

Ukraine: time for a rethink

Where next for OpenAI?

How to end AIDS

Did India order a hit in Canada?

SEPTEMBER 23RD–29TH 2023

## INVESTING IN THE NEIGHBOURHOOD

Asia's new model of regional integration



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## The world this week

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## The world this week

### Politics

Sep 21st 2023



AP

**Canada's** prime minister, Justin Trudeau, said that **Indian** agents were behind the killing of a Sikh leader near Vancouver in June. India denied it. Hardeep Singh Nijjar had pushed for a Sikh homeland in India. India says he was a terrorist, Mr Nijjar's supporters say he was a peaceful activist. Mr Trudeau's allegation of a fellow democracy assassinating a Canadian citizen on Canadian soil has ramifications beyond a souring of relations with India. America's National Security Council has said it is "deeply concerned", and has urged India to co-operate.

**India's** MPs held their first session in a new Parliament building, which replaces the old one designed by the British in the 1920s. In May opposition parties protested against its inauguration, accusing Narendra Modi, the prime minister, of turning what was supposed to be a show of national unity into a party rally.

Speculation swirled around **China's defence minister**, General Li Shangfu, who has not been seen in public for weeks. Some reports suggested that he was under investigation for corruption and would be removed. The episode

comes just months after purges of China's foreign minister, Qin Gang, and the leadership of China's Rocket Force, which controls the country's conventional and nuclear missiles.

China's top **diplomat**, Wang Yi, met America's national-security adviser, Jake Sullivan, in Malta. Among the topics discussed was the war in Ukraine. A day later Mr Wang arrived in Moscow, where he met Russia's president, Vladimir Putin. China claims to be neutral in the war, but its officials repeat Kremlin talking points. Local media said Mr Wang's trip would help pave the way for a visit by Mr Putin to China.

Azerbaijan sent its army into **Nagorno-Karabakh**, a disputed enclave with a majority Armenian population, in what it described as an "anti-terrorism" operation against "illegal Armenian military formations". Ethnic Armenians agreed to a ceasefire. Tensions have been running high because of Azerbaijan's blockade of Karabakh, which has led to medicine and fuel shortages.

**Volodymyr Zelensky** gave a speech in person to the UN General Assembly in New York, in which he warned that Russia is trying to smash the established international order and push the world to a "final war". The Ukrainian president also compared Russia's abduction of Ukrainian children to "genocide". Mr Zelensky then went to Washington to discuss further help for Ukraine's war effort.

Hungary, Poland and Slovakia imposed their own curbs on imports of **Ukrainian grain**, after the European Union lifted a partial ban. As a row over the curbs escalated, Poland said it would no longer supply weapons to Ukraine.

Evika Silina became **Latvia's** new prime minister, after forming another coalition headed by the centre-right New Unity party. One of the first tasks of the new government was to close one of Latvia's border points with **Belarus** following an increase in illegal crossings by migrants.

**Greens see red**

Rishi Sunak, **Britain's** prime minister, announced some changes to the government's plan to reach [net-zero emissions](#) by 2050, such as delaying a ban on new petrol cars by five years to 2035. He said this was being done so that the 2050 target could be met in a “better, more proportionate” way. In **Sweden** the government's budget contained tax-cutting measures, including on fuel duties. Sweden was the first country to lay out an aim of net-zero, but some think the budget means it now won't be able to hit that goal in 2045.

The **Italian** cabinet approved a measure that extends the time that some migrants can be detained to 18 months. The government is scrambling to respond to a wave of 8,000 migrants who have landed on the tiny Italian island of Lampedusa, a favourite destination for the people-smugglers who traffic migrants in boats from Tunisia, just 113 kilometres (61 miles) away.

Protests broke out against the authorities in Derna, a city in eastern **Libya** recently devastated by floods. Calls are growing for an international investigation into why the dams in the city burst.

**Israeli** forces killed six **Palestinians** in the occupied West Bank and Gaza Strip. Four were killed in a raid on Jenin refugee camp, the scene two months ago of Israel's biggest raid in 20 years. In New York Israel's prime minister, Binyamin Netanyahu, held a long-awaited meeting with Joe Biden. Mr Biden said the pair had discussed “hard issues”.

One of the leaders of the Free Current coalition in **Egypt**, the main liberal opposition party, was sentenced to six months in prison for slander and verbally assaulting a police officer. His supporters say the charges were politically motivated and the party has said it will not put up a candidate in Egypt's presidential election due next year.

**Iran** and America each [swapped five prisoners](#) in a deal in which \$6bn-worth of frozen Iranian assets, mostly oil revenues, were also released. Shortly after the deal was announced Ebrahim Raisi, Iran's president, addressed the UN assembly, accusing America of inflaming violence in Ukraine. Meanwhile Iranian MPs passed a draft law imposing sentences of up to ten years on women who flout the country's dress code, a year after

widespread protests against the killing of Mahsa Amini, a woman who was detained for showing her hair.

The **Dominican Republic** sealed its border with **Haiti** after a breakdown in negotiations over using water from the Massacre River. A farmers' group in Haiti is building a canal to irrigate land dried out by drought, but this will divert water from the Dominican Republic, says the country's president, Luis Abinader.



Reuters

Thousands of **Guatemalans** demonstrated to demand an end to efforts by officials to hinder the transfer of power to [Bernardo Arévalo](#), who was elected as the country's president in August. Mr Arévalo, a reformist who is due to take office in January, presented a petition asking the Supreme Court to block attempts to overturn his victory.

### America's merry-go-round

Kevin McCarthy, the speaker of America's House of Representatives, had another battle on his hands with rebels in his Republican Party, who are once again threatening to shut down the government by refusing to back **stopgap funding** legislation. Meanwhile, America's gross national debt exceeded \$33trn for the first time.

The **Texas** Senate acquitted [Ken Paxton](#), the state's attorney-general, at his impeachment trial. In May Mr Paxton, a hardline conservative, was impeached by the Texas House of Representatives, which is Republican controlled, for alleged bribery and abuse of public trust.

Paul Kagame, who has been president of **Rwanda** since 2000 and its de facto leader since toppling a genocidal government in 1994, said he plans to run for a fourth presidential term next year. Mr Kagame pushed through a constitutional change in 2015 that could allow him to stay in power until 2034.

The EU has stopped funding **Zimbabwe**'s electoral commission, citing concerns about its independence during elections in August. Although the electoral funding is worth just \$5m, cutting it may signal a deeper breach with the EU, which had been hoping to mend relations and unlock financial support for Zimbabwe from the World Bank and IMF.

There are “grave and ongoing” violations of human rights taking place in Tigray and other regions of **Ethiopia**, almost a year since a formal end to its civil war, the UN’s Human Rights Council said in a report. Many of the ongoing atrocities in Tigray are being committed by soldiers from Eritrea, whose forces were supposed to have withdrawn under the terms of the peace deal.

Burkina Faso, Mali and Niger have signed a mutual-defence pact known as the **Alliance of Sahel States** (ASS). All three members of the ASS are run by military juntas following a series of coups over the past two years.

