital markets. Many have merged. Numis was acquired by Deutsche Bank in 2023; Panmure Gordon and Liberum, two midsized brokers, merged last year. Peel Hunt has opened an office in Copenhagen and is expanding in America. It has also pivoted towards advising on the mergers and acquisitions of listed companies. Fees at its investment-banking division jumped by more than 60% last year. Brokers are diversifying—and becoming less British. ■

<https://www.economist.com/britain/2025/01/23/britains-brokers-are-diversifying-and-becoming-less-british>

A bite of Cockney culture

London's pie-and-mash shops are disappearing

Blame higher rents and changing tastes

Jan 23, 2025 03:32 PM | Deptford



Panos

AT 10.30AM ON a chilly Saturday the queue outside Manze's pie-and-mash shop on Deptford High Street stretches 50 metres down the street. The restaurant has been a fixture of the south-east London neighbourhood since 1914, when the current owner's great-grandfather opened it. Aficionados have come to grab one of the last pies before the place closes permanently on January 25th.

Pie-and-mash eateries are a bit of Cockney culture that has existed since Victorian times, when they first popped up in the city's docklands. Richard Holden, the Conservative MP for Basildon and Billericay in Essex, even led a debate in Parliament last year on this matter of heritage, calling for pie shops to be given protected intellectual-property status.

The fare, sometimes referred to as the “original fast food”, has changed little over the years: an oval meat pie served with a generous helping of mashed potatoes, all swimming in a parsley gravy called “liquor”. Eels, which were once plentiful in the

Thames, accompany the pie in either stewed or jellied form. The shops' interiors are often as standardised as the menu. White tiles cover the walls and black-and-white photos of the original owners may hang behind the bar. Some establishments have sawdust-covered floors and long communal tables or benches.

Despite their long history of serving the city's working class, London's pie-and-mash shops are at risk of becoming as rare as Cockney rhyming slang. The Pie and Mash Club, a society for the cuisine's enthusiasts, maintains lists of restaurants that have closed and the dwindling number that remain—fewer than 40 of them in London, down from nearly 300 in the mid-19th century.

Deindustrialisation and more recently higher property prices have pushed many of the Cockneys who once inhabited the East End of London out into neighbouring Kent and Essex. Steep rents have made it harder for independent shopkeepers to compete with the chain restaurants that have come to dominate London's high streets (Manze's closure coincides with the end of its lease). Although a meal deal of two pies and two servings of mash costs only around £10 (\$12) in many London pie shops, the same money can buy a relatively healthy meal at Pret, a chain eatery, or a less healthy one at Greggs, a bakery specialising in sausage rolls.

Perhaps the biggest reason for the decline is changing food preferences. Jellied eels are an acquired taste. Young people today might associate pie with the round, thick-crusted variety widely sold in pubs.

Still, Beth Mascall, the daughter of George Mascall, Manze's owner, insists that their pie shop is not closing for any lack of popularity. Her father is ready to retire. But pie and mash has "proved to be a tradition in lots of families, with grandparents bringing grandchildren", she says, and supporters of nearby Millwall Football Club "have always been attending before the home games". When your correspondent asked a local queuing for

one of Manze's last pies how he felt about the shop's closure, he frowned and called it "an end of an era". ■

<https://www.economist.com/britain/2025/01/21/londons-pie-and-mash-shops-are-disappearing>

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Bagehot

What an arcane piece of aviation law says about Britain's government

The parable of the slots

Jan 24, 2025 03:02 AM



PASSENGERS CAN be strikingly loyal to their [airlines](#)' loyalty schemes. People enjoy collecting points; they enjoy perks, such as swish lounges and bigger baggage allowances, even more. Little wonder that British Airways, a flag carrier, faces a backlash after tweaks to its programme will render its coveted "silver" and "gold" cards out of reach for most leisure travellers. IAG, its parent, hopes a £7bn (\$8.6bn) investment programme will fix a reputation for so-so customer service, tatty cabins and bad food. (Analysts seem to think so; its share price is ascendant.) Nonetheless its rivals spy an opportunity: Virgin and Air France-KLM have invited disgruntled fliers to join their programmes.

Those competitors would stand a better chance if aviation were a properly liberalised market, in which agile challengers could take on flagging incumbents. If only. Control of slots—the right of an airline to take off or land from an airport at a particular time—is the biggest constraint on competition. BA holds 51% of those at

Heathrow, London's hub airport (whose chairman also chairs The Economist Group), and 53% at London City, next to Canary Wharf. Regulars may grumble that the BA cheese toastie is today's version of the notoriously unappetising British Rail sandwich. Those on early flights to Frankfurt have little choice.

The regulation of runways may sound like an arcane concern. But it is a case study of what ails Britain. Call it the parable of the slots. Britain, like other advanced economies, has seen competition weaken over the past 25 years. Markups have risen; the rate at which young firms displace old ones is falling. Many markets are gummed up. Consumers pay more than they should for baby formula, vets, funerals and much else. The opportunity Brexit presented to adopt a more nimble approach has been passed up. And Sir Keir Starmer's government is much less gutsy at increasing competition than he claims.

The slots regime is a mid-century relic. In Britain—as around the world—rights are grandfathered: as long as an airline uses a slot 80% of the time, it can hold onto it, free, in perpetuity. That was fine in the 1960s when runway space was abundant; now that such space is heavily congested, it produces a clogged-up market. At Heathrow, 99% of slots are grandfathered: spare ones come up for sale rarely and at a stonking price. Challengers are locked out, or stay small. Inefficiency is rewarded: it is better for an airline to send up small or empty planes than forfeit a slot to a rival.

The first cure is more airport capacity—and here the chancellor, Rachel Reeves, is making encouraging sounds about backing the expansion of Heathrow as well as London's Gatwick and Luton. But the benefit of new terminals and runways will be reduced if you do not also fix how they are used.

The economists' answer is to auction slots, much like radio spectrum. A market-based system would mean new airlines could bid against incumbents; small airlines could grow into serious

rivals; customers would enjoy lower prices and better service. Airlines that bore the true value of slots would use them more efficiently, sending bigger planes to more popular destinations; the proceeds could fund new airport infrastructure.

The Competition and Markets Authority (CMA), a regulator, has been mustard-keen on such market reform for years; Rishi Sunak's Conservative government appeared enthusiastic. Sir Keir's Labour government is not. New ministers have their own priorities, and have concluded that an immensely complicated fight with vested interests is not worth the candle.

It is an illustration of how Britain has engineered the worst of all possible Brexits. Since slot rules in Britain were fixed in EU law, here was that rare thing: a bona fide Brexit opportunity to shake off protectionist rules that cosset creaking national champions. Singapore-on-Thames would welcome Singapore Airlines. Instead Britain has lost EU-market access, thereby weakening competition on British firms, while undertaking precious little of the regulatory simplification that might have fostered it.

Take-off aborted

But the parable of the slots reveals most about the limits of Sir Keir's radicalism. He talks a good supply-side game, [as does Ms Reeves](#). His speeches to investors are peppered with promises to “rip out the bureaucracy” and unlock “the shock and awe of investment”. Yet he is late in life to this agenda. His canapé-circuit turn resembles Steve Buscemi, a middle-aged actor, who tries and fails miserably to pass as a high-schooler in “30 Rock”, an American sitcom: “How do you do, fellow Schumpeterians?”

Airports are but one example of a lop-sided regulatory agenda. Ministers are placing huge weight on planning reform to boost housebuilding and productivity. But deep thinking on how to fix other markets is in short supply. On January 16th Ms Reeves

summoned Britain's economic regulators for a dressing-down: "fresh ideas" were needed to "drive growth". This was a bizarre piece of theatre: a six-month-old government should be imposing its agenda on the agencies, not demanding that they rustle one up.

The problem with pro-competition reform is that it invariably means annoying incumbents. Sir Keir is happy to bash faceless opponents of growth, such as NIMBYs and Whitehall bureaucrats. A confrontation with the airline industry would be harder.

(Ministers claimed the ousting, on January 21st, of the chairman of the CMA was a sign that they wanted more "pro-business" decisions from regulators.) IATA, which represents the world's biggest airlines, declares slot auctions a "disaster" that would scramble routes and wreck investment. It would entail political pain today, in the hope of a better deal for consumers tomorrow. It would take a true believer in the power of markets to do it. And Sir Keir, it is becoming clear, is not that. ■

<https://www.economist.com/britain/2025/01/22/what-an-arcane-piece-of-aviation-law-says-about-britains-government>

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International

- **Why don't more countries import their electricity?**

Power-sharing :: The economics make sense, but the geopolitics are nerve-racking

- **Trump unmasks American selfishness, say cynics**

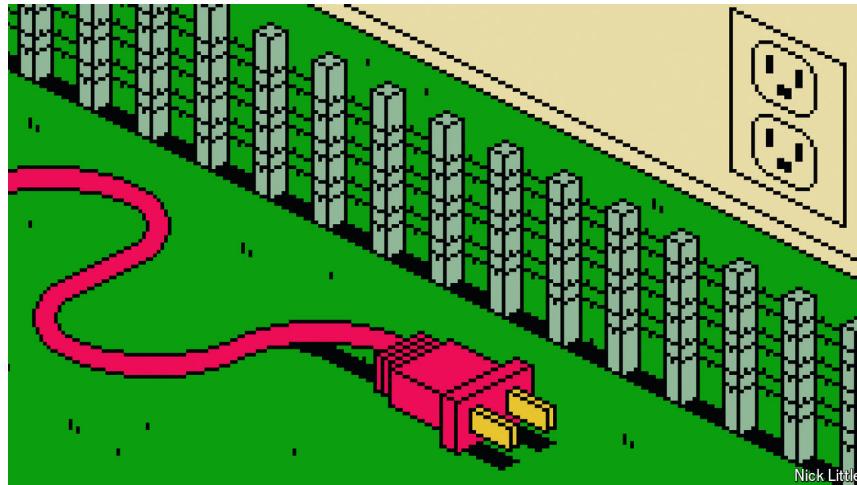
The Telegram :: But sceptics are wrong to call America First business as usual

Power-sharing

Why don't more countries import their electricity?

The economics make sense, but the geopolitics are nerve-racking

Jan 24, 2025 11:08 AM | London and Singapore



THE WATERS off Singapore teem with tankers, container ships, freighters and smacks, importing everything from oil to electronics. Yet there is one commodity none of these vessels carries, and which the city-state wants: electricity. The tiny, rich island powers itself mostly by burning imported natural gas, despite pledging to cut emissions to net-zero by 2050. It has little room to build its own wind or solar farms. So Singapore plans to get hold of clean power in a different way: down long-distance cables from its neighbours. Its government has given preliminary approval for undersea transmission cables from Cambodia, Indonesia, Vietnam and even Australia, some 4,300km away. In ten years' time Singapore wants to import a third of the power it consumes this way.

At a time of rising geopolitical and trade tensions, it may seem mad to embrace dependence on other countries for electricity, perhaps the most critical input in any modern economy. Yet some countries are doing just that. The European Union wants all its members to

be able to import or export electricity equivalent to at least 15% of their domestic generation by 2030. Britain already has undersea links with six countries and is building more. New cables in Africa, such as those between Kenya, Tanzania and Ethiopia, are making more power-sharing possible there. Bangladesh began buying Nepalese electricity via India's grid in November. Malaysia, Laos, Singapore and Thailand have also begun trading multilaterally. And Bolivia, Colombia, Ecuador and Peru recently agreed to further integrate their power grids, with the same aim in mind.

The rationale for such projects is simple. When countries can tap imports at times of peak demand or reduced domestic generation, they can avoid building largely redundant and therefore costly spare capacity. Cables under the English Channel tend to carry power from Britain to France in the morning, since French consumers take more time over breakfast than Brits, but the other way in the afternoon, as the British turn on their kettles to make cups of tea. The one-hour time difference between the countries also spaces out peaks in demand.

Trading power can also help countries decarbonise. Neither wind nor sunshine is constant, so grids with lots of solar or wind power tend to suffer from too little generation on cloudy or still days and too much when the sun is blazing or the wind howling. Cables to other countries relieve both surfeits and shortages. Exporting countries can sell power that would otherwise go to waste and importing countries get cheap, clean energy. All told, EU regulators estimated the benefits of integrating their grids at €34bn (\$35.5bn) a year in 2021.

Yet in 2023, only 2.8% of the world's electricity was traded internationally. Outside Europe, exchanges remain minimal—mostly just a few big hydropower projects sending electricity across nearby borders, from Paraguay to Brazil, for instance, or Laos to Thailand. The hold-up used to be technical: lots of power was lost in transmission, making long-distance exports

uneconomic. Nowadays, however, high-voltage direct-current cables are extremely efficient. Projects in Brazil and China have shown their viability over distances of thousands of kilometres.

Instead, the problem is geopolitics. Governments worry that neighbours might pull the plug on their power supply. Agreeing on and applying rules governing trade in power requires savvy regulators. And citizens fret, too, either that a valuable national resource will be siphoned off by foreigners or, conversely, that grasping foreign firms will exploit local consumers.

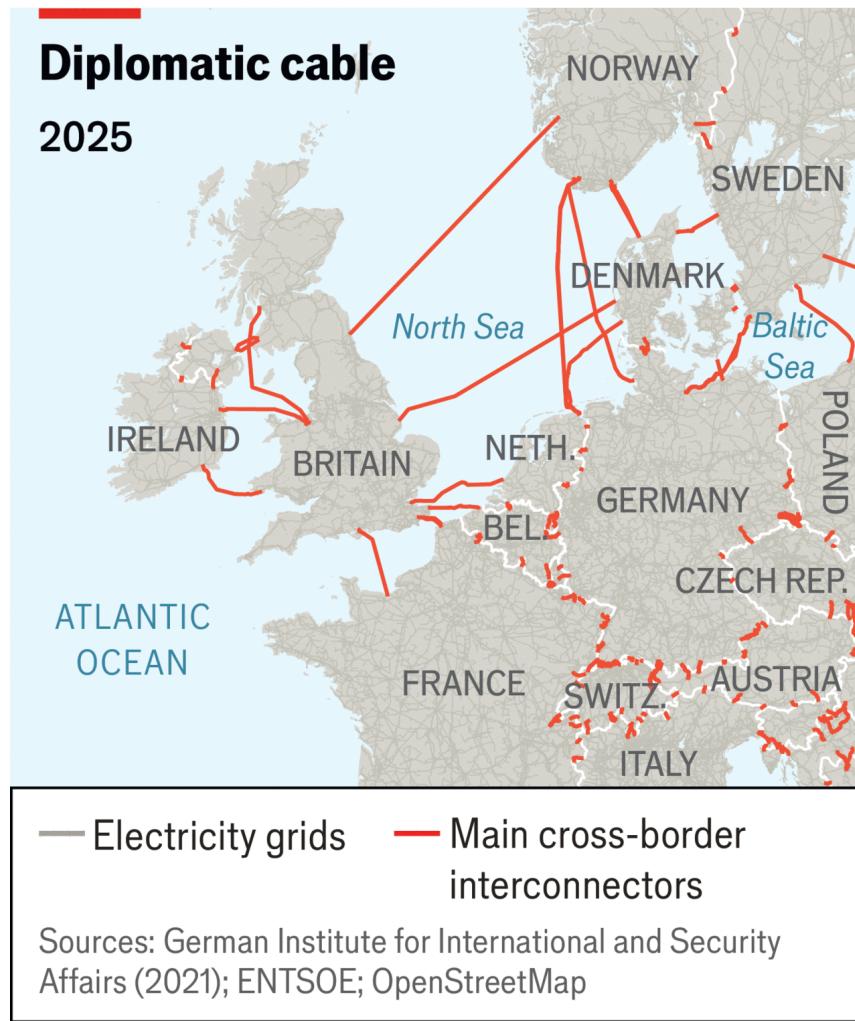
Current events

The concerns are understandable. Europe, after all, was punished following the invasion of Ukraine for its dependence on Russian gas. Russian sabotage in the Baltic Sea also shows that subsea cables are vulnerable to hostile foreign powers. Norwegians are miffed that power prices have spiked at home because of power shortages on the other side of the Skagerrak. And Icelanders ask whether it is worth flooding pristine valleys for hydroelectric schemes whose entire output would be exported.

Links between India and Pakistan or Japan and South Korea could bring huge benefits to all the countries concerned, but mutual distrust means they are unlikely to happen soon. By the same token, the grids of America and Mexico would benefit from closer connections, but “disagreements over the rules of the game” prevent this, says Ismael Arciniegas Rueda of RAND, a think-tank. The fear that other countries might be snaffling a valuable resource seems to have contributed to Malaysia’s ban on the export of renewable power in 2021 (it lifted the ban in 2023). “Every country is, understandably, looking out for their own interest,” says Eugene Toh of Singapore’s Energy Market Authority.

Diplomatic cable

2025



Though the obstacles are daunting, in practice trade in power tends to be a big success. Consider Britain's oldest "interconnector", as its two-way links to other European countries are known: it has been carrying power back and forth to France for almost 40 years with only brief technical interruptions. Trading continued throughout Brexit. Britain has added a further eight interconnectors, with a total capacity of almost 10GW, or roughly a fifth of its peak power consumption. Its regulators want to almost double that, to 18GW by 2032. In 2021 National Grid, the firm that owns most of Britain's interconnectors along with counterparts from the countries concerned, estimated that current and planned links would save British consumers £20bn (\$24.5bn) by 2045.

Investors are energised, too. Britain's first interconnector to be built under the current regulatory regime, to Belgium in 2019, was so profitable in its first five years that it hit a legally binding cap, and

has had to return £185m to consumers. This has sparked others' interest. Meridiam, an asset manager, is funding a new cable linking Britain to Germany. The tunnel under the English Channel now carries cables as well as trains. National Grid, whose interconnector to Denmark is the world's longest at 765km, has even contemplated linking Britain and America. Longer distances mean more upfront costs, but the power grids at either end are less likely to have the same weather or demand patterns, meaning more potential for arbitrage, says Rebecca Sedler of National Grid.

One advantage of Britain's interconnectors is flexibility in an uncertain world. The grids to which Britain is linked have different energy mixes. France relies on nuclear, whereas hydropower dominates in Norway. That gives it a more varied, and therefore more reliable, power supply. What is more, Britain typically imports more power than it exports. But when Europe started to wean itself off Russian gas and some French nuclear plants paused in 2022, the predominant flow reversed, and Britain briefly became a net exporter. As ever more wind farms are built in the North Sea, British regulators expect their country to export lots of power, allowing the flow to reverse more lastingly.

Since Europe has shown the potential for long-distance connections, more ambitious projects are being started. A cable is being laid from Greece to Cyprus, a daunting task given the 900km distance and the depth of the Mediterranean. Other models offer one-way transmission, such as a proposed cable from Morocco to Britain. XLinks, the firm behind it, argues that the combination of wind at night, sun during the day and batteries as needed means it can provide both baseload and peaking power. Sun Cable, the firm hoping to connect Australia and Singapore, offers a similar mix over an even greater distance.

Another variation is to build connections from the same offshore wind farm to more than one country. That means the power produced can be sent to the most lucrative market at any given

moment, and the cables can be used as an interconnector when the weather is calm. The first such scheme, in the Baltic between Denmark and Germany, is already running. Others are planned in the North Sea.

Electrons for peace

Europe is both wealthy and unusually economically integrated, of course. It has high-powered regional regulators that can develop and enforce the rules required to connect national grids, which often run on different frequencies and voltages, and under different pricing regimes. The high-voltage cables needed have also risen in price as more projects compete for scarce supply. But there is no reason in principle why other parts of the world could not benefit as much. South-East Asian countries, for example, could save \$100bn by 2040 by adding 230GW of new transmission and interconnection, reckons TransitionZero, a climate-research firm.

Western Europe also has stable geopolitics. This is not by chance. European economies are tied together in a self-conscious effort to banish conflict. A mutual dependence on power-trading elsewhere may similarly help to diminish worries about neighbouring countries. If not, the solution to fears about relying on a single import cable is to have lots of them, as Britain has and Singapore plans to. As with all trade, selling power across borders benefits everyone. That so many countries ignore the potential is shocking.



<https://www.economist.com/international/2025/01/23/why-dont-more-countries-import-their-electricity>

The Telegram

Trump unmasks American selfishness, say cynics

But sceptics are wrong to call America First business as usual

Jan 23, 2025 03:32 PM



THESE ARE happy, “I told you so” times for foreign-policy cynics. In many world capitals the inauguration of an America First president inspires not shock, but vindication. Over a policy-filled lunch in Asia, a veteran official tells The Telegram that his government feels “serene” about the return of President Donald Trump. Westerners are forgetting their history, he suggests, if they mourn the crumbling of a principled, America-led world order that has supposedly prevailed for 80 years. Tell that to Asian peoples attacked by colonial European troops as they fought for independence, he says. Moral values never guided the post-war world. At least under Mr Trump, the mask is off, and interests are all.

Jump to Latin America, and coffee with a former government minister. Talk turns to free trade, and how Mr Trump’s [love of tariffs](#) alarms allies. The Trump era’s true novelty is honesty, the politician retorts: “I negotiated with two American administrations. They were both protectionist, one just admits it more openly.”