## The world this week

### Business

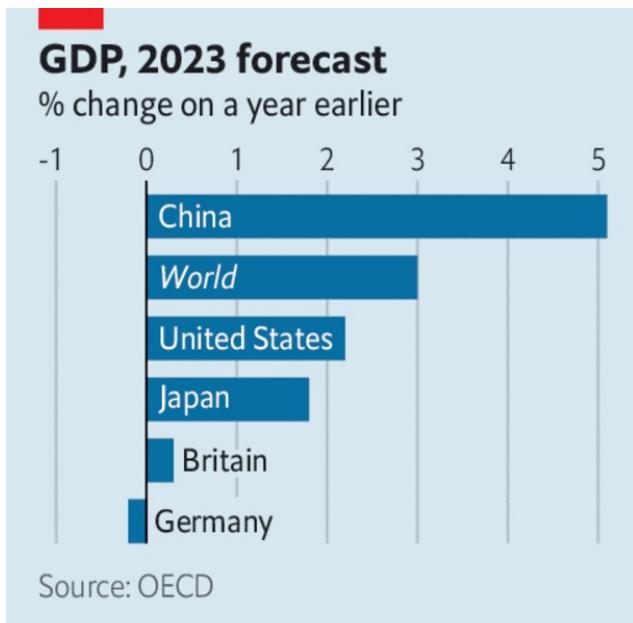
Sep 21st 2023



EPA

The **Federal Reserve** left its benchmark interest rate on hold at a range of between 5.25% and 5.5%, but said it remained “highly attentive to inflation risks”. New forecasts from the central bank suggest that the American economy is proving to be more robust than expected, pointing to another rate rise before the end of the year. Markets don’t expect the Fed to start cutting rates until towards the end of next year at the earliest.

The **Bank of England** also maintained its key interest rate, at 5.25%, ending a run of 14 consecutive rate rises. The bank’s decision came a day after figures showed that Britain’s annual rate of **inflation** had unexpectedly slipped to 6.7%. Economists had predicted that the inflation rate would rise because of higher fuel costs, but this was offset by an easing of prices in certain items, including food and hotels.



The Economist

In its latest projections, the OECD said that the impact of higher interest rates is “becoming increasingly visible”. The organisation upgraded its estimate of **world GDP growth** this year to 3%, but pared back its forecast for next year to 2.7%. The OECD said that monetary policy needed “to remain restrictive” until inflation is firmly under control, but it warned that the effects of rate rises “will continue to work their way through economies for some time”.

**Instacart**’s share price rose by 12% on its first day of trading on the Nasdaq exchange. The online-groceries company raised the offer price of its shares to \$30, after **Arm**’s successful IPO on September 14th whetted investors’ appetite for more tech offerings. The British chip designer’s stock soared by 25% in its debut on the Nasdaq, raising \$5bn to make it the biggest IPO in America in two years. But the share prices of both Arm and Instacart fell back in subsequent trading.

**Bob van Dijk** abruptly resigned as chief executive of Naspers, an internet company based in South Africa, and as the head of Prosus, which is controlled by Naspers and is one of the world’s biggest technology-investment firms. Mr Van Dijk had led Naspers for nine years, trying to handle the problematic mismatch between the value of its assets and its share price.

**Toshiba**'s shareholders approved an offer for the Japanese conglomerate that will take it private. Its management hopes the fresh start will draw a line under years of upheaval. The consortium taking over Toshiba is led by a Japanese private-equity firm, Japan Industrial Partners.

## **Elemental**

**Disney** announced that it is doubling its investment in its theme parks, cruise line and resorts to \$60bn. The company's parks-and-experiences division generates more operating income (\$7.6bn for the nine months ending July 1st) than its media and entertainment business (\$2.2bn).

California's governor, Gavin Newsom, said he would sign a state bill requiring companies to disclose how much **greenhouse gas** they directly emit, as well as indirect emissions. They are the toughest measures on climate disclosure in America and will affect around 5,000 companies that do business in the state. Meanwhile California's attorney-general lodged a lawsuit against big **oil companies** such as BP and ExxonMobil, seeking damages for what it claims is an industry cover-up about the harm that fossil fuels can do.

**Oil prices** climbed to their highest levels in ten months, as markets fretted that cuts to output by Saudi Arabia and Russia could cause a supply shortfall. Brent crude rose to \$95 a barrel for the first time since November. Saudi Arabia's energy minister defended the decision to lower production. It's not about "jacking up prices", he said, and more to do with economic uncertainties, such as demand in China.

The **United Auto Workers** union said it would expand its strike to other factories unless there was "serious progress" in talks with Ford, General Motors and Stellantis. The UAW has co-ordinated its action against all three of Detroit's carmakers for the first time, but limited the strike to one plant for each company. Meanwhile Ford reached a tentative deal with its union in Canada to avert a strike there.

China's imports of **Japanese seafood** fell by 68% in August from the same month last year. China, the world's biggest market for Japanese fish and

shellfish, banned the products when Japan released wastewater from the damaged Fukushima nuclear plant into the sea.

## **It's a family affair**

FTX, a bankrupt cryptocurrency exchange, sued the parents of its founder, **Sam Bankman-Fried**, to recover “fraudulently transferred and misappropriated funds” that it claims were paid out to the couple before the company collapsed last November. Mr Bankman-Fried goes on trial on October 3rd charged with fraud related to FTX’s implosion. A judge sent him to jail in August, accusing him of tampering with witnesses.

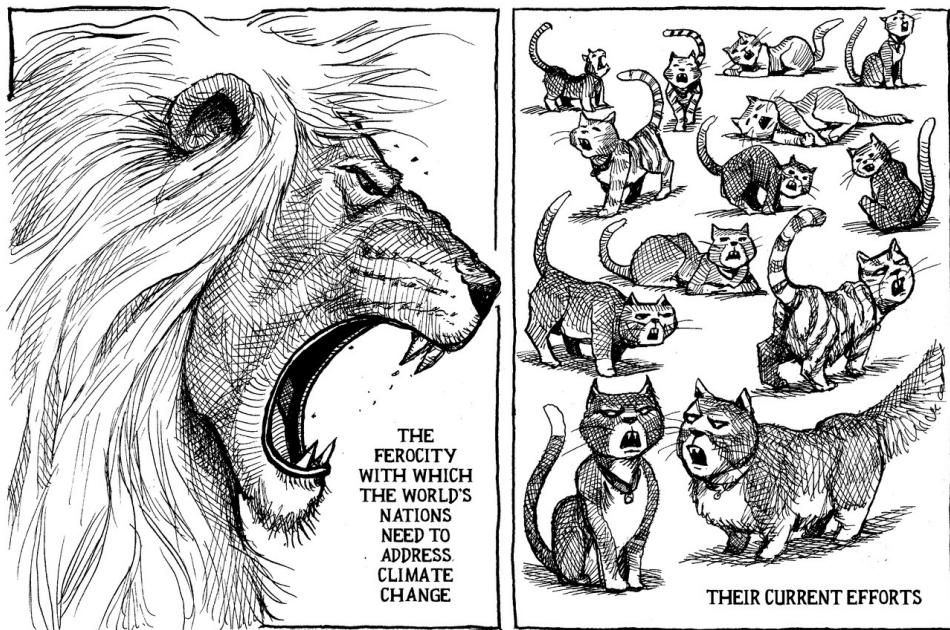
**Elon Musk** described reports that Tesla is in talks to build a factory in **Saudi Arabia** as “utterly false”. Mr Musk has a complex relationship with the Saudis, caused in large part by what he perceives to be a Saudi failure to back a plan to take Tesla private. “You are throwing me under the bus,” Mr Musk tweeted to the head of the country’s sovereign-wealth fund in 2018.