If many elites in emerging economies are impatient with Western dismay over Mr Trump, they are in step with their publics. A survey of some 29,000 people in 24 countries by the European Council on Foreign Relations, a think-tank, finds deep gloom about Mr Trump's re-election in [western Europe](#) and in South Korea, a close ally. In contrast, his transactional approach to statecraft is called good for America and for world peace by pluralities from Brazil to China, India, Saudi Arabia and South Africa.

Officials from the global south are right that America can fall short. But to claim that Mr Trump is just another president, guided like all the others by selfish interests, is crude and unfair. Just ask a different group: American diplomats with long careers under Democratic and Republican presidents. A wave of them are quitting or retiring from the State Department. Some resignations were ordered by Mr Trump's team. Others reflect bleak career prospects for traditional envoys. A former ambassador describes "deep despair" over signs of meteoric promotions for a few Trump-supporting colleagues, regardless of age or experience.

Trump loyalists will cheer such exits, for they scorn the State Department as a treasonous, left-wing, anti-American "deep state". In reality, career diplomats are often hard to pigeonhole politically. The same officials can be admirers of Henry Kissinger's unsentimental, interests-led approach to foreign policy, and ardent defenders of reforms dating back to Jimmy Carter's presidency, that urge American embassies and envoys to promote human rights and democracy whenever the national interest allows.

Diplomatic veterans are sure that Mr Trump marks a rupture, and is not merely America with the mask off. They do not expect pure isolationism from Mr Trump. The returning president seeks a legacy as a peacemaker in Ukraine and the Middle East. His new secretary of state, Marco Rubio, is called deeply knowledgeable after years as a Republican senator focused on foreign policy, notably in Latin America. Instead, old-timers worry about Mr

Trump's focus on coercion rather than persuasion when trying to bend foreign powers to his will, and his seeming hostility to democratic norms. They also remember his first administration's record of scorning the sort of expensive, thankless missions that America has led when no other country would or could.

Examples abound. Africa hands cite the fight against the [Ebola virus](#). In 2014 Barack Obama sent scientists, mobile laboratories, isolation units and 3,000 troops to west Africa, to lead multinational efforts to quell an outbreak. Mr Trump, then a vocal New York property tycoon, called it "stupid" to send troops to infected regions, adding that Ebola-infected Americans should be banned from coming home. "People that go to far away places to help out are great—but must suffer the consequences!" he tweeted. Amid fresh outbreaks in 2018, the first Trump administration tried to cut \$252m in Ebola funding as "excessive spending" overseas. All eyes are now on PEPFAR, a multi-billion-dollar project launched by George W. Bush in 2003 to test for and treat HIV in Africa, estimated to have saved 26m lives. Up for renewal this year, it was targeted for cuts by the last Trump administration.

Cynics will miss the old America if it vanishes

Longtime diplomats insist that America has good works to be proud of in Latin America, as well as misdeeds to regret. They cite two decades of bipartisan support for Colombia that built up everything from its justice system to tax collection and education when drug gangs and leftist rebels left the country "almost a failed state" by the mid-1990s. An official who recently left office recalls the crisis in 2022 when Jair Bolsonaro, Brazil's populist, right-wing former president, sought to overturn an election defeat. American generals and defence chiefs quietly urged Brazilian counterparts to respect democratic values and their oaths to the constitution, he says. Such calls helped "turn the tide" and prevent a coup. The Trump worldview is different. Though he faces conspiracy charges

in Brazil, which he denies, Mr Bolsonaro was invited to Mr Trump's inauguration (a confiscated passport kept him in Brazil).

Skepticism of America has many causes. Some good deeds must go unsung, for America's aim is to strengthen partners, not shame them. American help is taken for granted, too. China is much praised in the developing world, though it is a stingier donor than America and a hard-nosed lender. But it is a newcomer, and eschews lectures about corruption or human rights. Still, a resentful America First response miscalculates the costs and benefits of magnanimity. Take American free- and preferential-trade pacts with very poor countries, from Africa to Haiti. They amount to a "rounding error" in global trade, notes a veteran diplomat. But they create vital jobs, curbing instability and migrant flows. Imperfect America is indispensable at times. ■

<https://www.economist.com/international/2025/01/21/trump-unmasks-american-selfishness-say-cynics>

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Business

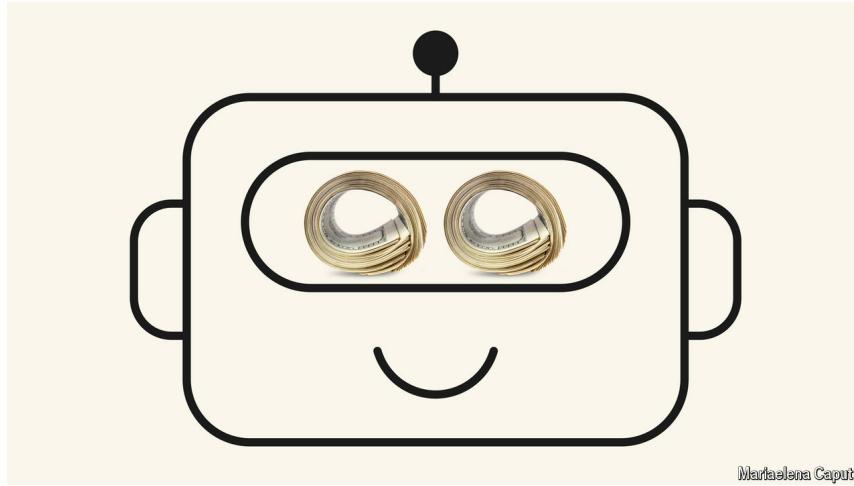
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- **A \$500bn investment plan says a lot about Trump's AI priorities**
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Marginal revolution

OpenAI's latest model will change the economics of software

The more reasoning it does, the more computer power it uses

Jan 24, 2025 03:40 PM | SAN FRANCISCO



Mariaelena Caputi

WHEN OPENAI announced a new [generative artificial-intelligence](#) (AI) model, called o3, a few days before Christmas, it aroused both excitement and scepticism. Excitement from those who expected its reasoning capabilities to be a big step towards superhuman intelligence. Scepticism because OpenAI did not release it to the public and had every incentive to overplay the firm's pioneering role in AI to curry favour with Donald Trump, the incoming American president.

Yet since then one point of consensus has emerged. The model, as well as its predecessor, o1 (o2 was skipped because it is the name of a European mobile network), produces better results the more “thinking” it does in response to a prompt. More thinking means more computing power—and a higher cost per query. As a result a big change is afoot in the economics of a digital economy built on providing cheap services to large numbers of people at low marginal cost, thanks to free distribution on the internet. Every time

models become more expensive to query, the zero-marginal-cost era is left further behind.

Investors value OpenAI like a tech darling: it is worth \$157bn, going by a recent fundraising. They hope that thanks to the success of products like ChatGPT, it will become the next trillion-dollar giant. But the higher costs of state-of-the-art models, as well as other pressures from suppliers, distributors and competitors, suggest model-making may not confer the monopoly-like powers enjoyed by big tech. “One very important thing to understand about the future: the economics of AI are about to change completely,” said François Chollet, an AI researcher, on X, a social-media site, on the day o3 was made public.

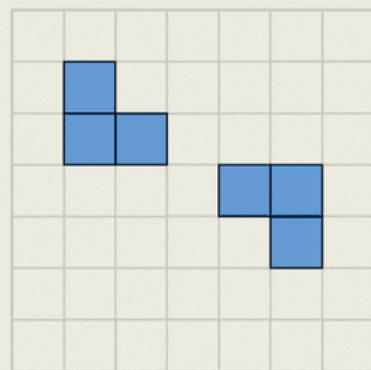
Mr Chollet has helped drum up excitement about o3. In June he launched a \$1m prize for models that could run a gauntlet he had created five years earlier called the “Abstraction and Reasoning Corpus”, or ARC. It is a plethora of simple-looking visual-reasoning puzzles (see diagram) intended to be “easy for humans and impossible for modern AI”. The prize wasn’t just challenging for its own sake. Mr Chollet said beating an ARC task was a “critical” step towards building artificial general intelligence, meaning machines beating humans at many tasks.

Test your superintelligence

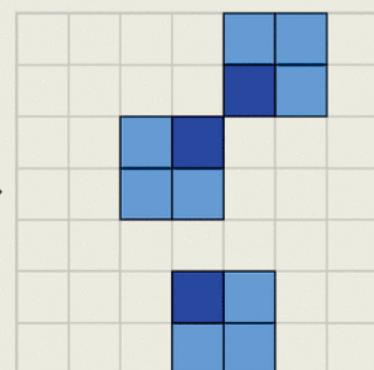
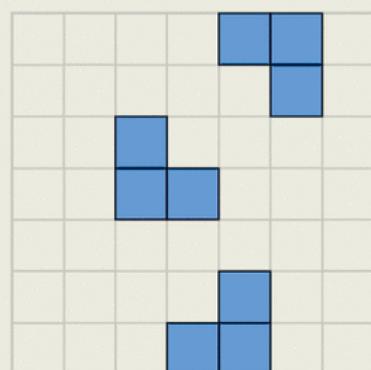
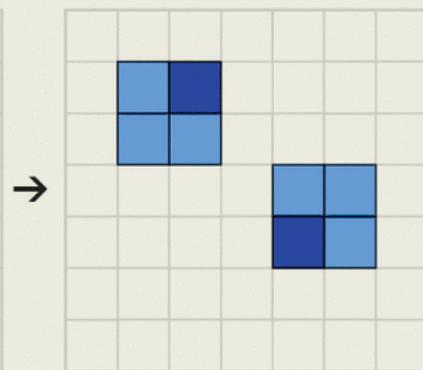
Sample visual reasoning task for advanced artificial intelligence

Examples

Input

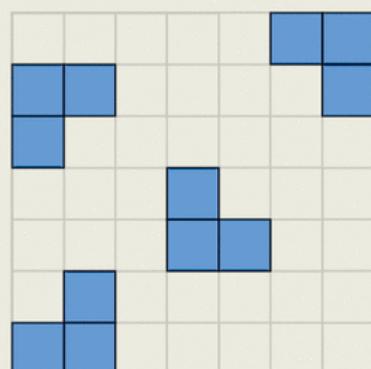


Output

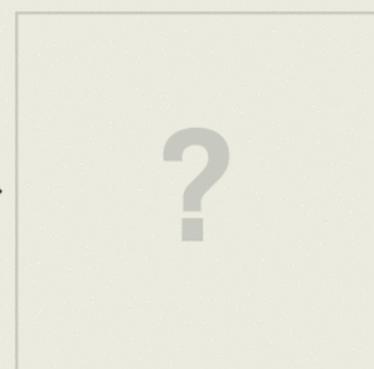


Test

Input



Output*



*Answer: The same light blue squares as the input with the addition of dark blue squares to form four two-by-two blocks

Source: ARC-AGI

Six months later OpenAI aced the test. Its o3 model achieved a breakthrough score of 91.5%. Its success in the challenge showed a step-change in AI's ability to adapt to novel tasks, Mr Chollet said. The new model is not just better; it is different. Like o1, it uses a "test-time compute" approach, which produces better results the more time that is spent on inference (when a trained AI model answers queries). Rather than simply producing an answer as quickly as it can spit it out, o3 is built to, in effect, think harder about the question.

That is where the higher costs come in. Mr Chollet set a limit of \$10,000 on the amount that contestants can spend on computing power to answer the 400 questions in his challenge. When OpenAI put forward a model under the limit, it spent \$6,677 (about \$17 per question) to score 82.8%. The score of 91.5%, achieved by o3, came from blowing the budget. The company didn't reveal the amount spent, but said that the expensive version of the process used 172 times the amount of "compute" as the cheaper approach —suggesting around \$3,000 to solve a single query that takes humans seconds.

Past AI models had already challenged the low-marginal-cost norm of the software industry, because answering queries required substantially more processing power than using equivalent tools like a search engine. But the costs of building large language models and running them were small enough in absolute terms that OpenAI could still give free access.

With the latest models that is no longer the case. OpenAI restricts the "pro" version of the o1 model to users on its \$200-a-month subscription tier (and loses money, according to Sam Altman, its boss, because customers are spending more on queries than the company had budgeted for). Pierre Ferragu of New Street Research, a firm of analysts, reckons that OpenAI may charge as much as \$2,000 a month for full access to o3.

The power of such models relies on them bringing a version of the sector's "scaling laws" closer to the end user. Until now, progress in AI had relied on bigger and better training runs, with more data and more computer power creating more intelligence. But once a model was trained, it was hard to use extra processing power well. As o3's success on the ARC challenge shows, that is no longer the case. Scaling laws appear to have moved from training models to inference.

Such developments change the economics facing model-makers, such as OpenAI. A dependence on more processing power strengthens their suppliers, such as Nvidia, a maker of specialist AI chips. It also benefits the distributors of AI models, notably cloud-service providers like Amazon, Microsoft and Alphabet. And it may justify the fortunes these tech giants continue to invest in data centres because more inference will need more computing power. On January 21st Mr Trump announced "[Stargate](#)·", a huge private-sector project to build data centres in America involving OpenAI. The firm is being squeezed from both sides.

Then there is competition. Google has released its own reasoning model, Gemini 2.0 Flash, and other tech firms probably will, too. Open-source models are expected to follow. Customers will be able to draw on multiple models from different providers. And although generative-AI models may improve a little through their interactions with customers, they lack true network effects, unlike the products Google and Facebook made in the past era.

High marginal costs mean the model-builders will have to generate meaningful value in order to charge premium prices. The hope, says Lan Guan of Accenture, a consultancy, is that models like o3 will support AI agents that individuals and companies will use to increase their productivity. Even a high price for the use of a reasoning model may be worth it compared with the cost of hiring, say, a fully fledged maths PhD. But that depends on how useful the models are.

Different use cases may also lead to more fragmentation. Jeremy Schneider of McKinsey, a consultancy, says providing AI services to corporate customers will require models that are specialised for the needs of each enterprise, rather than general-purpose ones such as ChatGPT.

Instead of domination by one firm, some expect model-making to be more like an oligopoly, with high barriers to entry but no stranglehold—or monopoly profits. For now, OpenAI is the leader, but one of its main rivals, Anthropic, is reportedly raising money at a \$60bn valuation, and XAI, majority-owned by Elon Musk, is worth \$45bn. That suggests there are high hopes for them, too. With o3 OpenAI has demonstrated its technical edge, but its business model remains untested.■

<https://www.economist.com/business/2025/01/20/openais-latest-model-will-change-the-economics-of-software>

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A bad day for doomers

A \$500bn investment plan says a lot about Trump's AI priorities

It's build, baby, build

Jan 24, 2025 03:37 PM | SAN FRANCISCO



WHEN PRESIDENT Donald Trump announced a half-trillion-dollar of private-sector investment in American artificial-intelligence (AI) infrastructure on January 21st, his second day in office, he basked in the accolades of the [three men](#) backing the “Stargate” project: OpenAI’s Sam Altman, Son Masayoshi, a Japanese tech mogul, and Larry Ellison of Oracle, an IT firm. He called it the largest AI investment in history. Then came the kicker. “This is money that normally would have gone to China.”

Considering that AI will be the defining [technology](#) of his time in office, Mr Trump can sound awestruck by it. “AI seems to be very hot,” he said. But as the announcement of the four-year project (which starts with the construction of massive data centres in Texas) foreshadowed, AI is likely to be a priority within his administration. That is for strategic as well as economic reasons. The government’s “north star”, as one tech insider in Washington puts it, will be how to beat China in the AI war.

Silicon Valley has China hawks already nestled in the White House. David Sacks, Mr Trump's AI and crypto tsar, is a venture capitalist who believes that the benefits of America winning the geopolitical battle with China outweigh the economic costs of isolating it. Michael Kratsios, an AI policymaker in both Trump administrations and formerly of Scale AI, a tech startup, thinks that China is "hell bent" on exporting its AI technology worldwide. Jacob Helberg, Mr Trump's pick for under-secretary for economic growth and a former adviser to Palantir, a Silicon Valley darling, has argued that it is imperative for America to win the AI arms race with China.

The big question is, will Mr Trump continue the Biden administration's approach of prioritising constraints on China, with export curbs and the like, to maintain America's lead in AI? Or will he put more emphasis on freeing America's tech firms to out-innovate China?

There are justifications for trying to keep China at heel. In Silicon Valley, supporters of a crackdown say Chinese firms steal American intellectual property, helping their large language models (LLMs) to advance fast. They argue that Chinese tech firms have evaded export controls on American semiconductors, either by buying cutting-edge American graphics-processing units (GPUs), the chips used to train and run AI models, on the black market, or by renting out capacity on other countries' cloud servers. This doesn't only help China's tech industry. They note that China is far ahead of America in incorporating AI into military tech, so hobbling it is justified on national-security grounds.

An early test of Mr Trump's support for such curbs will be his reaction to Mr Biden's "Framework for Artificial Intelligence Diffusion", released for a four-month review period days before Mr Biden left office. It aims to impose strict licensing requirements on the export of advanced GPUs, as well as the data that underpin

frontier LLMs, to close the loopholes that America believes Chinese firms use to build their models.

The framework would make it more difficult for some countries, including American allies in the Middle East and Asia, to build large data centres. Supporters, including some Republicans in Congress, hope it will curb China's access to American technology and send a clear signal to other countries that if they want access to American AI infrastructure they need to stay out of China's orbit.

But there is opposition, too. Nvidia, a semiconductor giant that still sells GPUs in China, says the “misguided” framework is far too prescriptive and will undermine American innovation. Some argue that putting too many restrictions on third countries' access to American AI infrastructure will push them into China's arms. Moreover, constraints on China may be counter-productive. The release on January 20th of the latest models by DeepSeek, a Chinese AI company, which were cheaper to build than similar American ones, may be a sign that curbs have encouraged Chinese firms to become hyper-efficient.

In the tech industry, the hope is that as well as cracking down on Chinese malfeasance, the Trump administration will push to promote American competitiveness by loosening the reins. As John Villasenor, an expert on tech policy at the University of California, Los Angeles, puts it, “The best way to stay ahead of China is not to over-regulate at home.”

On his first day in office Mr Trump took a step in this direction by scrapping Mr Biden's executive order of 2023 that required builders of advanced LLMs to share information with the American government. Tech insiders in Washington say they expect the new administration to take a “sector-specific” approach instead. In other words, rather than overarching AI regulation, federal agencies would oversee the use of AI within their own domains.

Some may worry that, with less regulation, tech firms will overstep the limits of AI safety. But for now “accelerationists” have overtaken “doomers”, who worry about safety. In a sign that deregulation is high on Mr Trump’s agenda, he promised the partners in Stargate to make it “as easy as it can be” for them to build their project.

One further force promoting AI innovation could be defence spending. America puts only a tiny fraction of its \$850bn defence budget into AI. Silicon Valley executives hope that the Trump administration will allow more participation by startups building AI weapons and systems in the competition for defence contracts.

In short, there is synchronisation. Mr Trump wants lots of investment in America, a roaring stockmarket and the ability to claim he is vanquishing China. America’s AI giants want to build bigger models to compete with each other and keep ahead of China, and to have more customers to justify their investments. Stargate looks like the shape of things to come. ■

<https://www.economist.com/business/2025/01/22/a-500bn-investment-plan-says-a-lot-about-trumps-ai-priorities>

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Art of the deal, Chinese edition

Donald Trump once tried to ban TikTok. Now can he save it?

To keep the app alive in America, he must persuade China to sell up

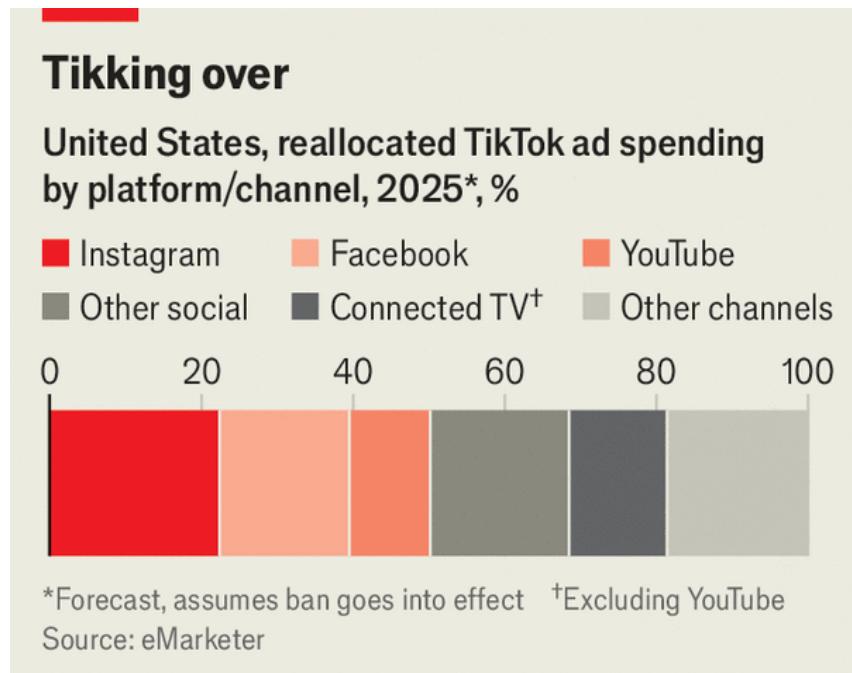
Jan 23, 2025 03:32 PM



THE LONG campaign to outlaw [TikTok](#) in America succeeded at last when the Chinese-owned video app was forced to shut down on January 18th. But the blackout lasted only a matter of hours. The next day TikTok sprang back to life for its 170m American users, issuing a message thanking an unlikely ally: Donald Trump.