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## The world this week

### KAL's cartoon

Sep 21st 2023



Economist.com

Kal

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

[Rishi Sunak's anti-green turn on Britain's climate targets](#)

[Climate change is coming for America's property market](#)

[Why people struggle to understand climate risk](#)

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

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**The Economist**

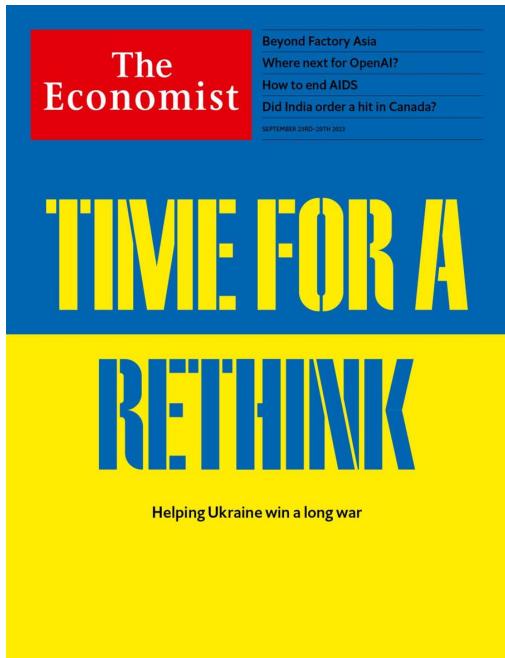
## This week's covers

### *How we saw the world*

Sep 21st 2023

SOME WEEKS, including this one, we publish more than one cover. In most of the world, we consider how a change of course could help Ukraine.

The counter-offensive that began in June was based on the hope that Ukrainian soldiers would recapture enough territory to put their leaders in a strong position at any subsequent negotiations. But despite heroic efforts the front line has barely shifted. Both Ukraine and its Western supporters are coming to realise that this will be a grinding war of attrition. “I have to be ready for the long war,” President Volodymyr Zelensky told *The Economist*. But unfortunately, Ukraine is not yet ready; nor are its Western partners. They need to rethink Ukraine’s military strategy and how its economy is run. Instead of aiming to “win” and then rebuild, the goal should be to ensure that Ukraine has the staying power to wage a long war—and can thrive despite it.



**Leader:** [Ukraine faces a long war. A change of course is needed](#)

**Briefing:** [To endure a long war, Ukraine is remaking its army, economy and society](#)

**Briefing:** [Western help for Ukraine is likely to diminish next year](#)

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In Asia we explain how Asian economies are coming closer together, with profound consequences for the world.

The phrase “factory Asia” describes one of history’s most impressive economic achievements. Over the past half-century Japan, South Korea, Taiwan and, more recently, China became bustling hubs for manufacturing goods, which they then exported to the rest of the world, especially the well-off West. Millions of Asians escaped poverty by making stuff; many grew prosperous. Now the region’s economic model is shifting again.



**Leader:** [Asian economies are investing more in the neighbourhood](#)

**Finance and economics:** [How Asia is reinventing its economic model](#)

**Asia:** [China isn't the only country giving out goodies in Asia](#)

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# Leaders

- Ukraine faces a long war. A change of course is needed
- Asian economies are investing more in the neighbourhood
- If India ordered a murder in Canada, there must be consequences
- ChatGPT mania may be cooling, but a serious new industry is taking shape
- To end AIDS, high-risk countries will need to jab schoolgirls
- Climate change is coming for America's property market

## Ukraine

# Ukraine faces a long war. A change of course is needed

*Its backers should pray for a speedy victory—but plan for a long struggle*

Sep 21st 2023



THE WAR in Ukraine has repeatedly confounded expectations. It is now doing so again. The counter-offensive that began in June was based on the hope that Ukrainian soldiers, equipped with modern Western weapons and after training in Germany, would recapture enough territory to put their leaders in a strong position at any subsequent negotiations.

This [plan is not working](#). Despite heroic efforts and breaches of Russian defences near Robotyne, Ukraine has liberated less than 0.25% of the territory that Russia occupied in June. The 1,000km front line has barely shifted. Ukraine's army could still make a breakthrough in the coming weeks, triggering the collapse of brittle Russian forces. But on the evidence of the past three months, it would be a mistake to bank on that.

Asking for a ceasefire or peace talks is pointless. Vladimir Putin shows no sign of wanting to negotiate and, even if he did, could not be trusted to stick

to a deal. He is waiting for the West to tire and hoping that Donald Trump is re-elected. Mr Putin needs war to underpin his domestic dictatorship; any ceasefire would simply be a pause to re-arm and get ready to attack again. If Ukrainians stop fighting, they could lose their country.

Both Ukraine and its Western supporters are coming to realise that this will be a grinding war of attrition. President Volodymyr Zelensky visited Washington this week for talks. “I have to be ready for the long war,” he told *The Economist*. But unfortunately, Ukraine is not yet ready; nor are its [Western partners](#). Both are still fixated on the counter-offensive. They need to rethink Ukraine’s military strategy and how its economy is run. Instead of aiming to “win” and then rebuild, the goal should be to ensure that Ukraine has the staying power to wage a long war—and can thrive despite it.

The first recalibration is military. Ukraine’s soldiers are exhausted; many of its finest have been killed. Despite conscription, it lacks the manpower to sustain a permanent large-scale counter-offensive. It needs to husband resources, and to change the game. New tactics and technologies can take the fight to Russia. Ukraine’s tech-savvy entrepreneurs are ramping up drone production: Ukrainian drones recently destroyed Russian warships; its missiles seem to have damaged a big air-defence system in Crimea. Many more strikes are likely, to degrade Russia’s military infrastructure and deny its navy sanctuary in the Black Sea. Don’t expect a knockout blow. Russia has also scaled up its drone production. Still, Ukraine can hit back when Russia bombs it, and perhaps even deter some attacks.

Alongside this offensive capability, Ukraine needs to boost its resilience. As well as heavy weaponry, it needs help with maintenance to sustain a multi-year fight: humdrum repairs, reliable supplies of artillery and training. More than anything, a long war requires better air defence. Ukraine cannot thrive if Russia blasts infrastructure and civilians with impunity, as it has for the past 18 months. Kyiv is a surprisingly vibrant city because it has effective defences against non-stop aerial attacks. The same set-up is needed for other cities, which is why squadrons of F-16s and more missile-defence systems are essential.

An economic recalibration is needed, too. That means fewer highfalutin plans for post-war reconstruction and more attention to boosting output and

capital spending now. The economy has shrunk by a third and almost half of Ukraine's budget is paid for with Western cash. In an odd kind of wartime Dutch disease the currency, the hryvnia, has strengthened even as private investment has plunged. With around 1m people bearing arms and millions having fled from the country, workers are scarce.

Ukraine's economy needs to shift from relying on aid to attracting investment, even as the conflict keeps raging. From making more arms to processing more of what it grows on its farms, Ukraine has plenty of potential. The challenge is to get local and foreign firms to invest more, and to lure more Ukrainians back to the calmer parts of the country in the west.

Better security can help. The stronger Ukraine's air defences, the lower the risk that a new factory will be blown up. The farther Russia's navy is pushed back, the more safely exports can flow through Ukraine's ports on the Black Sea. But economic reforms matter, too. More must be done to curb Ukraine's long-standing corruption, with a priority on making the judiciary clean and impartial. And more action is needed to make doing business easier, from recognising qualifications that refugees have earned abroad to offering firms war insurance.