Mr Trump, who tried to outlaw TikTok during his first presidential term, now intends to “save” it from a [ban](#) enacted by his successor, Joe Biden. On his first day back in the White House Mr Trump signed an executive order giving the app a 75-day stay of execution. Keeping TikTok alive in the long run will require him to persuade China to allow its sale. The outcome of that negotiation will be consequential not just for the tech industry but for America’s relationship with its main global rival.

The Protecting Americans from Foreign Adversary Controlled Applications Act (PAFACA), which came into force on Mr Biden's last day in office, makes it illegal to "distribute, maintain or update" apps controlled by "foreign adversaries", singling out TikTok by name. On January 17th the Supreme Court upheld the law, exhausting TikTok's legal appeal and prompting the app to shut down. When Mr Trump indicated his willingness to seek a solution, TikTok switched its service back on.



The Economist

The president's change of heart reflects a change in public opinion. Whereas in early 2023 half of American adults wanted to ban TikTok, by last summer the figure had fallen to one-third, according to the Pew Research Centre, a think-tank. Mr Trump, who joined the app last year and has 15m followers, credits TikTok with winning him youngsters' votes and providing competition to Mark Zuckerberg's Meta. "If you get rid of TikTok, Facebook and Zuckerschmuck will double their business," he warned last year.

Yet Mr Trump's power to save the app is limited. His executive order instructs the attorney-general not to enforce PAFACA for 75 days. But tech companies appear nervous of flouting the law, which

threatens fines of \$5,000 per user—\$850bn in TikTok’s case. Apple and Google have removed TikTok from their app stores, making new downloads or updates impossible. Mr Trump said on January 21st that he did not have TikTok on his phone but planned to install it. For now, he will find that hard.

To escape PAFACA’s ban, TikTok would have to cut ties with its Chinese owner, ByteDance. The company has long said TikTok is not for sale; the app’s acquisition is opposed by China’s government, which has a tight grip on private companies. Chinese officials have described America’s efforts to buy TikTok as “plundering” and classified the app’s recommendation algorithm as a sensitive technology that cannot be exported.

The return of Mr Trump makes a deal somewhat more likely. China is keen to avert the trade war that the new president has threatened; TikTok is a card it could play. Mr Trump raised TikTok with China’s president, Xi Jinping, in a phone call on January 17th. A few days later he said it would be “somewhat of a hostile act” if China blocked the app’s sale—and that tariffs could follow.

What would a deal look like? China’s government is said to be considering Elon Musk as a potential buyer, or broker of an acquisition by others. Mr Musk, an ally of Mr Trump, already owns a social network, X. His investments in China via his carmaker, Tesla, may persuade Chinese officials that he is a reliable partner—or someone over whom they have leverage. Mr Trump has suggested Larry Ellison, chairman of Oracle, which provides cloud services for TikTok in America, as another possible buyer.

A host of others have signalled interest. Perplexity AI, a search startup, has reportedly offered to merge with TikTok, eyeing its big catalogue of video training data. A consortium led by Frank McCourt, a former owner of the LA Dodgers baseball team, has put in a bid. Jimmy “MrBeast” Donaldson, the most-followed YouTuber, said he would make an offer with “a bunch of

billionaires". "Every rich person has called me about TikTok," Mr Trump said on January 20th.

Any sale is unlikely to include the app's prized algorithm, believes Wedbush Securities, an investment firm, which estimates TikTok's resulting value at \$40bn-50bn. That is a hefty discount for an app whose ad revenue in America this year is forecast to reach nearly \$16bn, according to eMarketer, a research firm. When Mr Musk paid \$44bn for Twitter three years ago, its global ad revenue was \$4.5bn a year.

If no deal is done and TikTok vanishes in America, the race will be on to capture its users, who spend an average of nearly an hour a day on the app. The main beneficiaries would probably be Meta's Facebook and Instagram, with Google's YouTube the runner-up (see chart).

A TikTok ban would have wider consequences. American social apps such as Facebook and YouTube are already banned in China, but other American companies would be vulnerable to retaliation. Apple has been hastily moving production to India, but still makes most of its gadgets in China. Tesla has a giant factory in Shanghai. China has an arsenal of new laws it can deploy against foreign firms. Recently it has used them to disrupt the operations of companies including Skydio, a drone-maker, PVH Group, which owns brands such as Calvin Klein, and Intel, a chipmaker.

There may be aftershocks in America, too. TikTok is not the only popular Chinese app there. Social networks such as Xiaohongshu, China's answer to Instagram, have risen up the download charts recently. Chinese e-commerce platforms like AliExpress and games such as Whiteout Survival have proved international hits. How America tackles its TikTok problem is a sign of how it will manage the many dilemmas yet to come.■

<https://www.economist.com/business/2025/01/17/donald-trump-once-tried-to-ban-tiktok-now-can-he-save-it>

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Generous benefits

Germans are world champions of calling in sick

It's easy and it pays well

Jan 23, 2025 03:32 PM | BERLIN



HISTORICALLY GERMANY has been a world champion of the rights of workers related to their health. In 1883 Otto von Bismarck, chancellor of the German empire, set up the world's first statutory health-insurance system with the Health Insurance Act, which included paid sick leave. Bismarck's *Krankenversicherungsgesetz* was not motivated by concern for workers' welfare so much as a strategy to beat socialists at their own game. Yet it laid the foundations of Germany's welfare state and was followed by laws on accident and disability insurance.

German bosses are warning that the pioneering policy has become a handicap. Germany is now “the world champion when it comes to sick days,” according to Oliver Bäte, the boss of Allianz, Europe’s biggest insurer. In an interview with *Handelsblatt*, a newspaper, Mr Bäte called for a “waiting day” (an unpaid first day of sick leave), which he claimed could save €40bn (\$42bn) a year. German workers are sick on average 15 days a year compared with eight days for the EU as a whole.

Ola Källenius, the boss of Mercedes, agrees with Mr Bäte. He warns of the “economic consequences” of a sickness rate in Germany that is often twice as high as in other European countries. Mercedes also manufactures cars and vans in Hungary, Romania, Spain and Poland in factories with comparable working conditions but with far fewer unwell workers taking time off. Another impediment is the last thing German business needs at a time when the economy is in recession for the second consecutive year, energy prices remain high and a trade war is looming.

Germany has one of the most generous sick-leave regimes in the world and it is costing businesses dearly. It is not clear that Germans are more poorly than other Europeans. An ageing society and the pandemic have caused a new vulnerability to respiratory illnesses and mental-health challenges but that is true of most other countries. “It’s very hard to police,” says Jochen Pimpertz of the German Economic Institute (IW). In a study he found that the total nominal cost of sick pay for employers rose from €36.9bn to €76.7bn between 2010 and 2023 (a 57% increase, adjusted for inflation). That is partly a result of higher wages and a bigger workforce, but also because more people are calling in sick.

There is clear correlation between the generosity of the system and the number of sick days, says Nicolas Ziebarth of the Leibniz Centre for European Economic Research. Germany’s arrangements are lavish compared with elsewhere in Europe and have become easier to manipulate. Workers receive 100% of their pay from the first day of sickness for up to six weeks. In Britain, for example, employees are not entitled to pay for the first three days of illness (a waiting period the government has promised to abolish) and then get £117 (\$144) a week, a fraction of their salary. In 2022 the average Briton took only six sick days. In 2023 it became easier for Germans to call in sick as workers were allowed to get an electronic doctor’s certificate by phone rather than see one in person.

Perhaps Germany should adopt a more Scandinavian approach. Sweden used to have a waiting day but this was abolished a few years ago. Mr Ziebarth also opposes the introduction of one in Germany which, he says, will probably encourage the sick to go to work, possibly infecting others or even hurting themselves or causing accidents. Swedish employers do, however, pay 80% of a worker's salary for two weeks, after which a health insurer takes over as paymaster. But perhaps the most innovative features of the system is partial sick leave. Doctors can determine that a person is unwell but is still fit for doing some work and can therefore turn up for fewer hours.

There are other more general measures that Germany could adopt to reduce time taken off such as hygiene routines that protect workers from infection, improved occupational safety and better ergonomics. Company doctors might provide flu vaccinations and advice on both physical and mental health. Policymakers have the hardest task: finding the right balance between giving genuinely sick workers time to recover without encouraging the sort of malingering of which Bismarck would almost certainly have disapproved.■

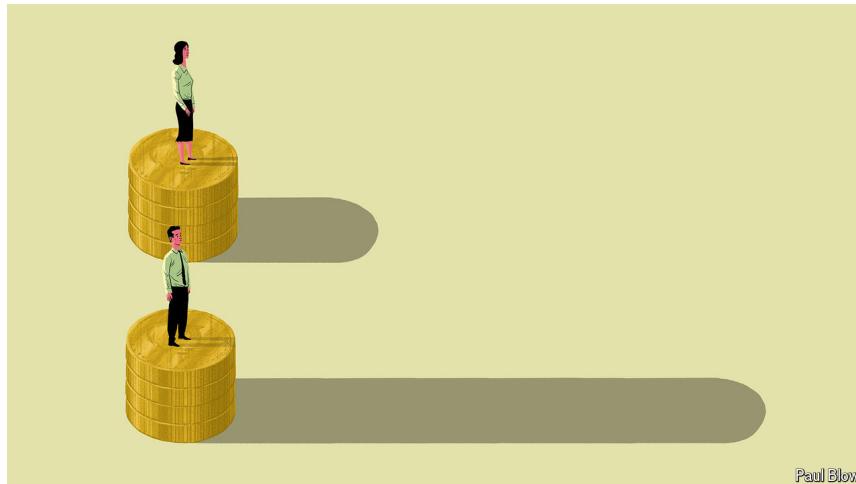
<https://www.economist.com/business/2025/01/23/germans-are-world-champions-of-calling-in-sick>

Bartleby

Knowing what your colleagues earn

The pros and cons of greater pay transparency

Jan 23, 2025 03:32 PM



HOW MUCH do your colleagues get paid? In a few countries, such as Norway, you can take a good guess by looking at public records on individuals' overall tax payments and income. But in most places, finding out people's salaries means asking them what they earn. And that is about as socially acceptable as saying "What an ugly baby."

In a recent study Zoë Cullen of Harvard Business School and Ricardo Perez-Truglia of the University of California, Los Angeles, offered monetary rewards to employees of a South-East Asian bank if they were able to accurately estimate the wages of some of their peers. The researchers found that a majority of employees were very uncomfortable asking colleagues about their pay and were also unwilling to reveal their own salaries to their colleagues, particularly if they thought they might be earning more than them.

Norms of privacy and secrecy around income help explain why legislators who fret about unfair pay differentials increasingly

require greater transparency. Few jurisdictions are as radical as the Scandinavians, but more and more of them are mandating that firms disclose gender (and other) wage gaps, publish pay ranges on job adverts or refrain from asking about applicants' prior earnings. New transparency laws take effect in Illinois, Minnesota and Vermont this year; an EU directive is due to come into force in 2026.

A recent review by Ms Cullen into the effects of all this sunlight reveals a mixed picture. Greater transparency about what people in similar jobs are earning has helped close pay gaps between men and women. This is not because lower-paid employees were given big pay bumps, however, but because average wages were suppressed. Transparency appears to hand employers a powerful bargaining tool: firms can argue that a pay rise for one individual would need to be replicated for others.

A Danish law from 2006, requiring that firms above a certain size disclose gender pay gaps among comparable workers, provides an example. In a paper published in 2019 Morten Bennedsen of INSEAD and his co-authors found that the gap between men and women narrowed, primarily because male employees saw slower wage growth. A lower wage bill is not necessarily good news for firms, however. Productivity at affected Danish firms also went down, perhaps because lower earners were fed up to discover they were undervalued or because higher earners resented the slower wage growth that followed.

Disclosure can lead to different outcomes. Requirements to include salary details on job postings appear to push up pay, for example, in part because firms as well as employees have better information about market rates. It is surely worth paying a bit more to avoid wasting time on job applicants whose salary expectations bear no resemblance to budgets.

Transparency can also stoke motivation. A recent paper by Cédric Gutierrez of Bocconi University and his co-authors found that pay transparency among American academics increased the effort of those who were revealed to be overpaid. If you're earning a lot more than others, you'd better prove your worth.

As for wage disparities between bosses and those below them, you might imagine that gaps foster resentment. But they can also pique aspiration. Other research by Ms Cullen and Mr Perez-Truglia suggests that employees not only consistently underestimate how much managers earn but also work harder when they find out the rewards that promotion can bring.

Transparency makes it more important to get performance-based pay right. A recent paper by James Flynn of Miami University looked at what happened when the previously secret salaries of ice-hockey players in North America were published in the middle of the 1990 season. Underpaid players shifted their efforts towards scoring goals and providing assists, which were more highly rewarded than defensive contributions, to the detriment of their teams' performances as a whole.

Pay transparency offers prizes and pitfalls for managers, in other words. If things go well, it ought to close unjust pay gaps and provide workers with more information on their options inside and outside their firms. If things go badly, morale and productivity may suffer as the pursuit of equity catalyses slower wage growth; performance-based pay may converge on things that are easier to measure, not what matters most. Sunlight is lovely. It can still cause damage. ■

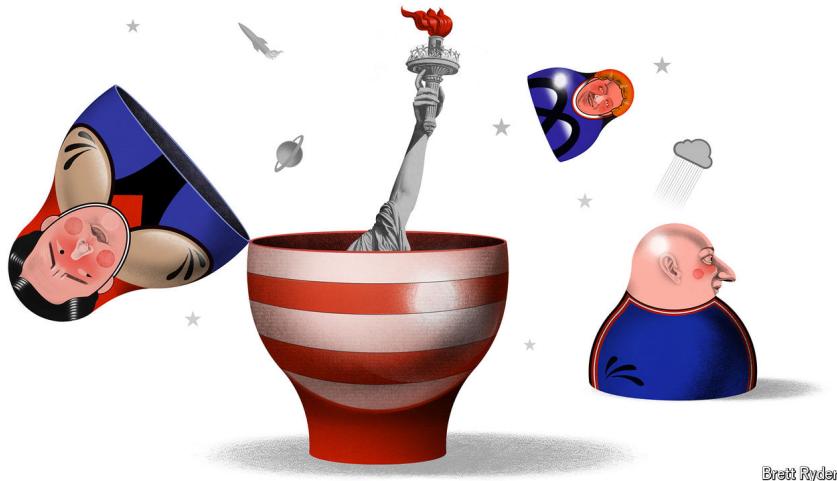
<https://www.economist.com/business/2025/01/23/knowing-what-your-colleagues-earn>

Schumpeter

Donald Trump's America will not become a tech oligarchy

Reasons not to panic about the tech-industrial complex

Jan 23, 2025 03:32 PM



WHAT NATION can you fit into the Capitol Rotunda? Answer: somewhere between a Portugal and a Thailand. Each country's total household net wealth was \$1.3trn, give or take, according to the latest available figures from a few years ago. This is around the accumulated fortune of the billionaires who turned up for Donald Trump's second presidential inauguration in Washington on January 20th. Bernard Arnault, owner of LVMH, a luxury empire, and Europe's richest man, represented the old continent's fat cats. Mukesh Ambani, an Indian industrialist who is Mr Arnault's Asian opposite number, stood in for the global south's.

However, it was [Elon Musk](#), Jeff Bezos and Mark Zuckerberg (collective net worth: \$911bn, a bit shy of three Luxembourgs) who got the most attention—and better seats than the incoming cabinet. Only the Trump family stood between [the tech moguls](#) and the 47th president as he took the oath of office.

This proximity to power—literal and figurative—alarms many. In his farewell address from the White House five days earlier Joe Biden warned that “an oligarchy is taking shape in America” and of a rising “tech-industrial complex that could pose real dangers for our country”. It is not just Americans who are worried. On January 18th Reuters reported that Germany’s ambassador to the United States, a sober Teutonic type not normally given to hyperbole, had confidentially alerted the government in Berlin that, among other disruptive moves by the second Trump administration, “big tech will be given co-governing power.”

Inaugural seating arrangements notwithstanding, such assessments seem far too bleak. America is no oligarchy—and unlikely ever to become one, for three reasons. First, the supposed technoligarchs control far too small a portion of the country’s vast and vastly diverse economy to be able to influence its overall direction—one of the big fears behind warnings like Mr Biden’s.

Although Mr Bezos’s Amazon, Mr Zuckerberg’s Meta and Mr Musk’s Tesla together account for one-tenth of the value of all listed stocks in America, their economic contribution is much more modest. This contribution, or gross value added, is calculated by adding a firm’s profits before net taxes and financing costs to what its employees earn in salaries and benefits. Companies seldom report their total wage bills but sales and general administrative expenses combined with research-and-development costs give a rough idea. Add this to earnings before interest, taxes, depreciation and amortisation, and Amazon, Meta and Tesla correspond to 1.8% of American GDP.

Even if you add Apple and Alphabet, whose CEOs also attended Mr Trump’s swearing-in but who are hired stewards rather than founder-owners and thus decidedly unoligarchic, the figure rises to just 3.1%. In Russia, home to the original oligarchs (in the non-ancient-Greek sense), the figure is much higher. A study from 2004 in the *Journal of Economic Perspectives* found that two dozen

magnates employed nearly a fifth of all workers and earned 77% of sales in manufacturing and mining, which at the time accounted for two-thirds of Russian output. In Hungary, the closest the Western world has to a real oligarchy, chums of Viktor Orban, the strongman prime minister, may oversee 20-30% of the economy, according to one estimate.

Other measures tell a similar story. Amazon, Meta and Tesla make up 9% of business investment by America's 1,500 largest firms. In India, Mr Ambani's [Reliance Industries](#) accounts for 16%. The trio's capital spending is equivalent to 0.4% of GDP, compared with nearly 1% for John D. Rockefeller's Standard Oil in 1906.

The experience of Rockefeller points to another reason not to panic. Despite his immense wealth—at its peak almost twice Mr Musk's relative to the size of America's economy—he struggled to have his voice heard in the corridors of power, points out Tevi Troy, author of “The Power and the Money”, a history of American potentates' rapports with commanders-in-chief. President James Garfield did not know how to spell his name.

Even though Mr Trump is clearly friendlier to business than his trustbusting predecessors a century ago, his feelings towards tech do not seem to run deep. The word “technology” did not feature in his inaugural address (in contrast to “liquid gold”). Moreover, in America public opinion still matters, and could easily turn against the tech billionaires. Sections of MAGA already loathe them.

Crucially, in contrast to Rockefeller, who wielded near-total control over a critical economic input in the form of refined petroleum products, they cannot hold the American economy to ransom. No Amazon? Walmart will happily sell you everything you need. Instagram says access denied? Great, then you have time to read Mr Troy's riveting book. Want a new car? Tesla may anyway not be your top pick of vehicle these days. Even Mr Musk's SpaceX rockets may not be the only game in town for ever, though Rocket

Lab, the firm's closest competitor, and Blue Origin, a company founded by Mr Bezos, are still some way behind.

Teeming with rivals

The rocket rivalry highlights the last reason for calm. Big tech is not a monolithic interest group, like the Russian oligarchs whose businesses mostly do not overlap. The technology tycoons' interests are often in conflict. Messrs Bezos and Musk compete in space. Mr Musk and Mr Zuckerberg own rival social-media platforms. Amazon is taking a bite out of Meta's online-advertising business. Everyone is piling into artificial intelligence.

Mr Trump is more transactional than presidents before him, which increases the risk of cronyism and self-dealing. But America's economy, including its technology industry, is too unwieldy and dynamic to petrify into an actual oligarchy, whatever diplomats and departing presidents say. ■

<https://www.economist.com/business/2025/01/21/donald-trumps-america-will-not-become-a-tech-oligarchy>

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Breaking the ice

The Arctic: climate change's great economic opportunity

An enormous prize is on offer. When might it be grasped?

Jan 28, 2025 08:32 AM



FOR BEARS of both the market and polar kind, a planet without an ice cap is a tragedy. The Arctic is warming four times faster than the world at large, causing ice to shrink by an area the size of Austria each year. Since the 1980s the volume of ice has fallen by 70% or more. The Arctic's first ice-free day may occur before 2030.

A warming Arctic should yield enormous dividends. Retreating ice will create shipping shortcuts. Maritime access and melting glaciers will make it easier to extract minerals, just when the world craves resources from the Arctic's virgin geology. Warming waters may entice hordes of fish. This could upend trade, energy and geopolitics. The prospect has sparked a rush of diplomats and miners. In December China set a world record, unveiling a “polar-ready” 58,000-tonne cargo ship. One red-hatted politician has talked of seizing Greenland. The obstacles, though, are as big as the opportunities. Last month Norway paused plans for deep-sea

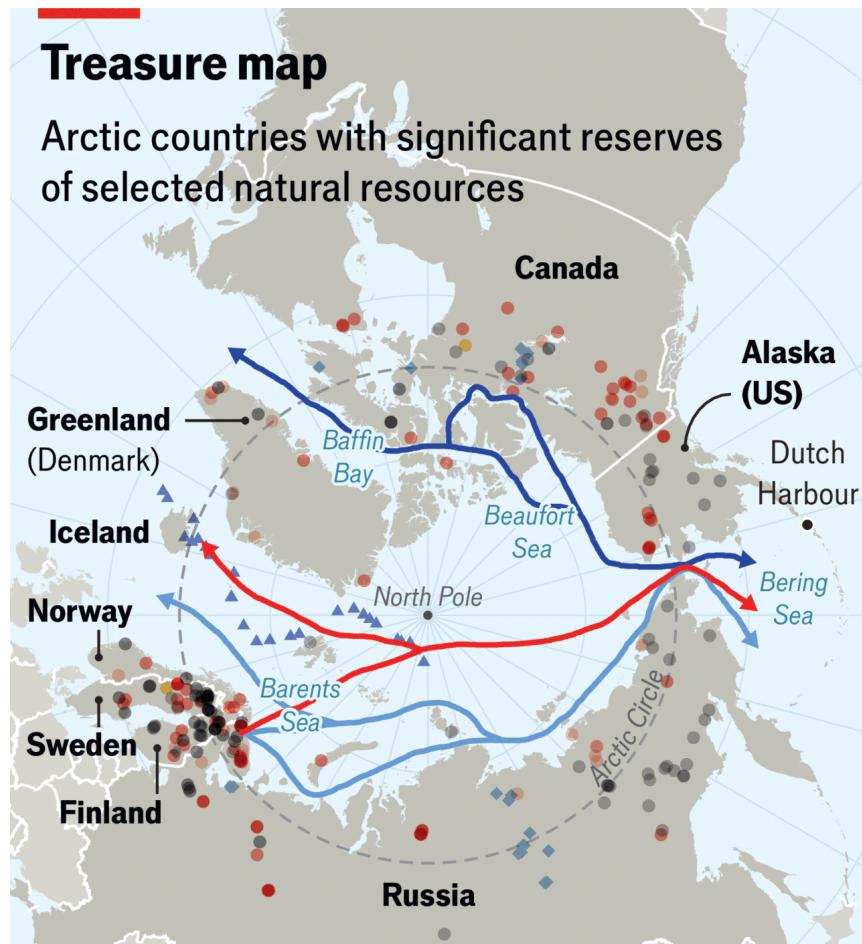
mining; Russia's own efforts have halted. Can the prize be grasped? And on what timescale?

One benefit already on offer is bigger catches. Some species, such as snow crab and Alaska's king salmon, are struggling in warmer, somewhat acidified water. And an international agreement has restricted fishing in the high seas. But this is more than balanced by the fact that species from southern and temperate waters, including Atlantic cod, are moving to areas such as the Barents and Bering seas. Nutrient-rich water could also help populations grow faster, while receding ice opens up new grounds and lengthens fishing seasons. Mackerel did not arrive off Greenland until 2011. By 2014 the oily fish represented 23% of the island's total export earnings.

Such benefits may pale in comparison to those offered by new shipping routes. To grasp how climate change may transform them, see the map below. Melting ice could open three paths. The first, known as the Northern Sea Route (NSR), hugs the Russian coast to connect the Barents Sea with the Bering Strait. A second, dubbed the North-West Passage (NWP), runs along the North American Arctic coastline, from the Beaufort Sea to Baffin Bay. Last comes the Transpolar Sea Route (TSR), which runs over the North Pole.

Treasure map

Arctic countries with significant reserves of selected natural resources



Arctic shipping routes

- North-West Passage — Transpolar Sea Route
- Northern Sea Route

Mineral and metal deposits

- Metals ● Base ● Precious ● Ferrous
● Energy ● Special

- ▲ Hydrothermal fields ◆ Diamond deposits

Sources: Geological Survey of Norway;
The Arctic Institute; *The Economist*

All three could shorten trips between Asia, North America and Europe, which account for most shipping, saving on fuel and wages. They could also avoid chokepoints such as the Panama and Suez canals, which are busy, charge fees and, in the case of Suez, link to dangerous waters.

Exactly when these promises might be fulfilled depends on the route. The NWP, which runs through Canada's Arctic Archipelago, consists of narrow, winding channels. It is melting more slowly than the NSR. Although it stretches 1,500km, it has only one deep-water port and lacks emergency facilities. Canada claims the NWP is in its waters; America and Europe deem it an international strait. The route is also shallow, limiting the size of vessels.

The TSR dodges many of these problems. It traverses the Central Arctic Ocean, which is much deeper. It avoids territorial waters, cooling the political temperature. And it provides the shortest route from the North Atlantic to the Pacific. Proponents foresee thousands of vessels a year shuttling between North America and Asia, stopping en route at Alaska's Dutch Harbour. Even when the ice is gone, though, the route will be littered with icebergs, making it navigable only by icebreakers. The vision of thousands of ships may have to wait until 2050 or so.

Sea change

That makes the NSR the most promising option available. The route has been open to ice-resistant ships in the summer almost every year since 2005. Sections are navigable all year, albeit with the help of an icebreaker escort, which is expensive. Traffic is rising nevertheless: a record 92 ships navigated the NSR last year, up from 19 in 2016. As ice continues to melt, the NSR could appeal to two types of voyages. One is traffic focused on the transport of resources from Russia's far north. The country has long aimed to secure year-round energy exports by shipping liquefied natural gas to Europe in the winter (for heating) and Asia in the summer (for cooling). Although that grand vision receded after Vladimir Putin's invasion of Ukraine, when Europe cut some links with its neighbour, the NSR could still help Russia ship coal, gas and metals to China and India.

The route may also lure some of the traffic connecting Asia to Europe. It is unlikely to be used much for container ships, which tend to hop along hubs in the Gulf or South-East Asia rather than travel the whole route between Europe and Asia, says Rasmus Bertelsen of the UiT Arctic University of Norway. The north's rough seas also risk thwarting the just-in-time logistics of the modern goods trade. However, it could reduce the distance between Rotterdam and Shanghai by 5,000km, or 25%, and slash the journey from 30 to 14 days. As a consequence, despite the route's defects, it could still boost overall trade between Asia and the EU by 6%, according to Eddy Bekkers, now at the World Trade Organisation, and colleagues.

The Arctic's last prize concerns commodities. This used to mean hydrocarbons. The region is thought to hold 13% of the world's undiscovered oil and 30% of untapped natural gas. But its deposits are among the costliest to exploit—not ideal when demand for oil is flagging and a glut of natural gas, produced more cheaply in America and Qatar, is on the way.

Instead, the hope lies with the Arctic's “green” minerals, which global warming is making more accessible. They include cobalt, graphite, lithium and nickel, important ingredients in electric-car batteries; zinc, used in solar panels and wind turbines; copper, required for all sorts of things electric; and rare earths, crucial to many types of green and military equipment. Niche metals including titanium, tungsten and vanadium, used to make “super-alloys”, are also prized. Greenland looks especially well resourced in this regard. The island has reserves of 43 out of 50 minerals deemed “critical” by the American government. Its known rare earths amount to 42m tonnes, some 120 times more than the world mined in 2023.

Most of the Arctic's minerals have not been mapped out in detail, notes Per Kalvig, who co-wrote a geological survey of Greenland. As such, any exploitation could be at least a decade away. But the

International Energy Agency, an official forecaster, reckons that the global market for such minerals will double in value by 2040, if countries stick to existing climate pledges. Western countries are also eager to discover new sources so as to bypass China, which dominates supply.

Firms that use artificial intelligence to sift through historical and scientific data in order to identify deposits could speed up progress. Ice-capable rigs, autonomous mining vehicles, heavy-lifting drones and other technologies are being developed to withstand the Arctic. Miners must learn how to extract and process metals that are often found in low concentrations or mingled with others. Seven out of eight Arctic nations are members of NATO; they may have to reinvent China's techniques if they or their partners decide to limit its involvement in future projects.

Cold comfort

Three types of people must also be convinced: investors, national governments and locals. Lumina Sustainable Materials, Greenland's sole mine, offers a preview of the challenges. Set up in 2013, it was first licensed to make a refined form of anorthosite, a light-coloured rock used in fibreglass and paint. Yet the delicate material was too difficult to ship. By 2020 the mine had exported little. It took a new deep-sea port, and sustained lobbying by the firm's new management—no longer in Vancouver but in Greenland—for Lumina to be allowed to export the rock in coarser form. Production is set to increase to 210,000 tonnes in 2025, up from 35,000 in 2019, all of which will be shipped abroad. The mine sits on a deposit of some 4bn tonnes.

In recent history, the Arctic's allure has been as a place on which to put garrisons, spy devices and nuclear weapons. Plenty of obstacles may prevent its transformation into a modern El Dorado. Pooling the cash, tech and goodwill required to spark a boom will involve more time and effort than merely waiting for the ice to go.

Competition without co-operation risks holding back progress. But the prize on offer is such that, over coming decades, the Arctic will surely become an economic as well as a geopolitical venue. ■

<https://www.economist.com/finance-and-economics/2025/01/23/the-arctic-climate-changes-great-economic-opportunity>

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Danger alert

China's financial system is under brutal pressure

When will something break?

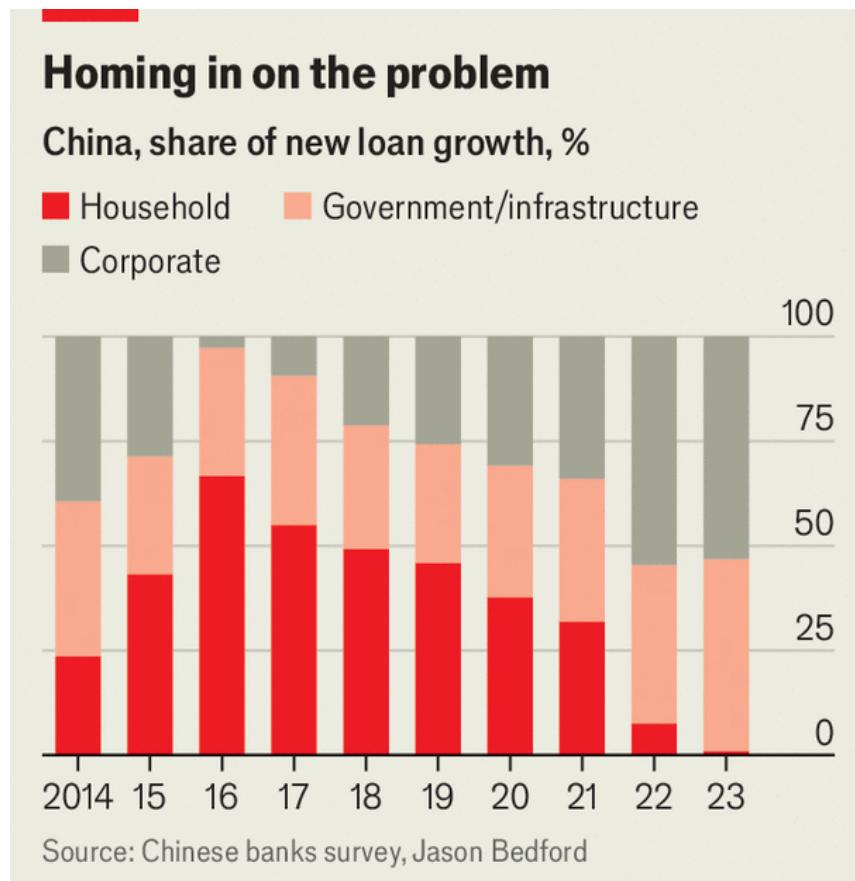
Jan 23, 2025 03:32 PM | Shanghai



“**SHORT ESSAYS**” appear to be causing big problems in China’s bond market. Over the past year the term has been used to refer to rumours swirling around financial hubs, which often originate with brief posts on social media that attempt to explain the inner workings of the system. One such rumour claims that the central bank is hunting down speculators who have made “illegal transactions” on the bond market. Another implies the China Financial Futures Exchange, where bond futures are bought and sold, has ratcheted up fees in order to discourage trading.

These are works of fiction and should be ignored, warn regulators. But social-media users can hardly be blamed for trying to explain the country’s bond yields: a ten-year government bond now offers 1.65%, just above a record low and down from 2.8% a year ago. In most countries this would be a sign that investors are preparing for a long bout of deflation and stagnation of the sort suffered by Japan in recent decades. Capital Economics, a research house, compares

the market's moves to those in America during the global financial crisis of 2007-09.



The Economist

No short story can capture the forces driving down yields. They first emerged from the devaluation of China's most important asset, residential property, and are now reverberating through markets more broadly. China's closed financial system, in which investors are trapped alongside falling valuations, exacerbates the problem.

The pressures are most evident at China's banks, which are among the biggest buyers of government bonds. A large part of the state's plan for solving the housing crisis is for local governments to buy up a vast quantity of unsold homes. An estimated 32m housing units are ready for purchase; another 49m sit dormant.

Accomplishing such a plan requires asset devaluation on a grand scale, with local governments negotiating down the price of these

homes. In some cases, prices will have to drop by more than 50%. Only then will local officials be able to shoulder the cost.

Falling prices will please first-time homebuyers, but not banks. They use unsold flats and the land reserves of property developers as collateral against loans. Thus a reduction in the value of these assets is a nightmare. Even small changes require them to reassess the quality of loans. A precipitous drop would prompt many to go sour. Not only would this reduce income from loans, it would also require banks to set aside additional money to buffer losses, further squeezing their profits.

Property problems are one of many issues putting pressure on banks. In 2015 households hoovered up credit, often in the form of mortgages; they accounted for 43% of the growth in loans that year. At the time, firms and state entities each accounted for 28% of new borrowing. But the picture has changed dramatically since then. Household borrowing collapsed during the covid-19 pandemic and has been slow to recover; it accounted for just 1% of the growth in lending in 2023, according to a survey of more than 230 banks by Jason Bedford, an independent analyst. Indeed, in the first half of last year, new household borrowing appears to have declined.

Vanishing demand from households is alarming. So is the fact that businesses are borrowing increasing amounts. Small companies are particularly keen on credit, and they benefit from state-enforced low interest rates—despite growing default risks. Meanwhile, bank deposits, and thus interest payouts, have boomed. As home prices have fallen, people have become less keen on investing in property. And a stockmarket rout in 2023 caused many retail investors to eschew shares. Bank term-deposits, which promise higher yields with restrictions on withdrawals, are now the preferred option for many savers.

Don't bank on it

Such trends are proving unsustainable. China's central bank was forced to cut deposit rates last year and is expected to do so again soon. As a result, term deposits at state banks now pay out 1.6% a year compared with over 4% five years ago. Net interest margins, the difference between what banks make on loans and pay for deposits, have nevertheless come crashing down. Bank of Shanghai's margin was just 0.9% in March; Xiamen International Bank's hit 0.6% in June. Both are creeping to dangerously low levels.

With few other safe assets to turn to, banks that are under pressure, as well as insurers and fund managers, have piled into government bonds, driving down yields. Since China's financial system is not about to open up, allowing money out, yields are almost certain to remain low.

The country's enormous army of amateur traders desperately hopes that the state will boost stockmarket valuations by directly buying shares and aggressively stimulating the economy. Doing so would enable investors of all stripes to return to equity markets, in the process lifting pressure on the bond market. Even if this happens, however, the impact may be muted. Corporate earnings declined for a third consecutive year in 2024, falling by more than they did in 2022, when China was paralysed by lockdowns. Moreover, if the state did somehow manage to manufacture a boom, a widening gap between valuations and company fundamentals would only set the scene for a subsequent crash.

Another solution might be to increase the supply of government bonds. There has already been a move in this direction: issuance hit a record high in December, reaching 1.8trn yuan (\$250bn). Much of this borrowing was part of a plan to allow local governments to refinance their debt. Any further increase would have to come hand-in-hand with a desire to increase state spending or cut taxes. Although it is still unclear what the government's plans are on this

front, a finance minister did say on January 10th that China's fiscal policy would be "highly active" this year.

A surefire way to take pressure off the bond market would be to relax capital controls, not least because Chinese demand for overseas investments is extremely high. Yet the more China's economic outlook deteriorates, the more difficult it will be to do this. Above all else, ministers want to avoid a situation in which capital flees the country. That is why the government is in fact more likely to tighten, rather than loosen, controls this year—regardless of how low bond yields fall. ■

<https://www.economist.com/finance-and-economics/2025/01/23/chinas-financial-system-is-under-brutal-pressure>

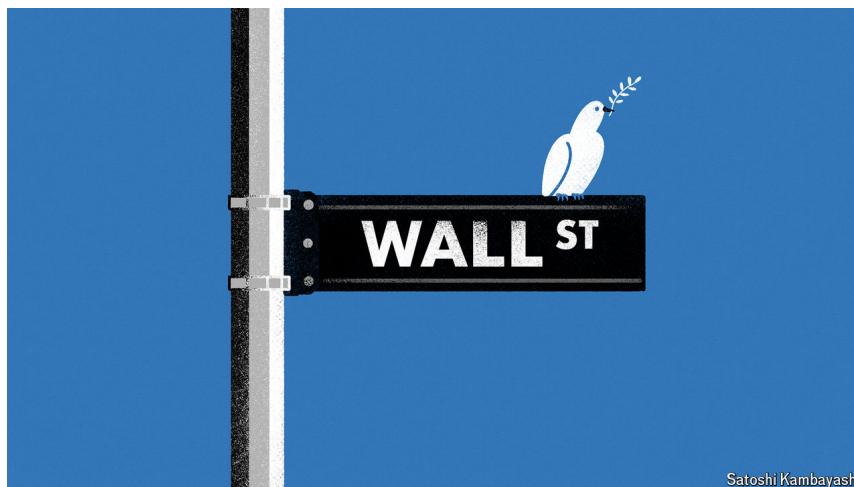
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Buttonwood

How American bankers dodged the MAGA carnage

The masters of the universe have escaped an anti-globalist revolt

Jan 23, 2025 03:32 PM



Satoshi Kambayashi

WALL STREET was poorly represented in the expensive seats behind Donald Trump at his inauguration. That honour fell instead to the leaders of America's technology industry, who turned up en masse. Was this a humbling exclusion? Not quite. Whereas Silicon Valley travelled east to avoid retribution, Wall Street stayed away because it expects none.

Bankers are likely to thrive in America's MAGA era. The expectation of broad financial deregulation, provided by a president obsessed with the stockmarket, has made investors giddy. News that Michael Barr, who has sparred with banks over capital requirements, will relinquish responsibility for financial regulation at the Federal Reserve marks the start of a more amiable period of supervision. If in recent years it has felt like high noon in the Valley, it is now morning again on the Street.

J.D. Vance, America's vice-president, announced that the Republican Party was done "catering to Wall Street" during the election campaign. Indeed, Mr Vance is alive to the irresolvable tension between markets and conservatism. Some in his orbit even decry "financialisation", shorthand for a misalignment of interests between America's financial industry and its people. So it is strange to imagine Wall Street elites in Davos cheering the ascension of this self-styled common man. Yet bankers have never felt so bulletproof.

Their mood owes something to a strong economy and the passage of time. When Steven Mnuchin became treasury secretary at the start of Mr Trump's first term, the collapse of Lehman Brothers, an investment bank, was recent history. His time at Goldman Sachs and property deals were noisily scrutinised by senators during his confirmation hearing. When Scott Bessent, Mr Trump's pick this time around, was quizzed by senators, Wall Street and its implosion in 2008 hardly came up. How cool was this former lieutenant of George Soros as he prepared to take a post in the counter-revolutionary struggle against the globalist elite.

Absence of catastrophe is not the only reason Wall Street is enjoying political irrelevance. Culture has replaced inequality as the overwhelming focus of American politics. In his inaugural address, Mr Trump promised to restore meritocracy and free expression. This change puts big tech, rather than big banks, most squarely in the stocks. The same tech firms could also play a decisive role in America's competition with China, whereas bankers probably will not. Proximity to power means greater whiplash when it shifts. Since November Wall Street's executives have needed only to kiss the ring: institutions have exited a green banking alliance, for instance. Those at the helm of America's biggest tech firms, meanwhile, are in danger of swallowing it.

It would also be more difficult to march pitchforks down Wall Street today. That is not because finance has lost its flare for

creative destruction, or because of bodyguarding by its indefatigable lobbyists. It is because Wall Street would provide a slippery target for Mr Trump's "revolution of common sense", as its risk-taking has become more dispersed. Since the financial crisis, regulation has pushed the hard edge of finance from banks to more—and more complex—institutions in private markets and among hedge funds. Obscurity brings its own risks, but is a shield against angry politicians. Big-tech firms do not benefit from such protection.