All this requires political will from Ukraine, but also from its friends in the West. In the long term, the best guarantee of Ukraine's security is NATO membership. Short of that, partners have promised a web of bilateral security guarantees. Equally important is what the European Union can offer: not just cash, but the prospect of membership. It is not easy to nurture a flourishing economy while being barraged with explosives—even Israel never had to face such a powerful aggressor. But Ukraine, unlike Israel, could one day be integrated into the world's richest economic bloc. A roadmap for EU accession over, say, a decade, with clear milestones, would offer hope to Ukrainians and accelerate economic reforms, just as the same promise galvanised much of eastern Europe in the 1990s.

## A new member of the club

For that to happen a shift in mindset is needed in Europe. It has committed as much weaponry as America and far more financial aid. Yet it needs to step up further. If Mr Trump wins in 2024, he may cut back American

military assistance. Even if he loses, Europe will eventually need to carry more of the burden. That means beefing up its defence industry and reforming the EU's decision-making so it can handle more members.

The stakes could hardly be higher. Defeat would mean a failed state on the EU's flank and Mr Putin's killing machine closer to more of its borders. Success would mean a new EU member with 30m well-educated people, Europe's biggest army and a large agricultural and industrial base. Too many conversations about Ukraine are predicated on an "end to the war". That needs to change. Pray for a speedy victory, but plan for a long struggle—and a Ukraine that can survive and thrive nonetheless.■

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## From Asia to Asia

# Asian economies are investing more in the neighbourhood

*The continent's economies are coming closer together, with profound consequences for the world*

Sep 21st 2023



Seb Agresti

THE PHRASE “factory Asia” describes one of history’s most impressive economic achievements. Over the past half-century Japan, South Korea, Taiwan and, more recently, China became bustling hubs for manufacturing goods, which they then exported to the rest of the world, especially the well-off West. Millions of Asians escaped poverty by making stuff; many grew prosperous. Now the region’s economic model is shifting again, with consequences for Asia and for the world.

Asia’s long manufacturing boom fostered a wave of trade integration. In 1990, 46% of Asian trade took place within the region. By 2021 that figure had risen to 58%, making it the most integrated continent after Europe. As Asia has become richer and its firms more muscular, investment flows are becoming more regional, too.

Over the past decade Asian firms have been enthusiastic investors in their own neighbourhood. Foreign direct investment into Asia by other Asians has grown almost twice as quickly as that by Western investors. Much of it has come from rich and ageing Japan and South Korea, as well as from China, and has gone to poorer, younger places. As a result, in 2021 Asians owned 59% of the stock of foreign direct investment in Asia (excluding the financial hubs of Hong Kong and Singapore), up from 48% in 2010. The West's share, meanwhile, has fallen.

A similar picture emerges from other [financial flows](#). Asia's share of cross-border bank lending has risen from less than 40% before the global financial crisis to 54% today. Firms like the Industrial and Commercial Bank of China, Japan's Mitsubishi UFJ Financial Group and Singapore's United Overseas Bank have expanded in the region even as Western lenders have retreated.

What [development finance](#) is done in the region by America is done in large part through multilateral banks. Asian countries are bigger lenders, and direct ones too. Between 2015 and 2021 China committed an average of \$5.5bn to the region annually, compared with \$4bn from Japan and \$2.9bn from South Korea. Much of this is accompanied by the transfer of technical expertise. Visit Ho Chi Minh City's nearly completed metro stations, and you cannot miss that they were built with Japanese support. Few infrastructure projects across the region are bedecked in the Stars and Stripes.

Asian integration is likely to deepen. Newish trade agreements such as the Regional Comprehensive Economic Partnership have removed some of the barriers to commerce. As supply chains become still more complex, more cross-border investment in logistics will be needed. Even where regional firms are scrambling to reduce their reliance on China, many are looking to set up factories in India or Vietnam instead.

More important, Asia's rising consumers should turbocharge integration. For now a large share of intra-Asian trade is in intermediate inputs, used to produce finished goods, rather than consumer items. But over the next five years, the IMF predicts, emerging and developing Asian economies are

likely to grow by 4.5% a year, three times as quickly as advanced countries. As consumers get richer they will buy more from their neighbours.

The economic implications are exciting. Today the disparities in income across Asia are vast, with GDP per person ranging from \$8,000 in India to \$49,000 in Japan, adjusting for purchasing power. Just as integration with the EU helped incomes in eastern Europe catch up with those in the west, so too integration in Asia should lift incomes in the south and south-east. The savings of richer, ageing Asian countries are being put to good use in poorer and younger ones, where they are helping to spread prosperity while generating healthy returns for investors. Increased trade should reduce prices for consumers, and more investment should bring down the cost of capital.

What of the political consequences? Unlike in Europe, deeper economic ties in Asia do not herald political integration. The European project was propelled by a desire to avoid another continental war; in Asia today there is no similar impetus. Asian countries are fiercely independent, and their political systems are too varied—from liberal democracy to war-scorched tyranny—to make an Asian Union feasible. An Asian mosaic is more likely, with several powers vying for influence.

Although America remains an important investor in the region, its economic and political sway will be diminished. In relative terms, it has lost financial clout, so it stands to gain relatively less from Asia's coming boom. Moreover, support for free-trade deals has evaporated on both sides of the aisle in Washington. When seeking to build alliances in Asia, America has fewer economic carrots to offer than in the past.

Yet this does not mean that the region will be dominated by China, the regional heavyweight. True, China has gained influence through its huge trading heft and the Belt and Road Initiative. But many Asian countries are wary of China, not least because its foreign policy has grown more abrasive under President Xi Jinping. Indians tell pollsters they are no fans of China. Socialist Vietnam is playing both sides, as President Joe Biden's recent trip to the country shows.

Rich, mature Asian democracies such as Japan and South Korea will be an important counterweight to China. Japan's long-standing development aid to

South-East Asia helps explain why regional elites say it is the most trusted power in the region, according to a survey by the ISEAS-Yusof Ishak Institute in Singapore. South Korea takes pride in its [rapid transition](#) from aid recipient to big donor. Both Japan and South Korea are much friendlier to America than they are to China.

## Pan-Pacific prosperity

Even though America's relative economic weight is diminishing in Asia, it can still wield influence through its partners. At a summit last month Mr Biden welcomed South Korea's president, Yoon Suk-yeol, and Japan's prime minister, Kishida Fumio; the three leaders all reaffirmed their support for a rules-based order. As Asian countries grow richer together, America should remember that it, too, is a Pacific nation, and should resist the temptation to turn inward. ■

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## Death in Vancouver

# If India ordered a murder in Canada, there must be consequences

*Western countries have for too long acquiesced to the Indian government's abuses*

Sep 20th 2023



FOR YEARS, India objected to Western strategists lumping it together with its violent and chaotic neighbour in the phrase “Indo-Pakistan”. Now recognised as a fast-growing giant and a potential bulwark against China, India claims to have been “de-hyphenated”. Yet the [explosive charge](#) aired this week by Justin Trudeau suggests that diplomatic recalibration may have gone too far. Canada’s prime minister alleges that Indian agents were involved in the murder in Vancouver of a Canadian citizen sympathetic to India’s [Sikh separatist movement](#). India has long been accused of assassinating militants and dissidents in its own region; never previously in the friendly and orderly West. And though India calls the victim, Hardeep Singh Nijjar, a terrorist, and had offered a reward for information leading to his arrest, he had rebuffed Indian allegations linking him to separatist violence.