In Europe things are different. On the continent, bankers remain the kings of finance, and a punch-bag for populists. There is nothing like big tech to take their place. In Italy, for example, threatening to introduce new taxes on banks seems to have become an annual event. Negotiating bank mergers within the bloc passes for foreign policy. Some governments are still selling stakes in financial institutions, a legacy of crisis-era bail-outs. America might be in danger of forgetting some lessons from the crisis; Europe is still living through it.

Although the beating heart of American finance is now more remote, its risk-taking ethic has infiltrated the American psyche. Increasingly complex products for retail investors, legalised sports betting and cryptocurrency's boom reflect the appetites of Main Street. Mr Trump's decision to launch his own meme coin, days before taking office, was an extraordinary act of personal greed. But wouldn't most Americans do the same thing, if given the opportunity? It is easy to be a banker when such a mood has taken hold.■

<https://www.economist.com/finance-and-economics/2025/01/23/how-american-bankers-dodged-the-maga-carnage>

Yielding results

Has Japan truly escaped low inflation?

Its central bankers are increasingly hopeful

Jan 24, 2025 08:24 AM | Singapore



JAPAN IS USED to the position in which it currently finds itself: apart from [the rest of the rich world](#). Elsewhere, as inflation exceeded central-bank targets, rate-setters tightened monetary policy in rough proportion to the size of their overshoot. If the Bank of Japan had behaved in a similar manner to its G10 peers, notes Tim Baker of Deutsche Bank, the country's interest rates would have increased by two percentage points over the past few years. Instead, they barely crept up, rising from -0.1% to 0.25%, despite nearly three years of price growth above the BoJ's target of 2%.

That is because Japanese policymakers would like to kill off the country's disinflationary decades once and for all. They received a gift when the current wave of inflation arrived from overseas. In 2021 and 2022, as import prices surged and the yen plunged, Japan received a whopping cost shock. Companies had little choice but to pass on higher costs, in the process breaking a taboo against price rises. Workers, in turn, received a strong incentive to seek higher

wages. The BoJ's policymakers were pleased: they hoped to turn a bout of external “cost-push” inflation into internal “demand-pull” inflation, by way of a virtuous feedback loop between wages and prices.

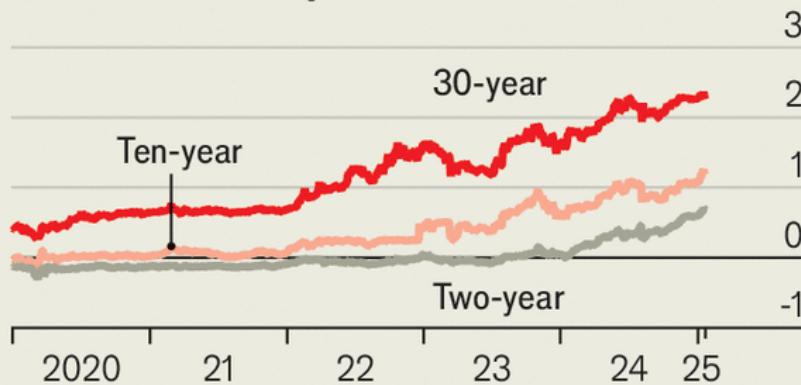
Now the central bank is beginning to change tack. On January 24th policymakers raised interest rates for the third time this cycle. Their growing confidence mostly stems from the national pay picture. Since last spring, nominal base wages for full-time workers have risen at a rate of nearly 3% year on year. So have services-producer prices, a leading indicator for broader services inflation, which is sensitive to wage growth.

Analysts expect a second year of pay rises near 5% following *shunto*, annual wage negotiations between firms and unions that will conclude in March. Moreover, inflation expectations are reaching a “screaming point”, says David Bowers of Absolute Strategy Research, a consultancy. Surveys of businesses’ and consumers’ medium-term inflation expectations are at, or approaching, record highs. “It has now become possible to envision achieving the price-stability target in a sustainable and stable manner,” said Himino Ryozo, the BoJ’s deputy governor, on January 14th.

Rising in the east

Japan, %

Government-bond yields



Bank of Japan policy interest rate



Sources: Haver Analytics; LSEG Workspace

The Economist

Investors are buying into the turnaround, too. Short- and long-term Japanese yields have rallied (see chart). On January 15th the ten-year yield reached its highest level since 2011. The two- and 30-year yields have recently set similar records. Although this increase has coincided with surging yields in America, Germany and Britain, Japan's bond market has been driven by very different underlying conditions. Investors are not spooked. Rather, inflation has provided them with optimism that Japan's economy can regain its vim. And rather than being driven by a worsening fiscal trajectory, inflation has led to a bump in tax receipts. A slimmer

budget deficit has nudged down government debt as a share of GDP. Higher yields could in time raise public interest payments, but this will take a while. More than half of Japan's government bonds are five or more years away from refinancing.

Despite the increasingly hopeful state of affairs, Japan's central bankers face a difficult balancing act. **Households** bristle at the high food and energy costs wrought by a weak yen, which is near a four-decade low. Interest-rate rises that are too cautious would prolong the pain unnecessarily. On the other hand, too ambitious a rate-rising cycle could strengthen the yen before inflation has taken root domestically, which might undermine the rise in inflation expectations that the BoJ has worked so hard to achieve. With Japan's economy showing signs of slack, China exporting enormous quantities of cheap goods and Donald Trump preparing tariffs, disinflationary hazards are appearing everywhere. The bank's policymakers are likely to stick with a gradual approach, nudging up rates at a pace slow enough to disrupt nothing. Discomfort for Japanese shoppers today is a price worth paying for the chance of a much healthier economy in the years, and maybe even decades, to come. ■

<https://www.economist.com/finance-and-economics/2025/01/23/has-japan-truly-escaped-low-inflation>

American vim

Saba Capital wages war on underperforming British investment trusts

How many will end up in Boaz Weinstein's sights?

Jan 23, 2025 03:32 PM



Satoshi Kambayashi

“HAVE YOU no shame?” cried Boaz Weinstein during a presentation to investors on January 14th. The boss of Saba Capital, an American hedge fund, was railing at fund managers in Britain’s venerable investment-trust industry. Mr Weinstein has picked seven trusts, overseeing £4bn (\$5bn), whose performance he deems so abysmal that both boards and managers must be fired. Saba has bought stakes in each and sought votes to oust their boards. If successful, it will appoint new directors and seek to manage the trusts itself. At the first such poll, held on January 22nd, shareholders rejected Mr Weinstein’s overtures. Six more chances remain.

Saba’s victims are a small slice of a sector that invests £270bn, but their fate will reverberate across it. Their managers—Baillie Gifford, Janus Henderson, Manulife and Herald Investment Management—include some of British asset management’s biggest

names. More important, other trusts share their vulnerabilities, and Mr Weinstein is raring for a broader assault.

He is certainly right on one count: recent performance has been lousy. Saba points out that, in the three years before it started buying stakes, six of the seven trusts had underperformed their benchmarks. The worst laggard, Baillie Gifford's US Growth Trust, had done so by more than 50 percentage points. Its managers might quibble that this timeframe was cherry-picked to begin at the peak of a mania for growth stocks, which was followed by a broad crash. But that would not defang Mr Weinstein's second argument: that as well as dismal returns, poor management has caused the trusts' market value to drop well below the net asset value (NAV) of their holdings. If Mr Weinstein succeeds in seizing the reins, he promises to close these "NAV discounts" and provide quick profits to shareholders.

The NAV discounts are possible because of the strange structure of trusts. They are "closed-end" funds, which means they invest permanent pools of capital that investors cannot tap directly. Instead, the investors own shares in a firm—the trust—that manages the capital. If they want out, they must sell their shares on the market rather than asking the trust to liquidate assets and give them back their money, as they would with an "open-end" fund. This allows trusts to trade less frequently, lowering costs. They can also invest in assets that cannot easily be sold. These include shares in unlisted firms, such as Elon Musk's SpaceX, that retail investors might otherwise struggle to own.

A quirk of this structure is that a trust's shares can trade at a price which differs from their NAV. The shares of those chosen by Saba have all been trading much lower, with average discounts over the three years before the campaign began ranging from 12% to 15%. It is a damning verdict on the trusts' managers that their portfolios would be worth more if they were carved up and sold for parts. For Mr Weinstein, it also marks a failure of the trusts' boards. They

could have improved matters by ordering managers to sell some assets and use the proceeds to buy back shares at a price close to their NAV. Saba's campaign has spurred several to do so; share prices have duly risen and discounts narrowed.

If Mr Weinstein prevails, he promises to go further. He will liquidate more holdings to give investors more chances to sell at prices close to NAV. Then he will roll out his strategy, buying other trusts that are trading at a discount. The pickings look rich: at 15%, the NAV discount at the average British investment trust is even higher than among the group Saba is currently targeting. Investors could either quit via the buy-backs or stick around for the ride.

Naturally, the trusts are urging shareholders to turn away Mr Weinstein. Their best argument is that his proposals have little to do with why investors handed over their money in the first place: to hold shares in high-growth firms for the long haul. Anyone investing in such a strategy must be prepared to tolerate spells of poor returns. Even then, for those with steady nerves and a Machiavellian streak, there is a trade here. They could sell to Mr Weinstein at close to NAV, then reinvest in other, similar funds run by the original managers. Just so long as they are still in business.



<https://www.economist.com/finance-and-economics/2025/01/23/saba-capital-wages-war-on-underperforming-british-investment-trusts>

In search of growth

European governments struggle to stop rich people from fleeing

Exit taxes are popular, and counter-productive

Jan 23, 2025 03:32 PM



WHEN A GOVERNMENT falls apart, pay attention to the laws ministers still manage to pass. Germany's collapsing "traffic-light" coalition was unable to agree on climate policy or a budget, but it flashed green for one change: an exit tax. Since January 1st anyone with over €500,000 (\$520,000) in investment funds has had to pay income tax on gains earned in Germany if they wish to extract their money from the country.

Germany's exit-tax enthusiasm is replicated across Europe. Norway's government also brought in changes for the new year. In a second stiffening of the rules in as many years, rich Norwegians will now pay levies on dividends if they plan to remain outside their fatherland. A doomed French budget would have tightened an exit tax that left-wing lawmakers complain has been gutted. Dutch parliamentarians have instructed their government to investigate introducing an exit tax of its own.

An exit tax can be a helpful piece of politics. So many rich Norwegians moved to Switzerland after the introduction of a higher wealth tax, that DNB, Norway's biggest bank, set up a Swiss office, and the socialist party created a “wall of shame” for émigrés. Exit taxes, swiftly toughened, then appeared to be prudent fiscal planning (and a way to shift blame to those who had upped sticks). In recent years Europe's economy and stockmarkets have lagged far behind those across the Atlantic. This both increases the incentive for people to invest elsewhere and for governments to look for new sources of revenue.

But how much money do exit taxes actually bring in? Not much. The well-heeled are well-motivated to find loopholes. European laws further complicate matters. Germany's new rules may violate EU legislation protecting the free movement of capital, says Christian Kempges of Grant Thornton, a consultancy. Options on a more solid legal foundation, such as adding a “tail” to the tax, where departees are on the hook only if they sell their assets within a set number of years after leaving, create the opportunity for avoidance, according to Arun Advani of CenTax, a think-tank.

This dysfunction shows up in revenues that are collected. Norway's Ministry of Finance estimates its amended exit charge will raise \$120m a year once its 12-year tail has run out, an amount equivalent to 0.04% of the state's total revenue in 2023. Little surprise, then, that others are giving up on the taxes. Finland and Sweden both published proposals the year that Norway first tinkered with its measure, only to abandon them. For Norwegians sick of chocolate and yodelling, there may even be some relief: opposition parties are sceptical of the tax, and ahead in the polls.■

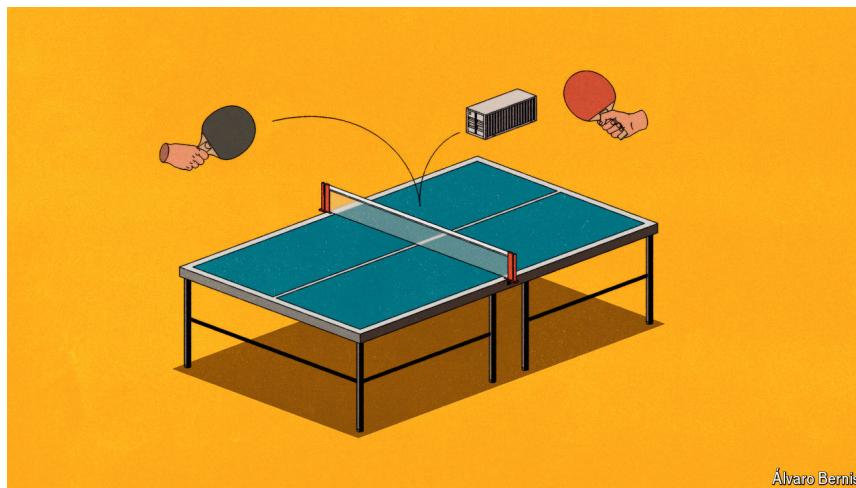
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Free exchange

Do tariffs raise inflation?

Usually. But the bigger problem is that they harm economic growth and innovation

Jan 23, 2025 03:32 PM



Álvaro Bernis

MOUNTAIN-NAMING turned out to be a curiously high priority for Donald Trump. Mere hours after his inauguration, the president signed an executive order to change the name of America's highest peak from Denali, of indigenous Alaskan origin, back to Mount McKinley, as it was officially known until Barack Obama intervened in 2015. The rechristening reflects more than just the usual culture-war ping-pong. Like Mr Trump, William McKinley was a "tariff man". As a congressman and later president, he swung America toward protectionism in the late 19th century. "President McKinley made our country very rich through tariffs and through talent," said Mr Trump in his inaugural address.

Over a century later, Mr Trump hopes to pull off the same trick. His raft of day-one executive orders did not institute any new tariffs, focusing on mountains, a border emergency, drilling for oil and halting DEI programmes. But the president still found time to threaten a 10% tariff on China, as well as a 25% tariff on Canada

and Mexico, to be introduced as soon as February 1st. He also floated a “global supplemental tariff”, which would apply to any good imported from abroad, no matter its country of origin.

Higher tariffs, Mr Trump and his backers say, will boost American manufacturing and fund tax cuts at little cost to the everyman, with foreigners footing the bill instead. These justifications are feeble, just as they were in McKinley’s day. For a start, firms usually pass on tariffs by raising prices. During Mr Trump’s last sortie against Chinese manufacturing in 2018-19, prices of impacted items went up roughly one-for-one with higher tariffs.

Mr Trump’s more thoughtful advisers, such as Scott Bessent, nominated for treasury secretary, and Stephen Miran, for chair of the Council of Economic Advisers, accept this dynamic. But they emphasise that tariffs also strengthen the dollar by pushing Americans to purchase less from abroad. This lifts their purchasing power and so should help cancel out higher prices. Exchange rates depend on much more than goods trade, so the effect of tariffs during Mr Trump’s first term was small. In 2018-19, for instance, they explain at most a fifth of the move in the dollar over the period, according to Olivier Jeanne and Jeongwon Son of Johns Hopkins University. Bigger tariffs would have bigger effects.

Yet even if the dollar rises, the pain simply shifts to exporters, whose wares become more expensive for international buyers (which is why Mr Trump usually favours a weaker dollar). For his part, Mr Miran argued in a recent paper that the greenback’s popularity imposes “externalities” on America’s economy, since demand for assets yanks the dollar above its fair value, hobbling exporters in the process. This theory is questionable on its own merits. The big deficits that recent administrations have run could not have been financed so cheaply without a queue of foreigners buying Treasury bonds. Moreover, if Mr Miran had his way, any boost to the dollar from tariffs would be short-lived: a dollar

devaluation would once again leave households facing higher prices.

Tariff-boosters also downplay the odds that other countries will respond in kind. And patience, even among allies, is already wearing thin. “One tariff would be followed by another,” warned Claudia Sheinbaum, president of Mexico, in November. Justin Trudeau, Canada’s prime minister, has vowed “robust, rapid” retaliation. Such moves would pull the dollar in opposing directions: American demand for imports from abroad would fall, but so would foreign demand for American exports. All told, American households would be left with little insulation from tariffs.

So tariffs raise prices. Does that mean they cause painful inflation? Not necessarily. A one-off increase in prices might create only a short-term pop in inflation, not a sustained rise. Tariffs erode consumers’ overall spending power, and falling consumption of things produced at home creates offsetting disinflation over time. Yet there is at least a danger that a one-off shock would set off an upwards spiral of prices and wages. After several years of high inflation, such a risk is now more pronounced.

Mountainous problems

Worse still, tariffs also crimp economic growth by creating “deadweight loss”, as demand is skewed towards domestic companies even when they are less efficient. As a consequence, resources are wasted on production that is more expensive than it otherwise would have been. The result is a vast economic distortion and lower incomes throughout the economy.

This effect is exacerbated by the fact that tariffs induce companies to innovate less and misbehave more. Sheltered from better-run foreign rivals, firms have less incentive to produce superior and cheaper products. Alla Lileeva of York University and Daniel

Trefler of the University of Toronto have found that reductions in American tariffs in the late 1980s and 1990s prompted previously less productive factories in Canada to innovate more, adopt advanced technology and, as a result, increase the productivity of their workers. Tariff regimes also tend to be chock-full of exemptions, which the savviest firms learn to exploit, at the same time as their lobbyists seek more carve-outs. Mr Trump's love of doling out favours could cause a particular problem in this regard.

Over the course of his political career, McKinley's own enthusiasm for protectionism softened. Although America's 25th president never transformed into a free-trader of *The Economist*'s variety, he did come to appreciate the benefits of mutually advantageous trade deals with friendly countries. "We must not repose in fancied security that we can for ever sell everything and buy little or nothing," he announced in Buffalo, New York, in 1901, before adding that "commercial wars are unprofitable". America's 45th and 47th president has perhaps not learned the correct lessons from his predecessor. ■

<https://www.economist.com/finance-and-economics/2025/01/23/do-tariffs-raise-inflation>

Science & technology

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Invasive species :: It is better than freezing them to death

- **High-tech antidotes for snake bites**

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Invasive species

Genetic engineering could help rid Australia of toxic cane toads

It is better than freezing them to death

Jan 23, 2025 03:32 PM | Townsville, Queensland



Magnum Photos

THIS WEEK, between January 18th and 27th, thousands of volunteers in a band of territory stretching across north-eastern Australia from Darwin to Brisbane are venturing into the night with torches and collecting-buckets. They are taking part in the Great Cane Toad Bust, an annual attempt to keep a lid on the population of these invasive, toxic amphibians. Toads thus caught will be killed humanely by being chilled in refrigerators and then frozen.

Popular though this toad-busting party is, however, it is not very effective. The toad's prolific breeding habits soon replace such losses. To do the job properly, other methods are needed. And one which is gaining ground is tadpole trapping.

Toads live in dense populations, and their tadpoles are not above cannibalising the eggs of others, attracted by a chemical signal they release. Scientists at the University of Queensland, in Brisbane, have isolated this substance to develop lures for tadpole traps. Six

thousand of these traps have now been made and sold by Watergum, a local conservation charity.

Cannibalism is one of several weaknesses discovered during years of studying how these Latin American amphibians have adapted to their new home. Combining such knowledge with genetic technologies has brought hope of slowing, or even reversing, the relentless invasion.

Hop it!

The problem began in 1935, when 101 cane toads were brought to northern Queensland in a failed attempt to control pesky beetles that were eating the local sugarcane. Tens of thousands of reinforcements were added in subsequent years and, with few natural checks, the animals bred and spread. Well over 200m toads are thought to live in Australia today, hopping determinedly across most of the tropical north and halfway down the east coast.

This population explosion has had serious ecological consequences. Cane toads secrete a substance called bufotoxin from glands in their shoulders. This can be lethal to native wildlife, which has evolved no protection. Predatory marsupials, freshwater crocodiles, monitor lizards (known as goannas) and several of Australia's most venomous snakes suffer as the toads move in. In some places, up to 90% of goannas vanished upon the toads' arrival. The disappearance of these large predators distorts entire ecosystems. Prey species boom. Smaller predators go unchecked. Carrion is left to rot.

Attempts to control the toads have been going on for decades, yet their advance has accelerated. In the tropics, they now travel up to 70km westward every wet season, compared with 10km when they first arrived. They are thus poised to enter some of Western Australia's most treasured ecological areas.

Toad biologists call this acceleration the Olympic Village effect. It is a superb example of evolution in action. Only the most athletic toads make it to the invasion front, where they breed. Over the generations, toads on the front have thus developed larger size, longer legs and even an urge to travel in a single direction.

Armed with this knowledge, some propose dropping toads from the core population onto the invasion's front line. These toads are less physically impressive but much more competitive breeders. The hope is to dilute the athleticism of the front-line toads and thus slow the advance, a process called genetic backburn.

Other genetic solutions are in development. Tadpole cannibalism has inspired a team at Macquarie University to engineer "Peter Pan" tadpoles, so called because the genes which allow them to grow up into adults have been disabled. Releasing hungry swarms of these should keep pools clear of toad eggs for years.