India denies everything. But Canada is reported to have shared intelligence about the murder with its allies in the “Five Eyes” pact. None appears to have questioned it. Shortly after Mr Trudeau levelled the charge in Canada’s parliament, America and Britain released cautiously supportive statements, urging India to co-operate with a Canadian probe. The killing, by two unknown gunmen outside a Sikh temple in June, followed a spike in both Sikh separatist activity and at times heavy-handed Indian suppression of it.

The row, which has involved tit-for-tat expulsions of Indian and Canadian diplomats, could escalate. Mr Trudeau faces domestic pressure to reveal evidence of Indian involvement in the killing. A criminal investigation is under way. The Canada-India relationship, already blighted by Indian suspicions of separatist support in the 770,000-strong Sikh diaspora in Canada, has deteriorated. America and its allies will hope the rot stops there. Yet even if it does, they should consider this a wake-up call about the government of Narendra Modi—and their own eagerness to overlook its too-frequent abuses.

On its own turf it has muzzled the press, cowed the courts and persecuted minorities, even though none is a threat to it. The alleged assassination in Canada, too, appears gratuitous as well as wrong. The movement to create an independent Sikh nation (known as Khalistan) led to the killing of tens of thousands of people in India in the 1980s and 1990s, but has since been little more than an idle talking-point in the [Sikh diaspora](#), even as India’s ability to police it by conventional means at home has improved.

Making martyrs of separatist leaders is a gift to their beleaguered cause. This might be considered typical of an Indian government that, for all its recent swagger on the world stage, remains dogged by feelings of insecurity. It is a feature of India’s rapid rise. The country is almost invariably weaker than its leaders publicly proclaim, yet stronger than they privately fear—and that mismatch is a recipe for miscalculations of this kind. Mr Modi, a probable shoo-in for re-election next year, should know that confident countries entrust their security to the rule of law.

India’s Western friends cannot count on that, however. Hitherto reluctant to condemn Mr Modi’s excesses, they have maintained a fiction that their partnership with India is based on shared democratic values, not interests.

This has laid them open to charges of hypocrisy. It also seems likely, in the light of Mr Nijjar's demise, to have emboldened Mr Modi. If the investigation confirms Indian involvement in this crime, it is time for a tougher line. Strategic partners do not air all their dirty linen in public, and neither do they murder each other's citizens. Canada's allies must join it in making that clear to Mr Modi. ■

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## Beyond the hype

# ChatGPT mania may be cooling, but a serious new industry is taking shape

*Three forces will shape the business of generative AI*

Sep 21st 2023



THE FIRST wave of excitement about generative artificial intelligence (AI) was like nothing else the world had seen. Within two months of its launch in November 2022, ChatGPT had racked up 100m users. Internet searches for “artificial intelligence” surged; more than \$40bn in venture capital flowed into AI firms in the first half of this year alone.

The craze for consumer experimentation has since cooled a little: ChatGPT use has fallen and fewer people are Googling “AI”. Son Masayoshi, a Japanese investor notorious for diving into already frothy markets, is thought to be interested in investing in OpenAI, ChatGPT’s creator. But a second, more serious phase is beginning. An entirely new industry centred on supercharged AI models is taking shape. Three forces will determine what it eventually looks like—and whether OpenAI stays dominant, or other players prevail.

The first factor is computing power, the cost of which is forcing model-builders to become more efficient. Faced with the eye-watering costs of training and running more powerful models, for instance, OpenAI is not yet training its next big model, GPT-5, but GPT-4.5 instead, a more efficient version of its current leading product. That could give deep-pocketed rivals such as Google a chance to catch up. Gemini, the tech giant's soon-to-be-released cutting-edge model, is thought to be more powerful than OpenAI's current version.

High computing costs have also encouraged the proliferation of much smaller models, which are trained on specific data to do specific things. Replit, a startup, has trained a model on computer code to help developers write programs, for instance. Open-source models are also making it easier for people and companies to plunge into the world of generative AI. According to a count maintained by Hugging Face, an AI firm, roughly 1,500 versions of such fine-tuned models exist.

All these models are now [scrambling for data](#)—the second force shaping the generative-AI industry. The biggest, such as OpenAI's and Google's, are gluttonous: they are trained on more than 1trn words, the equivalent of over 250 English-language Wikipedias. As they grow bigger they will get hungrier. But the internet is close to being exhausted. Many model-makers are therefore signing deals with news and photography agencies. Others are racing to create “synthetic” training data using algorithms; still others are trying to work with new forms of data, such as video. The prize is a model that beats the rivals.

Generative AI's hunger for data and power makes a third ingredient more important still: money. Many model-makers are already turning away from ChatGPT-style bots for the general public, and looking instead to fee-paying businesses. OpenAI, which started life in 2015 as a non-profit venture, has been especially energetic in this regard. It has not just licensed its models to Microsoft, but is setting up bespoke tools for companies including Morgan Stanley and Salesforce. Abu Dhabi plans to establish a company to help commercialise applications of Falcon, its open-source AI model.

Another approach is to appeal to software developers, in the hope of getting them addicted to your model and creating the network effects that are so

prized in tech. OpenAI is offering tools to help developers build products using its models; Meta hopes that LLaMA, its open-source model, will help create a loyal community of programmers.

Who will emerge victorious? Firms like OpenAI, with its vast number of users, and Google, with its deep pockets, have a clear early advantage. But for as long as computing power and data remain constraints, the rewards for clever ways around them will be large. A model-builder with the most efficient approach, the most ingenious method to synthesise data or the most appealing pitch to customers could yet steal the lead. The hype may have cooled. But the drama is just beginning. ■

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## How to beat HIV

# To end AIDS, high-risk countries will need to jab schoolgirls

*Injections that could keep a generation virus-free are on the horizon*

Sep 21st 2023



TWO DECADES ago HIV was ripping across Africa like flames across a lake of petrol. In some countries more than a quarter of adults were infected. Nearly all were expected to die, slowly, leaving families without breadwinners and forcing girls to drop out of school to care for sick parents. Sober observers predicted social collapse. But then the price of antiretroviral drugs plunged: pills that not only kept people alive but made them less infectious. By a conservative estimate, they saved 21m lives.

Why, then, is AIDS still the top cause of death for African women and number three for women aged 15-49 worldwide? The answer is that, although 30m people with HIV are taking the pills, 9m are not. Those who do not know they have the virus can easily pass it on: 1.3m people were freshly infected last year and 630,000 died of the disease, which ravages the immune system.

The UN has set a goal of ending AIDS as a public health threat by 2030. Ideally, someone would invent a cure or a vaccine, but neither is likely soon. So two approaches must be pursued simultaneously. First, find people who are HIV positive but don't know it, and offer them drugs to keep them healthy and uninfected. And second, stop uninfected people from catching the virus.

All this could, in theory, be accomplished with existing technology. But persuading people to get tested is hard. People with HIV may experience no symptoms for years, and men are often reluctant to visit a clinic when they feel well. As for prevention, condoms work, but only when people use them, which many don't. So another tool is generating excitement: pre-exposure prophylaxis, or PrEP. Today this means a daily pill that dramatically cuts the odds of contracting HIV during sex. It works for gay men in rich countries, but is suboptimal for the largest high-risk group: heterosexual women in poor places where HIV is common. Taking a daily pill is a hassle, and hard to conceal from a jealous boyfriend in a cramped home.

A long-lasting injection would be more discreet, less bother and, unlike a condom, require no negotiation with a recalcitrant partner. ViiV, a British drug firm, offers a new jab that lasts two months and has licensed it to generic manufacturers. Gilead, an American firm, is testing a drug that could last for six months.