The genetic changes involved are so cautious that Peter Pan tadpoles are not even recognised as genetically modified organisms under Australian law. The affected genetic material in them is being deactivated, rather than added to. And the fact that the animals do not mature means changes cannot be passed on to a new generation. "We're very carefully testing reactions of native fauna to our non-metamorphosing tadpoles before we talk about releasing them in the wild," explains Rick Shine, the team's leader. "We're trying not to repeat the folly of 1935."

Turning tadpoles against their own kind is far less labour-intensive than trapping them. However, even Peter Pans die eventually, and must be replaced. So this is not a permanent fix.

Thus far, the new tadpoles have been confined to the laboratory. But New South Wales and the Northern Territory have given permission for them to be tested in the field. The first sites are likely to be small isolated ponds in the Northern Territory, where

the team already conducts research, with release happening at the end of this wet season, in March or April. Meanwhile, work continues to scale up the production of tadpoles from a few thousand now to the tens of thousands.

Resistance is useful

But it is not only the toad that is ripe for genetic engineering. A team at the University of Melbourne, led by Andrew Pask, has partnered with Colossal Biosciences, a genetics company in Dallas, Texas, to create gene-edited marsupial cells resistant to bufotoxin. In a preprint last year on *bioRxiv*, the researchers proved they could replace part of a gene in the fat-tailed dunnart, a small marsupial, with a modification found in African and Asian monitor lizards known to be resistant to toad toxins. The results showed a 45-fold increase in resistance to bufotoxin. The team's hope is that they can replicate this in their target species, the endangered northern quoll.

Quolls, which resemble ferrets, are the largest carnivorous marsupials left on the Australian mainland. Northern quolls currently exist in isolated groups either behind or immediately ahead of the toad front line. Though quolls are also threatened by habitat loss and introduced predators such as foxes and feral cats, studies show the arrival of toads crashes their populations. A toxin-resistant quoll would not only survive the toads' arrival, but might also actively hunt them, thus reducing their numbers. The team hope something similar may also be possible with other predators, such as goannas.

Genetics is already widely used in conservation—for example to monitor elusive species or support breeding programmes. But gene modifications have not been employed in the wild before. “This is really the first demonstration of gene editing for wildlife-conservation purposes to target an anthropogenic problem that we've created,” says Professor Pask.

His team reckon a toxin-resistant quoll could be ready for release in as little as five years, though the exact schedule will depend on approval by regulators. Peter Pan tadpoles already have the green light. But the gene-edited quoll, the DNA of which would be changed in ways that could (and ideally would) be inherited, is likely to face higher hurdles. More sophisticated forms of genetic engineering, in particular ones that allow for traits to spread rapidly through a population, will be an even tougher sell. But desperate times require desperate measures. ■

<https://www.economist.com/science-and-technology/2025/01/22/genetic-engineering-could-help-rid-australia-of-toxic-cane-toads>

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Snake bites

High-tech antidotes for snake bites

Genetic engineering and AI are powering the search for antivenins

Jan 23, 2025 03:32 PM | Bengaluru



THE BITE of a black mamba (pictured) causes respiratory muscular paralysis. And death. Disturb a Russell's viper and the encounter may lead to kidney damage and excess bleeding. And death. As to the *fer de lance*, well, you get the idea.

Whatever the assailant, though, snake-bite treatment has been the same for a century: inject an antivenin containing antibodies produced in a horse or sheep.

Doctors would love to replace this antiquated, batch-based approach, with its risk of provoking allergic reactions, with one that yields an allergen-free product cheaply and in quantity. Early results from two groups, one working in old-fashioned wet labs and the other using new-fangled artificial intelligence (AI), look promising.

The wet-labbers are based at Scripps Research in San Diego, the Indian Institute of Science (IISc) in Bengaluru and the Liverpool

School of Tropical Medicine. The problem they are trying to overcome, according to Kartik Sunagar of the IISc, is the multiplicity of venom types, both within and between species of snake. To simplify things, they are concentrating initially on a group of molecules called long-chain three-finger alpha-neurotoxins. These are important parts of the armamentaria of the elapids, a group of snakes that includes mambas.

The AI track is led by David Baker of the University of Washington, winner of a share of the 2024 Nobel chemistry prize for his work on computational protein design. He and his colleagues also have long-chain three-finger alpha-neurotoxins in their sights.

Both groups are looking for proteins able to neutralise a range of types of the target alpha-neurotoxins—molecules that are, themselves, proteins—by binding to them and thus rendering them ineffective.

As they describe in a paper published last year in *Science Translational Medicine*, the wet-lab team is trying to supercharge antibodies—or immunoglobulins, as they are known to molecular biologists—and also cut out the use of animals. (Existing antivenins are created by the messy process of injecting snake venom into the chosen animal to provoke an immune response, and then extracting the resulting antibodies from the animal's blood serum.)

The amino-acid chains of an immunoglobulin include “hypervariable” regions where the sequence of amino acids differs from protein to protein. Different sequences bind to different targets, and a huge number of sequences is possible—theoretically, up to a billion billion. Moreover, it is easy to generate large numbers of different immunoglobulins, or fragments thereof, in a laboratory, by inserting the relevant DNA into yeast cells.

To find the right candidate, the team screened billions of antibody fragments, expressed on the surfaces of these genetically modified yeasts, against eight representative alpha-neurotoxins. They then injected groups of mice with the winner and with venom from one of three types of elapid: black mambas, many-banded kraits and monocellate cobras. All survived.

Professor Baker's approach, just published in *Nature*, ignored immunoglobulins in favour of entirely new types of protein molecule, designed from scratch. His AI first calculated what shape a protein would need to be to fit snugly into the toxin's active site (the place that binds to its target). In this he was helped by the fact that, though alpha-neurotoxin molecules vary a lot in their peripheries, their active sites are similar. A second program then worked out which amino acids, and in what order, would be needed to make such optimal proteins, coming up with multiple answers to this question. A third then assessed whether the amino-acid chains thus lit upon really would fold into the desired shape, and so might do the job.

Fit and proper

Only at this point, having picked the most plausible candidates, did the team actually do experiments. They synthesised pieces of DNA that encoded the most promising designs, inserted them into yeast, churned out the relevant proteins, and tested them against venom samples. They then picked the most successful of these and injected them into mice. Depending on the dose, the toxin and the protein being tested, between 80% and 100% of the mice survived.

How all this will play out in people remains to be seen. Much work remains if these discoveries are to be turned into actual medicines. But if that does happen, human casualties from snake bites, which cause around 100,000 deaths a year and thrice that number of disabilities, may significantly diminish. ■

<https://www.economist.com/science-and-technology/2025/01/21/high-tech-antidotes-for-snake-bites>

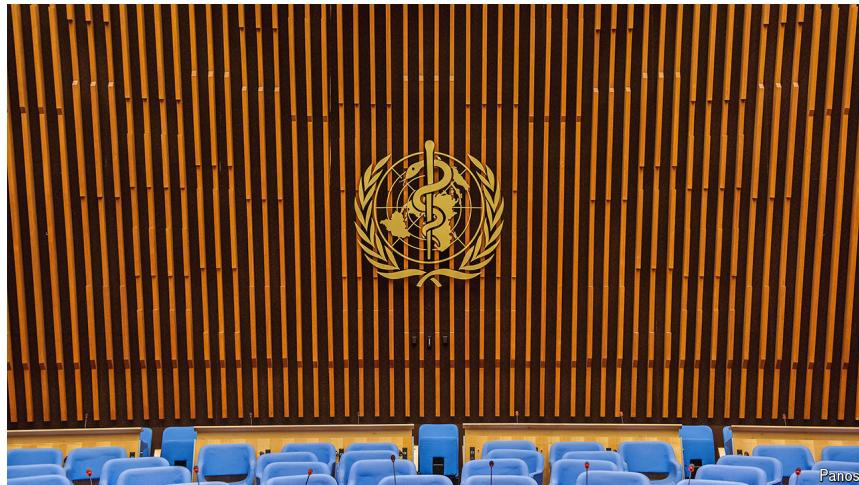
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Donald Trump and the World Health Organisation

America's departure from the WHO would harm everyone

Whether it is a negotiating ploy remains to be seen

Jan 23, 2025 03:32 PM



DONALD TRUMP has once again set his sights on the World Health Organisation (WHO). On January 20th America's newly inaugurated president signed an executive order signalling that his country would withdraw from the UN agency. The order cites the WHO's mishandling of covid-19, failure to reform and lack of independence as reasons for withdrawal.

Mr Trump's previous attempt to arrange America's departure from the WHO began in July 2020, when he issued a similar order which his successor (and now predecessor) Joe Biden rescinded in January 2021. Withdrawal from the WHO requires a year's notice to the UN. António Guterres, the UN's secretary general, will therefore need to decide whether the new notification "unpauses" the old one, leaving only six months before it takes effect, or resets the clock back to a full 12 months.

There could be legal challenges, too. One may come from Lawrence Gostin, a professor of global-health law at Georgetown University who said on social media that the decision required congressional approval since it was Congress that put America in the WHO in the first place.

America has been a cornerstone of the WHO since its foundation in 1948—as it was previously of the Pan American Health Organisation, founded in 1902, which was folded into the WHO and became its western-hemisphere arm. But although it provides the organisation with \$1.3bn a year, most of this is earmarked for specific programmes such as “polio” or “health emergencies” that it chooses to fund. America’s actual subscription for 2025 is just \$126m—a minuscule fraction of the \$1.7trn the federal government spends on health.

The WHO also collaborates with American agencies like the Centres for Disease Control and Prevention (which, itself, has offices in 60 countries), the Food and Drug Administration (FDA) and the National Institutes of Health. Loss of this collaboration is more concerning for many inside the WHO than the loss of income.

Mr Trump has been keen to criticise the WHO for its response to the covid-19 pandemic. An independent inquiry requested by UN member countries did indeed find the organisation had been too slow to declare a public-health emergency, and that international alert systems (set by UN members, but within which it had to work) were not swift enough.

The inquiry also found, however, that February 2020 was a “lost month” for many countries—America not excepted—and that there was a failure by authorities all over the planet to take measures to halt the covid virus’s spread. Moreover, Mr Trump, who was president at the time, has been widely criticised elsewhere for playing down the severity of the virus in the outbreak’s early

stages, along with failures to implement a national testing strategy or any national strategy at all. His administration also pushed the FDA to make a drug called hydroxychloroquine available on the back of flaky evidence that it helped, and even after it was tied to 87 deaths.

WHO loves ya, baby?

Nor would the WHO (and, by extension, the non-American world) be the only loser from the United States withdrawing. America itself would lose. Its absence would limit its access to global-health data such as those American drug firms use to help design annual flu vaccines. And it could also hurt in a way that even Mr Trump might find disturbing. Leaving the WHO's councils would give China an opportunity to increase its soft power by presenting itself as the leader of efforts to keep the world healthy.

This week's executive order might not, though, be the end of the matter. As happened in 2020, it could be a prelude to negotiation. In 2020 Tedros Ghebreyesus, then and now the WHO's director-general, told *The Economist* that America asked for concessions in order not to leave. On that occasion he felt unable to comply with them. However, if further negotiations are not on the cards, America's departure would weaken the apparatus of global-health security and might sow the seeds of future outbreaks of disease from which it, too, would be at risk. ■

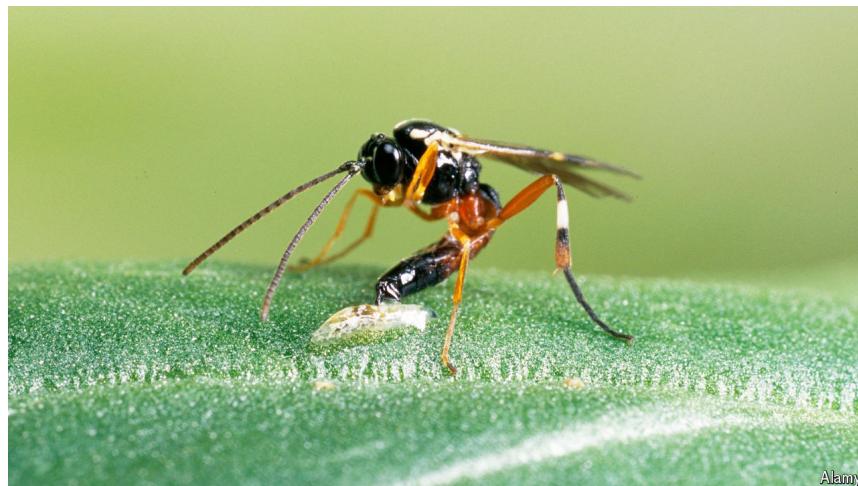
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Wasp evolution

Wasps stole genes from viruses

That probably assisted their evolutionary diversification

Jan 23, 2025 03:32 PM



Alamy

PEOPLE DOMESTICATED sheep and cattle, wheat and maize. Wasps domesticated viruses. And, just as domesticating other species helped human populations explode, so viral domestication assisted an explosion of wasps. That, at least, is the conclusion of Benjamin Guinet, an evolutionary biologist at Lyon University, in France. As he writes in the *Proceedings of the Royal Society*, he thinks an ancestor of a group of wasps called the Cynipoidea, which parasitise flies, corralled 18 viral genes into its genome in an act of domestication that happened 75m years ago, and that this helped the group flourish.

The nest-dwelling, picnic-disrupting black-and-yellow terrors that generally come to mind when the word “wasp” is mentioned are actually unrepresentative of the group. Most wasps are small, solitary and reproduce by laying their eggs in or on other arthropods, particularly insects and spiders. Cynipoidea specialise on fly larvae. As with other parasitoid wasps, when their eggs hatch, the hatchling grubs then eat their hosts alive.

To assist their offspring in this endeavour, mother Cynipoidea wasps also squirt into the flies a mix of venom, viruses and other materials that sabotage the host's immune system. Some of this material consists of proteins that look remarkably like ones which viruses themselves produce to attack other organisms.

These virus-like proteins are, nevertheless, encoded not in viral genes but in genes which are now part of the wasps' genomes. Dr Guinet therefore presumed that ancestral cynipoids had swiped them from viruses at various times in the past. He wondered when. To find out, he and his colleagues analysed the genomes of 41 Cynipoidea wasps from six subfamilies using molecular-clock techniques that estimate how fast genes in different lineages have diverged from each other. That let them work out when each gene had arrived in the ancestral genome.

The answer was the same for all 18. So it seems that the domestication of these genes was a single event. Intriguingly, this corresponds to the moment in the Cretaceous period when the group of flies that cynipoids parasitise began itself to diversify. Dr Guinet reckons that viral domestication helped facilitate the wasps' diversification in response to the multiplication of the number of host species. ■

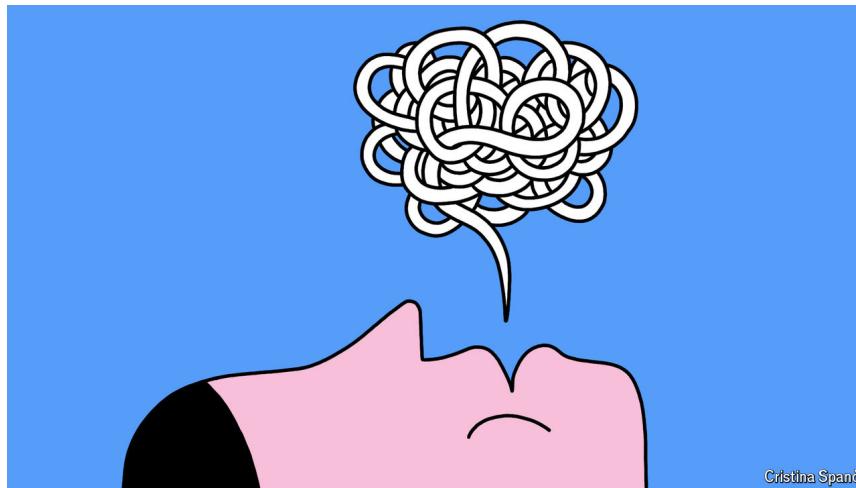
<https://www.economist.com/science-and-technology/2025/01/22/wasps-stole-genes-from-viruses>

Well informed

Can you breathe stress away?

It won't hurt to try. But scientists are only beginning to understand the links between the breath and the mind

Jan 23, 2025 03:32 PM



SEVERAL TIMES a day groups of young-professional types gather at 7Breaths, a meditation studio in central London, simply to breathe. The studio offers yoga and meditation sessions but their signature class is focused on “breathwork”. Those attending sit cross-legged atop small cushions in the warm, minimalist space, as an instructor gently guides them first to pay attention to their breath and then to gradually lengthen the inhales, the exhales and the pauses in between. The goal: to de-stress.

The Bhagavad Gita, a Hindu scripture from 1st or 2nd century BC, talks about “pranayama”—a yoga practice of controlling the breath—and yoga texts from a few centuries later describe its benefits for steadyng the mind. For modern breathwork-enthusiasts who say that guided breathing helps them feel better, it undoubtedly does. But to test whether such exercises can reduce stress in the as-yet-unconverted, you need randomised-controlled trials (RCTs).

A meta-analysis published in *Scientific Reports* in 2023 compiled the results of 12 RCTs, including 785 participants, to examine the effect of slow-breathing on stress. The studies used a mixture of in-person coaching, online classes and self-guided breathing.

Participants who took part in the breathwork sessions reported greater stress-reduction than those in the control group. The effect was small but significant, roughly in line with the benefit from online cognitive behaviour therapy.

These findings come with caveats, however. Several studies, for example, recruited participants who were seeking help for stress and compared a subset who took part in breathwork classes with others who remained on a waiting list for care. This is a problem, as waiting for mental-health treatment can create a “nocebo effect”, where well-being gets worse. Comparing the people who receive treatment with a deteriorating control group can make interventions look better than they really are.

In 2023 researchers at Stanford University published a study in *Cell Reports Medicine*. Participants performed either mindfulness, “cyclic sighing” (two short inhales, one long exhale), “box-breathing” (inhale, pause, exhale, pause), or “cyclic hyperventilation” (30 short inhales and exhales, followed by a 15 second pause), for five minutes a day, for a month. Everyone got an initial mood boost at the start, but only those who were doing breathwork reported that their mood continued to improve as the study progressed. The best results were in the cyclic-sighing group.

How might breathing control mood? One idea is that it forces attention away from negative or stressful thoughts. Researchers have also found that voluntarily slowing breathing can increase heart-rate variability—the fluctuations in the timing between heart beats. This is often low in people with psychiatric disorders like depression, bipolar and ADHD. Increasing it, the theory goes, should therefore be a good thing. There is also evidence that slow breathing and stress regulation might share brain circuits, at least in

rodents. A study published in *Nature Neuroscience* in November 2024 found that stimulating a pathway which causes slow breathing in mice also suppressed anxious behaviours.

The evidence on breathwork might still be unclear, but the practice appears to have no real downsides. Everything from gut health to infection is now understood to influence mental health. Slow, controlled breathing may soon be added to the list.■

<https://www.economist.com/science-and-technology/2025/01/17/can-you-breathe-stress-away>

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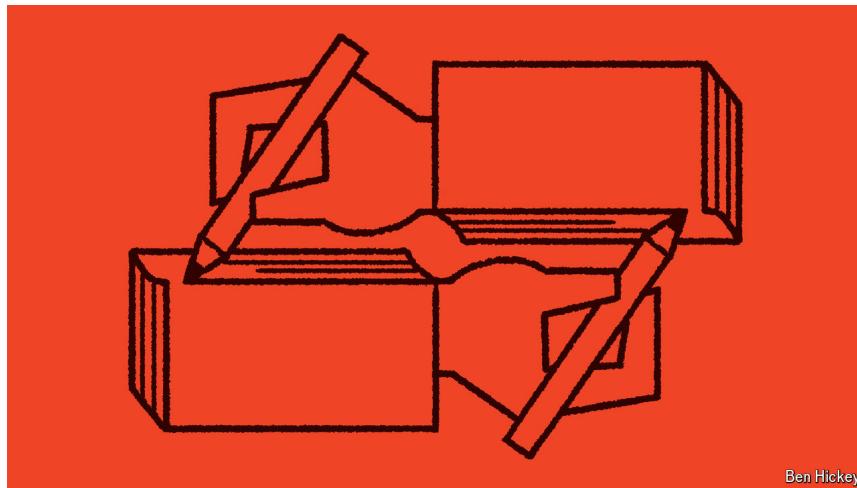
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Pontificating autobiographies

Sex, drugs or chastity?

Pope Francis has written the first memoir by a sitting pope. God help us

Jan 23, 2025 04:58 PM



Ben Hickey

Hope. By Pope Francis with Carlo Musso. Translated by Richard Dixon. *Random House; 320 pages; \$32. Viking; £25*

HIS HOLINESS POPE FRANCIS—the 266th bishop of Rome, supreme pontiff of the Universal Church, sovereign of the Vatican City State—is a man with fancy titles, a simple soul and simpler prose. He likes punctuality (“I like punctuality”), does not feel worthy (“I feel unworthy”) and thinks war is stupid (“War is stupid”).

He reveres humility, his grandmother, football, [God](#) and pizza, probably not in that order. His great sadness on becoming pope was that he could no longer pop out for pizza but must order it in to the [Vatican](#) instead (“quite a different flavour”). He is very nice, very kind and very, very boring.