Some states and NGOs already give prophylaxis to drug injectors and sex workers. If the six-month injection works, it should be routinely offered to teenage girls in high-risk countries (a fifth of South African adults are HIV positive). Mass jabbing in schools would be controversial, but probably effective.

Young people who are not yet having sex are unlikely to have the virus. In sub-Saharan Africa it is the girls who typically get it first, by sleeping with older men (who, unlike schoolboys, can pay for dates). When the girls are older, they pass it on to partners closer to their own age. If transmission from "sugar daddies" to teenagers is broken, a younger age cohort could grow up virtually virus-free.

Drug prices will need to be negotiated. But every new infection means a lifetime of treatment, which costs on average \$380,000 in rich countries and \$5,000 in poor ones. So it should be possible to devise a programme that saves money in the long run. Donors can drive a hard bargain by buying PrEP in bulk.

The size of the prize makes it galling that some Republicans are blocking the reauthorisation of PEPFAR, America's global AIDS programme, which expires on September 30th. (Some object that it doesn't stop recipients from mentioning abortion.) They should pick a different battle. As George W. Bush, PEPFAR's founder, puts it: no programme could be more pro-life than one that saves millions. ■

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## Uninsurable America

# Climate change is coming for America's property market

*Insurance is supposed to signal risk. Policymakers should let it*

Sep 21st 2023



AP

FOR DECADES Americans have been moving to beautiful places that are vulnerable to extreme weather. Florida, once a swampy frontier, is now America's third-most populous state. It is also the state most often hit by hurricanes. By 2015, the Atlantic and Gulf coasts boasted more than \$13trn of real estate. Look West and the story is similar. Homes are proliferating in the wildland-urban interface, where nature and development anxiously coexist and wildfire season seems never to end.

It is climate change that makes extreme weather more common. But the financial cost of storms and fires depends, more than anything else, on how many homes people choose to build in risky places. After adjusting for inflation, there have been more billion-dollar disasters so far in 2023 than any year since America's National Oceanic and Atmospheric Administration began keeping records. Losses as a proportion of GDP have kept stable over

the past four decades. But there are big local exceptions: last year hurricane damage cost Florida between 7.5% and 10% of the state's GDP.

Those who enjoy the benefits of living in high-risk areas (such as a majestic ocean view) should shoulder the costs. However, both federal and state governments ensure that they do not, by subsidising or suppressing property insurance rates in such places. This has encouraged reckless building. A new report from the First Street Foundation, a non-profit research group, finds that if proper account is taken of climate risk, nearly a quarter of all properties in the continental United States are overvalued. These 39m properties represent a climate-insurance bubble inflated by government.

Private insurers burned by huge payouts after disasters are abandoning [risky markets](#) such as Florida and California. Homeowners are turning to state-backed insurers of last resort, which offer less coverage for a higher price. When these plans cannot cover claims, taxpayers are often left with the bill. As climate change continues, the uninsurable parts of America will only grow.

At the federal level the National Flood Insurance Programme, which offers subsidised flood insurance to homeowners in hazardous places, is drowning in debt. America's Federal Emergency Management Agency (FEMA), which runs the programme, is in the process of raising rates to keep it solvent. But property-owners are rebelling by cancelling their policies, and the politicians who represent them are threatening to intervene.

Such intransigence is bipartisan. State and national politicians, Democrats and Republicans, prefer to keep rates artificially low, constituents happy and their tax bases intact. This is short-sighted. So long as disaster risk is underpriced, people will take too much of it. And it is unclear how long taxpayers who live in comparatively safe places will be happy to subsidise insurance for those who don't, especially when the subsidy-guzzlers are rich. A Congressional Budget Office study from 2007 found that 23% of coastal properties with subsidised flood insurance were second homes. Taxpayers should not be helping the Real Housewives of Miami build seaside castles.

Instead, policymakers should allow private insurers to set actuarially sound rates, so they can keep writing coverage. Realistic premiums would deter

reckless new construction. They would also hurt existing homeowners, so politicians would probably have to keep offering government flood insurance, at least temporarily, to those who cannot afford anything else.

Eventually, though, some Americans will need to move to keep safe from rising seas, roaring floods and fast-encroaching flames. The government should ease the transition: for example, FEMA could offer buyouts to homeowners who cannot afford their insurance. But make no mistake: the longer politicians subsidise building in dangerous places, the worse the pain will be, and the bigger the final bill. ■

*For more coverage of climate change, sign up for the [Climate Issue](#), our fortnightly subscriber-only newsletter, or visit our [climate-change hub](#).*

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# **Letters**

- [Letters to the editor](#)

**On nuclear weapons, business agglomerations, Germany, heat pumps, the EU's Council of Ministers, inoculations, headline wordplay**

## Letters to the editor

*A selection of correspondence*

Sep 21st 2023



AP

### Destroy nuclear weapons

The recommendations in your leader on persuading America, China and Russia to rein in their nuclear-arms race were sound but didn't go far enough ("[A three-way nuclear-arms race](#)", September 2nd). The United States and Russia need to resume notifications and verification measures under the New START treaty and China should join confidence-building measures. But to reduce and remove the rising nuclear danger effectively, all three of these powers, together with the six other nuclear-armed states, should engage with the 140 countries that support the United Nations Treaty on the Prohibition of Nuclear Weapons.

The current strategy of the nuclear-armed countries to grant these weapons legitimacy and claim they are necessary for self-defence perpetuates their existence and the threat they pose to us all. These states need to start

upholding their responsibilities. As long as nuclear weapons are seen as valuable, they will be coveted. As long as nuclear weapons exist, they pose a threat to more than the countries that have them.

Ever since the invention of the atom bomb, various ideas have been floated on how to break this cycle, but none has proved successful. The only sure way to rid the world of the nuclear threat is to eliminate the weapons for good. That is what the treaty prohibiting nuclear weapons is there to do. It includes timelines for weapons (and weapons-production facilities) to be dismantled and destroyed, mandates support for the victims of nuclear use and testing, and has widespread global support. As we said in our Nobel peace-prize lecture, the TPNW provides the pathway forward at a moment of growing global crisis. All nuclear-armed states should engage with it.

MELISSA PARKE  
Executive director  
International Campaign to Abolish Nuclear Weapons  
*Geneva*

## Dispersed companies

The merits of agglomeration for businesses can be overstated (“[Air raids and agglomeration](#)”, August 26th). Fleet Street was once the location of Britain’s national newspapers, with printing presses in the basements, compositors and other craftsmen above, and editorial staff on the upper floors. The cluster benefited from shared suppliers, workers and gossip. But there were offsetting downsides, notably the cost of getting newsprint into the centre of London each day, sending out newspapers each night and restrictive labour practices. When computerised typesetting became possible, the print works moved to peripheral locations, the editorial offices dispersed around London, and the power of the print unions was broken. Nowadays, “Fleet Street” is a metaphor more than a location. With hindsight, the benefits of agglomeration were less than they had appeared.

The coronavirus pandemic has prompted changes in working habits, aided by technology that permits remote working and meetings. Although it is too early to tell, it may turn out that the benefits of agglomerations in city

centres are less than we had supposed, not least on account of the reluctance of commuters to pack sardine-like on trains and buses.