Pope Francis is a good man who has written a bad book. This hardly matters. It is the first autobiography by a sitting pope and will probably [sell millions](#) of copies. Spiritual memoirs are often big hits: St Augustine’s “Confessions”, written in the fourth century, still attracts faithful buyers.

Autobiographies of the very famous sell better yet: Prince Harry’s “[Spare](#)” was the bestselling autobiography of 2023 in America, and [Melania Trump’s](#) was top of the charts in 2024. Meanwhile, in Britain one of the most popular books over Christmas was “A Pawtobiography”, the memoir of a celebrity dog called Ted (ghostwritten by a human, of course). It contains phrases like “We all love a lamppost.”

The pope had intended “Hope” to be published posthumously—perhaps even popes fear reviewers—but he has brought it forward because of “the needs of our times”. Less the “life story” promised by the blurb than a sermon, its evident aim is to make readers question such things as inequality, poverty and war. But “Hope” also raises other questions, such as: surely the pope can find a way to go out for pizza? Is it a good idea to have a book title that rhymes with your own title? And above all, what makes a good autobiography?

Bestseller lists offer some answers. They tend to feature lives that have gone very right or appallingly wrong (in the past couple of years two memoirs by Holocaust survivors, Elie Wiesel and Viktor Frankl, have been in America’s top ten). Or, better yet, both: the memoir of [Matthew Perry](#), an actor who died of a drug overdose, sold well in 2023 and 2024. Mere fame is not enough, says Jonny Geller, a literary agent who represented John le Carré and Nelson Mandela: “It’s got to be a good story.”

This is tricky for a pope. Almost by definition, if you are a good candidate for the papacy, you are a bad one for biography. “I’m not sure it’s possible in that position to write a frank book,” says

Robert Harris, a novelist, who was inspired by Pope Francis to write his novel “[Conclave](#)” (now a film). A great memoir should be “intimate, genuine and revelatory”, and that would “hardly be compatible with the job”.

There have been fun papal biographies; most are contained in a book called “The Bad Popes”. This offers lashings of sin, a sprinkling of Borgias and a good dose of Pope Benedict IX, who died around 1050 and was “a demon from hell, in the disguise of a priest”, accused of rape, murder, simony and hosting orgies. Pope Francis, who stopped watching television for 35 years after seeing an (alas unspecified) “sordid scene”, cannot compete.

Chapters and verse

He does not even try. Part of the problem is that the pope did not use a ghostwriter, who might have taken more control. (Instead he worked with a co-author, Carlo Musso, an Italian writer.) This was a mistake. Holy fathers are better with holy ghosts. “People can be exceptional in certain fields,” says Mr Geller, “then write very wooden prose.” Not everyone uses ghosts—but many do. Both ghost and author are often haunted by the experience. Andrew O’Hagan, a novelist, wrote an excruciating account of ghosting for Julian Assange (of WikiLeaks fame), who he said “talked as if the world needed him to talk and never to stop”.

“Hope” still offers some nice moments. The pizza is one; Pope Francis’s refusal to wear the usual papal white trousers (“I don’t want to be an ice cream seller”) is another. But far too much of this is too abstract to be gripping. Consider the contents page. In a good autobiography this can—and should—be telling. The memoir of Rupert Everett, an English actor, offers chapter titles including “An Escort Called Joe” and “Nude Sunday in Berlin”. Readers instantly know what they are in for.

The first pages of First Ladies' memoirs are also revealing—if less thrilling. One of Hillary Clinton's has chapter titles such as “Africa: Guns or Growth?”; Michelle Obama's offers the almost equally earnest “Becoming Me”; and Mrs Trump's goes for less philosophical, more practical titles, such as: “Lights, Camera, Model”, “My Husband, the President” and “Why Was the Speech Not Vetted?”.

Even [philosophers](#) can be clear: Nietzsche's autobiography has chapters called “Why I Am So Wise”, “Why I Am So Clever” and “Why I Write Such Good Books”. But Pope Francis's chapters are vaguer. His introduction is titled “All Is Born to Blossom”—an ominous start. Things get little better from there. One chapter is called “Life and the Art of Encounter”; another is “I Am Just One Step”. Most feel like quotes from Paulo Coelho, an indecipherable Brazilian novelist, which have been [translated](#) by ChatGPT. Some are baffling; some are biblical; many are both. Chapter one is titled, mystifyingly, “May My Tongue Stick to My Palate”—a wish that raises more questions than it answers.

One reason autobiography is so hard is that people assume it is easy: everyone thinks he is an expert about his own life. But as Robert Douglas-Fairhurst, a professor of English at the University of Oxford and author of his own memoir, “Metamorphosis”, points out, you are not. “The one person that you can't watch is yourself.” You are your own “great blind spot”.

Nor is all of what you see usable. Much of life is what Virginia Woolf called “cotton wool”: mere wadding, nondescript non-moments that, almost unnoticed, pad out a life (tooth-brushing, tax returns, Tuesdays). Tell a story that is truly like life, and it will be “just one damn thing after another”, says Mr Douglas-Fairhurst.

The very best autobiographies do more: they take the humdrum daily detail of life, fillet, shape it and so, says Mr Douglas-Fairhurst, “redeem all that chaos”. The pope's biography does not

do this. It gives the reader a mass of detail: trousers, pizza, his parents' first address. But it does nothing with this. As a result, this biography of a pope offers, ironically, no redemption—and precious little sense of the man himself. The devil, as always, is in the details. The pope, alas, is not. ■

<https://www.economist.com/culture/2025/01/23/sex-drugs-or-chastity>

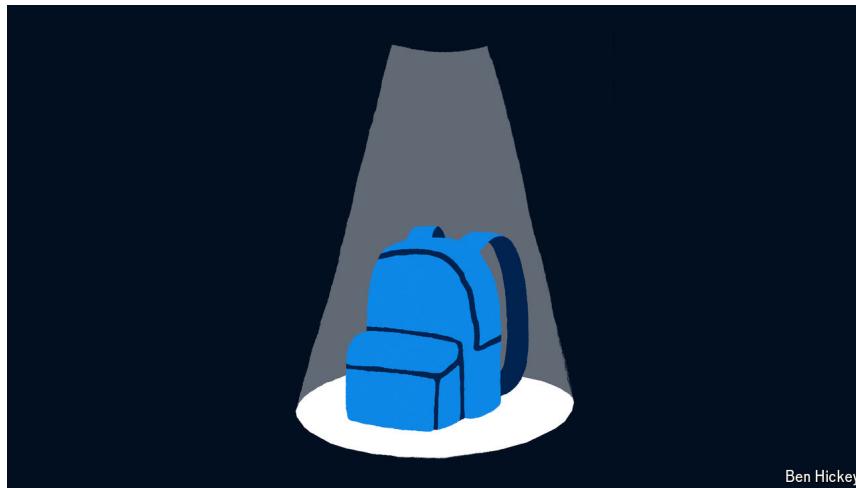
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Ready to bag it?

Backpacks are, surprisingly, in vogue

They are following in sneakers' path and becoming more fashionable

Jan 23, 2025 05:22 PM



Ben Hickey

THEY WERE once the accessory of choice for hikers, paupers and pupils. No adult with even vague ambitions of style would be caught dead with one. But backpacks have hitchhiked into greater acceptance. Young people are now opting for them over briefcases and tote bags. Sales in America rose to a new high in 2022, as workers returned to the office after covid, according to Circana, a research firm.

“Twenty years ago, you couldn’t wear a backpack into work,” says Taylor Welden, creative director at Carryology, a platform for designers and writers who are enthusiastic about bags. That has changed. Andy Fallshaw, co-founder of Carryology and Bellroy, a bagmaker, compares backpacks to [sneakers](#). Once a niche product worn by athletes, sneakers have snuck into popular culture and now strut down pavements and even [catwalks](#). A growing community of “bagheads” take to online forums and social media to gush about strapping straps and zippy zips.

What changed? Workplaces have become more [casual](#); at the same time backpacks are being designed to look more fashionable. Materials such as waxed canvas and leather offer backpacks a more elevated air than rucksacks of yore. Airlines' baggage fees may have also given backpacks a bump: faced with higher prices for checking suitcases, people are anxious to carry more on board with them, and lugging weight on one's back is easier than on a single shoulder. Longer commutes into the office—after some opted to move farther out of cities during covid—have also converted people into daily “backpackers”.

Humans have schlepped stuff on their backs for millennia. Ötzi, a mummified “iceman” who lived some 5,300 years ago, is thought to have hauled around a wooden backpack before meeting his chilly demise in the Alps. Long used during war, including the [Battle of Waterloo](#), backpacks evolved in the early 20th century, when an American [mountaineer](#) added zips, replacing heavy straps and buckles. In the 1960s Murray McCory and Jan Lewis founded JanSport, designing compartments instead of top-loading bags.

A fresh generation of boutique bagmakers is thriving and experimenting with new, durable fabrics. Packolab, based in Ukraine, sells backpacks that cost around \$400; they are so popular that the firm has implemented a lottery system to manage demand. Fashion brands, from Chanel to Saint Laurent, have taken notice, too. In 2023 Dior partnered with Mystery Ranch, a bag designer in Montana best known for making kit for firefighters, hunters and soldiers, to create a limited-edition backpack with a \$4,000 price tag. Yeti, an outdoor-products firm, acquired Mystery Ranch last year. Even established bagmakers are following the pack. ■

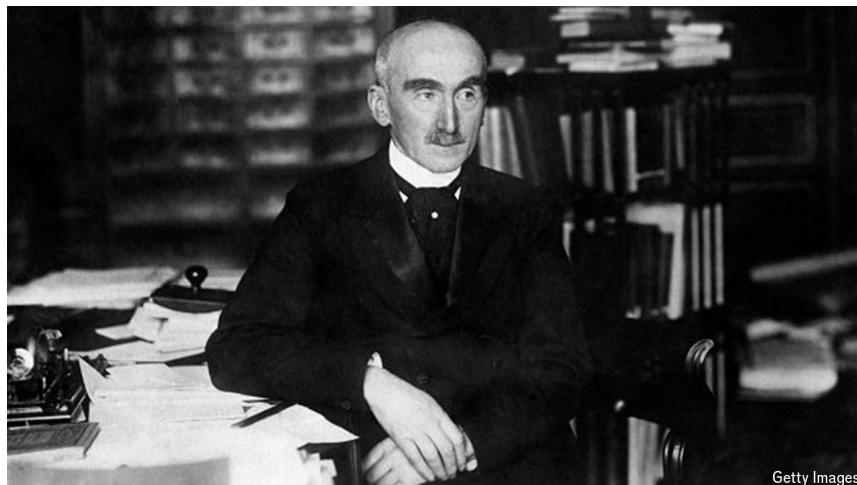
<https://www.economist.com/culture/2025/01/23/backpacks-are-surprisingly-in-vogue>

Prime time

Henri Bergson was once the world's most famous philosopher

He sought to reconcile science and metaphysics

Jan 23, 2025 05:09 PM



Getty Images

Herald of a Restless World. By Emily Herring. *Basic Books*; 320 pages; \$32 and £25

MANY PEOPLE think that there must be something more to the fabric of reality than what science can explain. Four-fifths of Americans believe in the existence of “something spiritual beyond the natural world”, according to Pew Research Centre, a think-tank. But they do not get much support from contemporary [scientists](#) or philosophers, who tend to endorse the naturalist view. If Henri Bergson were alive, or even remembered, they would get more.

In his heyday—in the 15 years or so before the first world war—Bergson was the most famous man in the world, Emily Herring, a writer, claims in the first biography of him in English. Fans stole locks of his hair from his barber. A lecture in New York caused [Broadway’s](#) first traffic jam. Bergson influenced writers such as

T.S. Eliot and Virginia Woolf and himself received the [Nobel prize in literature](#) in 1927.

What entranced audiences at his lectures was the “quiet, mannered voice that rang out to the depths of our troubled lives”, wrote one listener. So, too, the ideas it expressed. The French thinker, well-versed in science himself, challenged scientists’ view that the world is basically a machine. The insight on which he built much of his work is that science misses something important about time by viewing it in terms of space: an hour measures a 24th of Earth’s rotation. Time, on this view, marches on. But that is not how individuals experience it. Bergson used a musical example: a note has meaning only because of the notes that precede it. The “pure present”, he wrote, is “the invisible progress of the past gnawing into the future”.

<https://www.economist.com/culture/2025/01/23/henri-bergson-was-once-the-worlds-most-famous-philosopher>

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(Don't) name that tune

Spotify's playlists have altered the music industry in unexpected ways

A critical assessment of the Swedish streaming giant's musical legacy

Jan 23, 2025 05:17 PM



Ben Hickey

Mood Machine. By Liz Pelly. Atria; 288 pages; \$28.99. Hodder & Stoughton; £22

A FEW YEARS after Spotify's founding in 2006, executives commissioned a study. It revealed that many listeners were using the streaming service as background accompaniment to the quotidian activities, from workouts to ironing, that filled their days—and nights. (Sleeping playlists boomed.) Rather than use it actively as a digital jukebox, many were happy to outsource to Spotify the work of deciding what to hear next. The company hired editors to build playlists and tweaked its platform to nudge passive listeners towards them. Spotify came to see its only competition as “silence”, according to one insider.

That changed incentives for musicians, too, especially as streaming supplanted other forms of listening: it now accounts for 84% of

global recorded-music revenues. The 30-second threshold to trigger royalty payments encouraged “streambait”—music with early hooks designed to stop listeners skipping. (One such song, “Rockstar” by Post Malone, was issued with a remix that consisted of nothing but loops of the catchy chorus.) As playlists became more important, the firm spawned a new genre, which critics dubbed “Spotify-core”: pensive, mid-tempo songs that suit placement on multiple playlists. (Think [Billie Eilish](#), an American singer.)

Popular playlists yank together music from different eras, places and backgrounds in the service of a frictionless “vibe”. This smooths away connection and context, argues Liz Pelly, an American journalist, in her sceptical account of Spotify’s shift from scrappy startup to Goliath with a lust for algorithmic personalisation.

Novelty suffers, too. By one estimate nearly three-quarters of streamed songs are over 18 months old. Compared with the raucous explosion of genres that characterised popular music until the 2000s—[hip hop](#) in all its iterations, the innovation of golden-era British dance music—contemporary music can seem oddly flat.

Some musicians have been delighted when an old B-side is added to a favoured playlist, generating a surprise windfall. But others have contorted their efforts to suit human curators or algorithms with impenetrable preferences, to little success. For listeners of a less engaged bent, the lack of friction is the point. “If a user comes to the platform every night for a playlist called ‘Chill Vibes’...it matters very little what is actually found” on it, Ms Pelly writes.

That insight sparked another. Spotify may have revived the fortunes of ailing record labels by persuading users to pay for music, but it was struggling to make money itself. Enter “Perfect Fit Content”, or PFC. In Ms Pelly’s telling, based on accounts from former employees, Spotify commissioned jobbing musicians, often

operating under fake names, to produce formulaic fodder at cheap rates, bypassing labels. (“The goal for sure is to be as milquetoast as possible,” explains one musician.) In-house curators were encouraged to replace major-label fare on playlists with cheaper PFC content. Ms Pelly predicts a wave of AI-generated music will be next.

Spotify has already been moving away from curated playlists towards AI-powered personalisation: algorithmically compiled streams of music optimised for the circumstances of the individual listener. Thus bewildering micro-genres present only on Spotify, such as “metropolis” or “braindance”, flourished. Some listeners, weary of homogeneous, unchallenging streams of music, switch off. But most do not. Spotify now claims over 640m active monthly users worldwide, despite regularly hiking its subscription fees. It has invested deeply in podcasts and is dipping into audiobooks. Last year the company was reportedly on track to turn its first profit; Daniel Ek, its co-founder, has a net worth higher than that of [Taylor Swift](#).

Ms Pelly’s sympathies sit firmly with the indie labels and artists that have struggled to find a footing in the streaming world. Musicians in America and elsewhere have begun to organise against what they regard as Spotify’s punishingly low rates and its growing “pay-to-play” business model, which involves artists and labels accepting lower royalty rates in exchange for inclusion in certain playlists.

If some of Ms Pelly’s allegations of disingenuity against Spotify seem overwrought, she convincingly argues that it has reshaped both the economics of music and the culture of listening. Overlooked, perhaps, is the role of consumer choice. For the casual listener, armed with a smartphone and a cheap subscription, the frictionless convenience of streaming can be unbeatable. Not all have been hoodwinked by Spotify. It may be tough on musicians; it

may not be great for musical innovation. But listeners are voting with their ears. ■

<https://www.economist.com/culture/2025/01/23/spotify-s-playlists-have-altered-the-music-industry-in-unexpected-ways>

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Witty and wise, “A Real Pain” is a masterpiece in a minor key

Jesse Eisenberg’s deceptively slight film asks big moral questions

Jan 23, 2025 03:32 PM



THE BATHETIC scene will be familiar to many Jews who have traced their roots in eastern Europe. You go in search of *der heim*, your family's cradle and the fulcrum of its lore, and discover there is nothing left to see. Amid the vacant lots and communist architecture, there is little even to feel. “It’s so unremarkable,” says Benji (Kieran Culkin) when, in “A Real Pain”, he and his cousin David find their grandmother’s house in Poland.

Out in British cinemas now and streaming on Hulu in America, “A Real Pain” is a stealth contender for the Oscars. With a running time of 90 minutes, it shows how a seemingly modest film can encompass grand philosophical themes. Amid the zigzagging mood, it deftly raises moral quandaries at once specific to its characters and universal.

Played by Jesse Eisenberg (also the writer and director), David is a tense New Yorker with a wife, a child and a job peddling

advertising banners; or, as his cousin puts it, “selling shit online”. In his Golden Globe-winning turn as Benji, Mr Culkin reprises the manic charisma of his role in “Succession”, but with added pathos. Where David’s feelings are withheld, Benji’s emerge unfiltered. His is the sort of antic life that is fun to watch but punishing inside. “I love him, and I hate him,” David summarises, “and I want to kill him, and I want to be him.”

Their recently deceased grandma, who survived the Holocaust by “a thousand miracles”, left them some money for this pilgrimage to Poland, perhaps in the hope of rekindling the closeness of their youth. In Warsaw they join a Jewish-heritage tour group that includes Eloge (Kurt Egyiawan), a survivor of the [Rwandan genocide](#) who has converted to Judaism out of a sense of solidarity. As they visit monuments to ghettos and uprisings, Benji’s tomfoolery wins everyone over. David sulks.

Since 2002, when [Jonathan Safran Foer published “Everything is Illuminated”](#), a madcap quest into a Jewish family’s past, the third generation’s perspective has been a dominant lens on the Holocaust. This cohort grew up in the shadow of persecution but didn’t experience it; it knows the heart-wrenching stories but doesn’t feature in them. As James (Will Sharpe), the tour guide in “A Real Pain”, notes, the likes of Benji and David find themselves, with unsettling irony, “staying in fancy hotels [and] eating posh food” while pondering their forebears’ agony.

Focusing on the descendants’ angst, rather than the ancestral horror, might seem self-indulgent. But an indirect approach can be more respectful than trying to confront a tragedy head-on. The power of tact was demonstrated recently by [“The Zone of Interest”](#), a film about the domestic life of the commandant of Auschwitz, which declined to cross the barbed wire and enter the concentration camp itself.

In “A Real Pain”, the third-generation ironies are mixed with a reverential awe. When David, Benji and the rest of the group visit Majdanek, another Nazi camp, the wisecracks stop; the trilling Chopin soundtrack falls silent. As the visitors peer into a gas chamber, the camera does not follow their gaze but looks back at their expressions, as if acknowledging that today’s audiences can know this hell only at a remove.

Suffering is always personal. “A Real Pain” is a tale of idiosyncratic characters, set in the wake of a specifically Jewish catastrophe. At the same time it evokes questions with which every thinking person contends. For starters, how do you weigh private woes against large-scale calamities? As war rages in Ukraine and Sudan, for instance, how sad are you entitled to be if a project or relationship fails? In the scheme of things, how much does your own pain really matter?

David and Benji wrestle with this problem in Poland. Memories of their shared childhood, and of mooching around New York, jostle with recollections of their beloved grandmother. Even as they mourn her, and strive to honour her legacy, other worries beset them—not least the awareness that their once-entwined paths have diverged, and that a chasm of incomprehension has opened between them.

Then there is the bedrock challenge of living alongside evil and disaster. “People can’t walk around the world being happy all the time,” Benji rails. Eloge, the Rwandan, is baffled by how “The world seems to carry on like there aren’t a million reasons to be shocked.” This is a conundrum, even for philosophers. One way or another, though, life does carry on—and, after their miniature, tragicomic odyssey, in a film both slight and deep, so do David and Benji. ■

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Spies in disguise?

Now it's all about TikTok. But Huawei led the way

The Chinese telecoms firm was the first to raise America's hackles

Jan 23, 2025 03:32 PM | SHANGHAI



House of Huawei. By Eva Dou. *Portfolio*; 448 pages; \$34. *Abacus*; £25

IT IS ONE of the world's most controversial companies, supplying much of the developing world with vital telecoms kit. American officials swear it is a spying tool for China's Communist Party. It has been accused of all manner of infractions, including intellectual-property theft, receiving lavish state subsidies that allow it to undercut rivals on price and equipping the Chinese government with the most advanced tools for surveillance and digital oppression of its own citizens.