DAVID METZ

Honorary professor

Centre for Transport Studies

University College London



## Germany benefited from a cheap currency

After he stepped down as chairman of the Bundesbank, I remarked to Hans Tietmeyer that Germany's exporting industry was benefiting from the euro being a 20% cheaper currency than the Deutsche Mark would have been. "Oh, no," Mr Tietmeyer replied, "I think the euro's exchange-rate subsidy to our exporters could well be 40%." "Maybe", he added, "a bit more."

By then to Mr Tietmeyer, himself a creator of the euro, the common currency now risked being a cheap semi-Greek/Italian/Spanish currency in a way that mighty Germany's very own high-value D-mark had never been.

This cheap-currency prop to one of the world's most legendary exporting nations simply feathered its bed over a decade or more in a way that the expensive D-mark never had. From this stemmed those too-easy

manufacturing years, the multiple inefficiencies, and Germany's loss of rigorous mission, which you so vividly describe ("[How the wheels came off](#)", August 19th).

As your newspaper has long said, exchange rates fixed between unequal economies remain fixed at a price. As Germany prospered on a too-cheap currency, Spain suffered years of 40%-plus youth unemployment from the same common currency being so German and so dear. And do not mention Greece.

ANDREW KNIGHT  
*Shipston-on-Stour, Warwickshire*



## Better heat pumps

Air-source heat pumps work at cross purposes to nature, attempting to transfer heat outside when it is hot and to move heat indoors when it is cold ("[All that gas](#)", September 9th). Heat pumps work by transferring heat from one place to another, but air-source heat pumps use the worst available source from an energy perspective.

Ground-source heat pumps would be far more efficient, taking advantage of temperature averages over the year. When the weather is cold (that is, below

average for the year), the ground is warmer than the air and a better source of heat energy. Conversely, when the weather is hotter than the annual average, the ground is cooler than the air and a more effective place to dump heat from inside buildings. And ground-source systems do not require noisy and energy-gobbling fans. They typically use water to bring about the transfer of energy.

The only advantage of air-source heat pumps is that you can thoughtlessly bolt them onto the outside of a building with a minimum of plumbing. Perhaps this reflects humankind's reluctance to invest in infrastructure, like plumbing and insulation, or its own future.

**MAX ARAI**  
*Andover, Massachusetts*

It's not just owners of older houses that face difficult choices on insulation and heat pumps. Modern British homes, those built since 2000, are already pared back in space to the minimum, with, inside, no hall, no cupboards, rooms barely big enough to contain all the furniture needed for their function (bed, clothes storage, table, TV). Outside, there is minimum space for a bin at the side and nugatory garden space. If a large heat pump and extra wall insulation is necessary, where will all this go? Maybe we genetically engineer the inhabitants to be half-size?

**DR HILLARY SHAW**  
*Newport, Shropshire*



Peter Schrank

## Who'd want to be president?

Charlemagne's call to scale back the rotating presidency of the European Union's Council of Ministers ([September 9th](#)) underestimates the extent to which this has already been done and overestimates the extent to which further reform would help. The council presidency was always overhyped. It was never the "president of the EU", as some countries like to portray it (especially when it's their turn) but simply the chairmanship of one of the EU's several institutions, for a short six-month period, with a largely inherited agenda, and with no extra powers nor any formal power to put forward new legislation.

Since 2010, the country holding the rotating presidency no longer hosts or chairs the European Council summit of heads of government, who are now free to choose their own president. It no longer represents the EU externally, as that job is now given to a jointly chosen high representative/vice-president of the European Commission who heads the European External Action Service with its own diplomatic representations across the world (that task, too, no longer rotating among national embassies). It doesn't even always chair the council. When foreign affairs or security are discussed, the high representative chairs it.

Further reforms along the lines suggested by Charlemagne, whereby each configuration of council elects a specific minister from across a variety of countries, has some attractions, but risks a confusing fragmentation. Much time and effort would be needed to secure balance among the member states. The term of office would presumably be longer than six months, but cease when there was a change of minister in the country concerned. Longer term and more visible presidents might also cause confusion in public perceptions with the role of the corresponding commission member.

In short, much effort for little further gain.

RICHARD CORBETT

Former member of the European Parliament

*Brussels*



Getty Images

## A pioneer in inoculation

Your review of Simon Schama's book, "Foreign Bodies", ("[The long shot](#)", September 9th) neglected the role of Lady Mary Wortley Montagu, who brought smallpox inoculation from the Ottoman empire to England in 1721. Though ridiculed by many for inoculating her children, she deserves credit for popularising the practice.

Incidentally, by the time of Edward Jenner's vaccine in 1796, it had long been known among dairy farmers that exposure to the milder cowpox protected against the more dangerous smallpox.

PADRAIC ROHAN

*Quincy, Illinois*

## A day of RICOening

As a fan of your publication's witty wordplay titles, I was surprised at the headline “[Puerto RICO](#)” (August 19th) for an article describing Donald Trump's indictment in Georgia for allegedly violating the Racketeer Influenced and Corrupt Organisations Act. I didn't get the connection, *puerto* meaning “harbour” in Spanish notwithstanding. If the point was to use the acronym RICO, a more applicable title might have been “RICO and famous” or “On the RICOrd”, that would be my RICCommendation.

PEDRO SPIVAKOVSKY-GONZALEZ

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# Briefing

- To endure a long war, Ukraine is remaking its army, economy and society
- Western help for Ukraine is likely to diminish next year

**The battle within**

# To endure a long war, Ukraine is remaking its army, economy and society

*The improvisation and decentralisation of the early part of the war will no longer suffice*

Sep 21st 2023 | KYIV



Reuters

IN THE AUTUMN sunshine Kyiv looks glorious. The leafy streets are full of life: café terraces bustle and hipsters throng the bars of Podil, a trendy neighbourhood. The odd air-raid siren aside, the main signs of the 18-month-old war with Russia are rusty tanks turned into makeshift war memorials and the various men in uniform enjoying some leave with their loved ones.

To Valery Zaluzhny, Ukraine's top soldier, the scenes of children eating ice cream and men presenting flowers to their sweethearts are satisfying. "This is what we are fighting for. I just want people to have a normal life in the whole of Ukrainian territory," he says. The critical word is "whole": Ukraine's counter-offensive has not yet produced the results he and others had hoped for. Russian lines have not crumbled. Almost a fifth of Ukrainian territory remains in Russia's hands. In the war of attrition that looms, it is not clear which side has more staying power. In part, of course, that depends

on a second uncertainty: in what quantities the [military and financial support](#) supplied by Ukraine's allies will keep flowing as the war grinds on.

## A break in the clouds

For all its superficial normality, Kyiv is awash with apprehension. Ukrainians know that Russia has been stockpiling missiles and drones to attack their energy infrastructure when temperatures drop. They know that the supply of volunteers has dried up, and that men are being conscripted to replace casualties at the front. And they know no end is in sight: a year ago 50% of them thought it would be over within a year. Now only 34% believe that. Whereas Vladimir Putin, Russia's dictator, does not care about the lives of his own troops, Volodymyr Zelensky, Ukraine's president, presides over a democratic society which does. "It is not just about de-occupation [at any cost]. It's about de-occupation, but not losing a lot of lives," he recently told *The Economist*.

The prospect of an attenuated struggle has started to seep into Mr Zelensky's speeches. "We need to learn to live with [the conflict]," he told Ukrainians recently. "It depends on what kind of war. We are prepared to keep fighting for a very long period of time...[while] minimising the number of casualties. Like in Israel, for example. We can live like that."