No other company has drawn the world's two most powerful leaders, America's and China's presidents, into a direct geopolitical stand-off. And yet Huawei, a Chinese tech group, continues to thrive. In 2023 its revenues were around \$100bn, nearly twice as much as those of Intel, an iconic Silicon Valley firm.

“House of Huawei” investigates these accomplishments and accusations. Eva Dou, a technology-policy reporter at the *Washington Post*, has parsed decades’ worth of Chinese documents to piece together how Ren Zhengfei, the company’s enigmatic founder, rose from poverty to lead what is probably China’s most powerful company. Huawei has gone from making basic telephone switches nearly 40 years ago to designing some of the world’s most advanced semiconductors today.

Ms Dou’s analysis is timely. The group was the first of now many Chinese companies that have raised national-security concerns in Washington. On January 19th [TikTok](#), a popular short-video app, temporarily shut down its product in America, before making it available again after Donald Trump said he would give it more time to secure a deal with an American partner (to avoid being banned). Not long ago Huawei was dealt a more serious blow, when Mr Trump banned the sale and import of communications equipment from several Chinese firms.

For decades journalists and researchers have tried to prove that Huawei is state-owned and Mr Ren is a high-ranking military officer. Ms Dou explains how Mr Ren’s time in the army was actually largely spent doing low-level jobs, sometimes in a factory in a cave; he was not, as many in the West believed, a signals-intelligence officer. Huawei’s early shareholding records are convoluted. Early investors included people who worked at state-owned firms, and the group may have hired a plant from the country’s domestic spy agency to serve in senior roles.

Some of this strikes at the heart of the West’s misunderstanding about how China works. In the 1980s China’s economy was dominated by the state; doing business with purely private entrepreneurs would have made Huawei an oddity. Analysts often look for direct ownership by state or military companies as proof that a company might be swayed by the Communist Party. But no such direct link needs to exist. As Chinese companies grow and

become more important, they inevitably become more entwined with the state and the party. The largest internet firms, such as Alibaba and Tencent, collaborate extensively with the government and sometimes invest with it in projects. (In early January America added Tencent to a list of companies it thinks work with the military.)

Huawei's collaboration with the state may tarnish its reputation outside China, but it has been a valuable part of its business. In the mid-1990s the company sought connections with state telecom operators—and pledged to transfer its technology into state hands. Along with party officials, Mr Ren was an early voice calling for Chinese self-sufficiency in technology.

Today Huawei is [at the forefront](#) of helping the government accomplish that goal. In 2023 the group managed to produce its own high-powered chips for smartphones, three years after Mr Trump banned it from buying American ones. This allowed Huawei to relaunch its smartphone business. It has also been one of the main suppliers of surveillance technology used to watch over Uyghurs, China's mainly Muslim ethnic group who have been detained en masse in the country's north-west. It once designed a “Uyghur alarm” for a facial-recognition programme.

Ms Dou points out that Huawei first irked American snoops in the mid-1990s when it began expanding its fibre-optic cables overseas. At that point America's National Security Agency “found itself shut out from many of the conversations it would have liked to hear”. This mistrust would eventually culminate in Mr Ren's daughter, Meng Wanzhou, being arrested in Canada on American orders in 2018, sparking a bitter diplomatic dispute. Mr Trump called Huawei one of the biggest threats to national security.

Has America's fear of Huawei—and of others such as TikTok—been overwrought? Revelations about the biggest [Chinese hacking incident](#) ever cast Huawei and TikTok in a slightly different light.

Late last year it was revealed that Chinese spy agencies had gained access to large amounts of phone data from top American officials and could listen in on private conversations. American telcos have been ripping out and replacing Huawei gear for years. The breach should raise new questions about how democracies can protect themselves from China. Kicking Huawei out has been a political win for many in Washington. It has not, however, stopped the Communist Party from listening in. ■

<https://www.economist.com/culture/2025/01/20/now-its-all-about-tiktok-but-huawei-led-the-way>

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Indicators ::

Indicators

Economic data, commodities and markets

Jan 23, 2025 03:32 PM

Economic data

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	Gross domestic product			Consumer prices			Unemployment rate	
	% change on year ago: latest	quarter*	2024†	% change on year ago: latest	2024†	%		
United States	2.7	Q3	3.1	2.7	2.9	Dec	2.8	4.1 Dec
China	5.4	Q4	6.6	4.9	0.1	Dec	0.3	5.1 Dec [§]
Japan	0.5	Q3	1.2	-0.2	2.9	Nov	2.6	2.5 Nov
Britain	0.9	Q3	0.1	0.9	2.5	Dec	3.2	4.4 Oct ^{††}
Canada	1.5	Q3	1.0	1.3	1.8	Dec	2.4	6.7 Dec
Euro area	0.9	Q3	1.6	0.8	2.4	Dec	2.4	6.3 Nov
Austria	-0.6	Q3	-0.5 [‡]	-0.9	2.1	Dec	2.9	5.0 Nov
Belgium	1.2	Q3	1.2	1.1	4.4	Dec	4.3	5.8 Nov
France	1.2	Q3	1.6	1.1	1.8	Dec	2.3	7.7 Nov
Germany	-0.1	Q4	-0.4	-0.1	2.8	Dec	2.4	3.4 Nov
Greece	2.5	Q3	1.1	2.2	2.9	Dec	3.0	9.6 Nov
Italy	0.4	Q3	nil	0.6	1.4	Dec	1.1	5.7 Nov
Netherlands	1.7	Q3	3.3	0.9	3.9	Dec	3.4	3.7 Dec
Spain	3.3	Q3	3.2	3.0	2.8	Dec	2.9	11.2 Nov
Czech Republic	2.1	Q3	2.1	1.0	3.0	Dec	2.4	2.8 Nov [§]
Denmark	2.9	Q3	3.6	1.8	1.9	Dec	1.3	2.9 Nov
Norway	3.5	Q3	-7.1	1.7	2.2	Dec	2.2	3.9 Oct ^{‡‡}
Poland	2.7	Q3	-0.4	2.3	4.7	Dec	3.8	5.1 Dec [§]
Russia	3.1	Q3	2.7	3.7	9.5	Dec	8.4	2.3 Nov [§]
Sweden	0.6	Q3	1.1	0.6	0.8	Dec	1.9	7.4 Nov [§]
Switzerland	2.0	Q3	1.7	1.2	0.6	Dec	1.1	2.6 Dec
Turkey	2.1	Q3	-0.8	2.9	44.4	Dec	57.7	8.4 Nov [§]
Australia	0.8	Q3	1.3	1.1	2.8	Q3	3.1	4.0 Dec
Hong Kong	1.8	Q3	-4.2	2.5	1.4	Dec	1.7	3.1 Dec ^{‡‡}
India	5.4	Q3	3.0	6.6	5.2	Dec	4.8	7.8 Dec
Indonesia	4.9	Q3	3.8	5.0	1.6	Dec	2.3	4.9 Aug [§]
Malaysia	4.8	Q4	-1.2	5.2	1.7	Dec	1.8	3.2 Nov [§]
Pakistan	3.2	2024**	na	3.2	4.1	Dec	12.6	6.3 2021
Philippines	5.2	Q3	7.0	5.5	2.9	Dec	3.2	3.9 Q4 [§]
Singapore	4.3	Q4	0.4	3.8	1.6	Dec	2.4	1.9 Q3
South Korea	1.3	Q4	0.4	2.2	1.9	Dec	2.3	3.8 Dec [§]
Taiwan	4.2	Q3	0.9	5.0	2.1	Dec	2.2	3.4 Dec
Thailand	3.0	Q3	4.9	2.6	1.2	Dec	0.4	0.9 Nov [§]
Argentina	-2.1	Q3	16.4	-2.6	118	Dec	220	6.9 Q3 [§]
Brazil	4.0	Q3	3.7	3.4	4.8	Dec	4.4	6.1 Nov ^{§‡‡}
Chile	2.3	Q3	2.7	2.3	4.5	Dec	3.9	8.2 Nov ^{§‡‡}
Colombia	2.0	Q3	0.8	1.6	5.2	Dec	6.6	8.2 Nov [§]
Mexico	1.6	Q3	4.4	1.5	4.2	Dec	4.7	2.7 Nov
Peru	3.8	Q3	2.8	3.1	2.0	Dec	2.4	4.5 Dec [§]
Egypt	3.5	Q3	38.0	2.4	24.1	Dec	28.7	6.7 Q3 [§]
Israel	-1.1	Q3	4.0	0.3	3.2	Dec	3.0	2.6 Dec
Saudi Arabia	-0.8	2023	na	1.3	1.9	Dec	1.7	3.7 Q3
South Africa	0.3	Q3	-1.4	0.8	2.9	Dec	4.4	32.1 Q3 [§]

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted.

*New series. **Year ending June. ‡Latest 3 months. ‡‡3-month moving average. Note: Euro area consumer prices are harmonised.

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Economic data

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	Current-account balance % of GDP, 2024 [†]	Budget balance % of GDP, 2024 [†]	Interest rates 10-yr govt bonds latest, %	change on year ago, bp	Currency units per \$ Jan 22nd	% change on year ago
United States	-3.4	-6.5	4.6	49.0	-	-
China	2.1	-4.4	1.4	-\$	7.28	-1.1
Japan	4.2	-4.7	1.2	55.0	156	-5.5
Britain	-2.9	-4.0	4.7	67.0	0.81	-3.7
Canada	-0.6	-1.7	3.3	-15.0	1.44	-6.3
Euro area	3.2	-3.2	2.5	24.0	0.96	-4.2
Austria	2.2	-2.3	2.9	7.0	0.96	-4.2
Belgium	-0.3	-4.6	3.0	19.0	0.96	-4.2
France	-0.4	-6.2	3.3	47.0	0.96	-4.2
Germany	6.3	-1.6	2.5	24.0	0.96	-4.2
Greece	-6.4	-1.3	3.3	-9.0	0.96	-4.2
Italy	1.3	-4.2	3.6	-23.0	0.96	-4.2
Netherlands	9.9	-2.0	2.7	16.0	0.96	-4.2
Spain	3.1	-3.2	3.2	-8.0	0.96	-4.2
Czech Republic	1.3	-2.4	4.0	18.0	24.1	-5.6
Denmark	10.8	2.1	2.2	-18.0	7.16	-4.3
Norway	17.3	12.5	3.9	28.0	11.3	-6.8
Poland	0.3	-5.7	5.9	61.0	4.06	-1.2
Russia	3.2	-1.6	15.9	426	99.2	-11.3
Sweden	6.0	-0.9	2.3	-3.0	11.0	-5.1
Switzerland	7.0	-0.9	0.4	-50.0	0.91	-4.4
Turkey	-0.9	-4.1	25.8	76.0	35.7	-15.2
Australia	-2.0	-1.2	4.6	55.0	1.59	-5.0
Hong Kong	12.0	-3.2	3.9	25.0	7.79	0.4
India	-0.5	-4.9	6.7	-46.0	86.3	-3.8
Indonesia	-0.2	-2.4	7.1	54.0	16,285	-4.0
Malaysia	1.5	-4.4	3.8	nil	4.44	6.5
Pakistan	0.5	-6.7	12.2	+++	241	0.3
Philippines	-2.6	-5.6	6.3	nil	58.5	-3.8
Singapore	19.6	0.2	2.9	-2.0	1.36	-0.7
South Korea	4.1	-1.8	2.8	-54.0	1,437	-6.8
Taiwan	13.5	0.5	1.6	36.0	32.8	-4.3
Thailand	2.2	-3.7	2.4	-40.0	33.8	5.5
Argentina	0.4	0.3	na	na	1,047	-21.5
Brazil	-2.1	-7.5	14.9	408	5.94	-16.3
Chile	-2.5	-2.5	5.9	34.0	993	-8.5
Colombia	-2.8	-5.7	11.1	150	4,282	-8.6
Mexico	-1.0	-4.9	10.1	84.0	20.6	-16.6
Peru	1.7	-3.9	6.6	-3.0	3.73	0.5
Egypt	-5.2	-3.7	na	na	50.3	-38.6
Israel	4.6	-7.3	4.4	5.0	3.53	6.5
Saudi Arabia	0.4	-2.5	na	na	3.75	nil
South Africa	-1.9	-5.2	9.0	-71.0	18.5	3.6

Source: Haver Analytics. §§5-year yield. +++Dollar-denominated bonds.

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Markets

	Index	% change on:	
	Jan 22nd	one week	Dec 29th 2023
In local currency			
United States S&P 500	6,086.4	2.3	27.6
United States NAS Comp	20,009.3	2.6	33.3
China Shanghai Comp	3,213.6	-0.4	8.0
China Shenzhen Comp	1,920.4	1.0	4.5
Japan Nikkei 225	39,646.3	3.1	18.5
Japan Topix	2,737.2	1.7	15.7
Britain FTSE 100	8,545.1	2.9	10.5
Canada S&P TSX	25,311.5	2.1	20.8
Euro area EURO STOXX 50	5,205.8	3.4	15.1
France CAC 40	7,837.4	4.9	3.9
Germany DAX*	21,254.3	3.3	26.9
Italy FTSE/MIB	35,854.1	0.6	18.1
Netherlands AEX	914.5	2.3	16.2
Spain IBEX 35	11,882.7	-0.1	17.6
Poland WIG	85,298.3	2.9	8.7
Russia RTS, \$ terms	952.8	9.4	-12.1
Switzerland SMI	12,207.9	3.6	9.6
Turkey BIST	10,105.4	3.8	35.3
Australia All Ord.	8,680.5	2.6	10.9
Hong Kong Hang Seng	19,778.8	2.6	16.0
India BSE	76,405.0	-0.4	5.8
Indonesia IDX	7,257.1	2.5	-0.2
Malaysia KLSE	1,587.8	1.6	9.2
Pakistan KSE	113,443.4	-0.9	81.7
Singapore STI	3,781.2	0.2	16.7
South Korea KOSPI	2,547.1	2.0	-4.1
Taiwan TWI	23,525.4	4.5	31.2
Thailand SET	1,361.8	0.6	-3.8
Argentina MERV	2,680,946.0	-0.9	188.4
Brazil BVSP*	122,971.8	0.3	-8.4
Mexico IPC	50,944.6	1.4	-11.2
Egypt EGX 30	29,979.1	2.0	20.4
Israel TA-125	2,574.7	0.6	36.4
Saudi Arabia Tadawul	12,362.4	1.2	3.3
South Africa JSE AS	84,654.6	1.4	10.1
World, dev'd MSCI	3,838.2	2.5	21.1
Emerging markets MSCI	1,082.3	2.5	5.7

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	94	154
High-yield	311	502

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research. *Total return index.

The Economist Commodities

The Economist commodity-price index

2020=100	Jan 14th	Jan 21st*	% change on	
			month	year
Dollar Index				
All items	135.5	137.4	1.3	8.3
Food	153.7	154.2	0.7	18.2
Industrials				
All	120.5	123.5	2.0	-0.2
Non-food agriculturals	133.6	134.5	0.7	3.8
Metals	117.1	120.6	2.3	-1.3
Sterling Index				
All items	142.7	143.5	3.3	11.6
Euro Index				
All items	150.4	151.0	1.2	12.8
Gold				
\$ per oz	2,672.8	2,740.3	4.8	35.2
Brent				
\$ per barrel	80.4	79.5	7.9	-0.8

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ. *Provisional.

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Obituary

- **David Lynch mesmerised filmgoers with mystery, beauty and horror**

What lies behind curtains :: America's strangest and most surreal film-maker died on January 16th, aged 78

What lies behind curtains

David Lynch mesmerised filmgoers with mystery, beauty and horror

America's strangest and most surreal film-maker died on January 16th, aged 78

Jan 23, 2025 03:32 PM



Camera Press

THE FIRST long, proper kiss David Lynch had with a girl took place in a ponderosa pine forest in America's north-west. Pine needles, incredibly soft, covered the floor to a depth of about two feet. High treetops pierced the blue sky. The feel of the woods he knew as a boy stayed with him all his life: the smell of them, their dim lost interiors, the crispness of the air. "Twin Peaks", the mysterious TV series that made him wildly famous in the early 1990s, opened with a shot of pines, mountains and mist. The mist too lingered, drifting in deep bass notes across the face of Laura Palmer, the high-school homecoming queen whose dead body, wrapped up in plastic, lay at the heart of the story. Beneath the surface ordinariness, violent disturbance was going on.

That seemed true of most small towns. He grew up in them, especially in Boise, Idaho, and sometimes felt romantic for those neat yards and white picket fences, the scrubbed children and

Sunday excursions. Yet under those lawns (as under the pine needles), insects were tangling and devouring each other. Entropy ate away at every new thing. As a boy he liked to walk the streets at night, curious not about the brightly lit windows but the low-lit, curtained ones. Curtains hid secrets. Behind them, a man and a woman might be sitting in silence in an atmosphere of coiled-up menace. Should he stay silent himself? Should he speak? What would happen next? In his film “Blue Velvet” (1986), one small-town field produced a newly severed ear, evidence, eventually, of a psychopath’s sexual rampages. A woman also appeared out of the dark at the end of a street, naked, with a bloodied mouth. That was something he had witnessed himself—in Boise. It was in such a tender state, all this flesh, in an imperfect world.

His view of what was ugly or grotesque was not like other people’s. Textures obsessed him, the very look and feel of mud, dust, scales and slime. Sores and wounds could be beautiful. He tried to concoct by himself the gruesome growths on the face of Joseph Merrick in “The Elephant Man”. And he loved abandoned factories in their full grime and ruination. As a young man, hoping to live “the art life”, he went to study painting in then-run-down Philadelphia. His enchantment with its smoky walls, stark shadows, broken windows and wailing trains was poured into “Eraserhead” (1977), a black-and-white film he produced while on a fellowship at the American Film Institute. Its very weirdness made critics notice him. The hero, Henry Spencer, the new father of a mutant-fetus baby, was an innocent whose wedge-shaped hair seemed to explode with confusion. He moved wide-eyed through the horror, beauty and mystery of the world, trying to figure out how everything could be the way it was, as did the straight-arrow-cherry-pie detectives of “Blue Velvet” and “Twin Peaks”. Their director saw himself in all of them.

It did not bother him that audiences were often left completely at sea. It was good to ask questions and compare interpretations. He himself knew exactly what he wanted; his task was to transfer his

dreams and intuitions perfectly to the screen, turning fragile glass to steel. No detail—the placing of a cup, the dirt beneath a radiator, the precise orange hue of a lipstick—could escape his attention. But the plots, he felt, were simple. “Mulholland Drive”, the mesmerising tale of one aspiring actress unwisely befriending another, was a film that attacked the power structures of Hollywood. “Inland Empire”, which came later and did less well, was the story of an actress increasingly terrified by the death of the woman who had played the part before. At their simplest, almost all his films involved characters confronting the dark sides of themselves. And those were so dark that his lighting man struggled to produce a black that was black enough.

He himself, however, displayed no dark side. He seemed to come straight out of the 1950s, with his khakis, blazers and shirts buttoned right to the top because he didn’t like air on his collarbone. Male friends were “buster” and good things “peachy-keen”. For months and years he would eat the same breakfast every day, coffee and a chocolate milkshake at Bob’s Big Boy in LA, and the same lunch, a grilled-cheese sandwich. He smoked as though the practice had never been outlawed, getting emphysema in the end. With his actors he was no yeller, but gentle, indicating what he wanted with just a word or a touch on an arm. This went right to them. His aspect was so serene—the result of the meditations he had done twice daily since 1973—and he asked so nicely, that his actors would strive to do whatever he wanted, even when it involved ceremonial rape and sado-masochism (in “Blue Velvet”) or rolling in the dirt and masturbation (in “Mulholland Drive”).

The only thing that maddened him was loss of control of the work. In 1983 he agreed to direct “Dune”, a science-fiction epic based on a bestselling novel. Its scale and its setting, in the empty desert, did not suit him at all. He was a man of interiors, details and harrowing close-ups; this was a Hollywood production for the extra-wide screen. Besides, he was an artist, who could no more collaborate on directing than on doing his lumpy, child-like paintings.

Consequently, neither Hollywood nor the TV companies really took to him. He won no Oscars. Another director got the final cut on “Dune”, producing a version he refused to recognise.

Worse was what happened to “Twin Peaks”, when halfway through the second series ABC thought it was going too slowly, and forced him to reveal who the killer of Laura Palmer was. All the narrative tension leaked out of it then, and ABC killed it off. That was Fate, perhaps. He made further visits to the town, a prequel film and in 2017 a hugely popular third series, because he seemed to love Laura too much to leave her. Her face was still appearing and disappearing in the mist. And it gave him an excuse to go to the forest again, braving the haunted depths, to celebrate what a strange, beautiful trip life was. ■

<https://www.economist.com/obituary/2025/01/22/david-lynch-mesmerised-filmgoers-with-mystery-beauty-and-horror>

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