A war of endurance, however, will require big changes in military planning, the economy and society more broadly. The heroic improvisation and decentralisation of the early part of the war will no longer suffice. On the military side, Mr Zelensky has initiated a clear shift by installing a new minister of defence, Rustem Umerov. Like almost all Ukrainians, he has a personal stake in the war, as a Crimean Tatar, an ethnic group persecuted for Ukrainian sympathies since Russia's annexation of Crimea in 2014. But, he says, "Ukraine is not about emotions, it is about a system, logistics and industries."

Mr Umerov, a 41-year-old former entrepreneur and investor, says his mission is to build the capacity of both Ukraine's defence industry and its soldiers, so that Western allies see Ukraine not as a dependent always begging for aid, but as a partner, capable of shaping its own fortune. His previous job was managing the government's property portfolio, and he

wants to bring an efficient managerial mindset to his new role. Red tape must be eliminated. “Anything that can be digitised, needs to be digitised,” he says. He is not afraid to make waves: after two weeks in the job, he replaced six of his seven deputies.

## An explosive legacy

When it was part of the Soviet Union, Ukraine had a vast defence industry. Some 1.5m Ukrainians laboured in 700 military enterprises, including 205 factories and 130 research and development sites. Leonid Kuchma, Ukraine’s second president, ran the world’s biggest rocket plant in the city of Dnipro in Soviet times. A flagship factory in Kharkiv produced 900 tanks a year. But corruption and neglect after the break-up of the Soviet Union in 1991 gradually killed these businesses.

Now Ukraine is rebuilding its arms industry almost from scratch. “Anything that can be produced locally, must be produced locally,” Mr Umerov insists. In part that involves reforming state enterprises, the job of Oleksandr Kamyshin, a former investment banker who used to run the state railway company and follows Western management fads. “The first hundred days of the war were about bravery. The next 1,000 days are about steeliness,” he declares. In June, three months after his appointment, Ukraine produced as many shells as it had in the entire previous year. In July it reached double that, Mr Kamyshin says.

Mr Umerov wants to encourage private arms manufacturers, which account for only 20-30% of the local industry. He says he is prepared to pay local firms in advance if they can demonstrate their ability to make useful kit. Many are struggling with a dearth of capable managers: the defence ministry is offering to help bring such people back from the front lines. Within five years, Mr Kamyshin predicts, private firms will produce 80% of local output.

One focus is on drones. Ukraine’s output of them has grown exponentially, albeit from a tiny base. “We will [produce] 120 to 150 times more drones than we did last year,” says Mykhailo Fedorov, the 32-year-old minister for digital transformation, who is co-ordinating the effort. The number of local firms in the business has risen from seven in December to 70 now, the vast

majority of them private. To encourage this growth the government has eliminated tariffs on imported components and is buying drones at prices that allow margins of as much as 25%. “We can win in a technological war,” says Mr Fedorov. “We are getting help from countries with large economies and a greater level of freedom. Technologies like freedom and they like mobility. We have both.”

Mr Kamyshin wants Western military contractors to start localising their production, too. BAE Systems, a British defence firm which makes lots of weapons supplied to Ukraine, has set up a local subsidiary, hoping to produce L119 and M777 howitzers, which are both in wide use at the front. Rheinmetall, Germany’s biggest arms manufacturer, is already repairing Leopard tanks in Ukraine and plans to open an armoured-vehicle factory soon. As Armin Papperger, its CEO, told CNN, “[Ukrainians] have to help themselves. If they always have to wait [for] Europeans or Americans [to] help them over the next ten or 20 years...that is not possible.”

Protecting such factories from Russian attacks will require ingenuity. “We will not have one Soviet-style hypergiant plant but many smaller plants spread across the country,” says Mr Kamyshin. Drones are proof of what is possible: Ukraine’s surging output of reconnaissance devices, Mr Fedorov says, has helped give it parity with Russia’s forces. Production of longer-range ones, which can hit targets in Crimea and deep inside Russia, is also growing. “It is an important historical moment,” he says, “when we are not simply receiving aid and hoping [that it will not run out] but when we are taking responsibility for our own lives in our own hands and starting to form our own capability.”

Ukraine’s growing drone industry also allows its armed forces to adopt new tactics, by taking the war inside Russia. One aim is to hit military factories in an effort to disrupt whole supply chains. Recent examples include an attack on a facility that produces decalin, a fuel additive essential for rockets, and a plant that makes circuitry for Kinzhal and Iskander missiles.

A second aim is psychological: to shatter the facade of normality the Kremlin tries to preserve, particularly in big cities such as Moscow. Airports there have had to suspend flights for brief spells almost daily in recent

weeks owing to drone attacks on the city. (Mr Kamyshin says he would like to set up a shop selling T-shirts with the slogan “Moscow never sleeps”.)

Ukraine also has a third goal in its strikes on Russian infrastructure: to deter Russian attacks on its own infrastructure. Since Russia withdrew in July from a deal allowing exports of grain from Ukraine’s ports on the Black Sea, it has been bombarding those and other export routes and threatening ships calling at Ukrainian ports. Ukraine’s exports have halved as a result, doing yet more damage to an already stricken economy.

Ukraine is trying to break the Russian blockade. Last month it established a new sea route, hugging the western coast of the Black Sea close to Romania and Bulgaria. If Ukraine can protect it, it could raise its exports to some 70% of pre-war levels. On September 17th, two ships docked at the port of Chornomorsk near Odessa to load almost 20,000 tonnes of wheat. Hours later Russia unleashed a barrage of drones and missiles at other nearby ports.

### A sea change

Ukrainian strategists hope that, if they can threaten Russian ports on the Black Sea and strike at the military bases from which attacks on Ukrainian ports are launched, they may be able to keep Ukraine’s exports afloat. Earlier this month Ukrainian missiles damaged a submarine, a ship and port facilities at a Russian naval base in Crimea. It had decent air defences, but more distant Russian facilities may not be as protected.

The focus on protecting exports reflects a sense among Ukrainian officials that the economy will also need a drastic overhaul to cope with a long war. Ukraine received \$31bn in financial aid last year and is on course to receive even more this year. But Serhiy Marchenko, the finance minister, assumes that such largesse will not be forthcoming indefinitely.

Meanwhile, military spending has leapt from 5% of GDP before the war to 26% this year. Even if the fighting stopped, spending might not drop much. General Zaluzhny says, “I want the Ukrainian army to be so strong that Russia does not even dare to look in our direction.” The shrunken economy is too small to generate sufficient tax revenue to pay for Ukraine’s security,

Mr Marchenko notes, so the government will have to help it grow by improving the business climate and fostering industry.

The main concern for investors, says Mr Marchenko, is not physical security but the unreliable legal system, a problem that predates the war. Similarly, it is corruption rather than the damage done by the war to Ukraine's infrastructure that most Ukrainians see as the main obstacle to recovery. The independent corruption-fighting investigators, prosecutors and courts that Ukraine has put in place are making progress, but the broader judicial system remains inefficient and unpredictable.

Perhaps the worst injury that the war has inflicted on the economy has been to prompt an exodus of 7m Ukrainians—nearly 20% of the pre-war population of 37m people. More than two-thirds are women, since men of fighting age are barred from leaving the country. The working-age population has shrunk from 16.7m in 2021 to 12.4m this year.

## **The call of the placid**

To lure people back, the government is offering startup grants for businesses and subsidised mortgages for those rebuilding homes. But many of the departed have settled in richer, more stable places in the EU, found jobs and put their children in school. They are unlikely to want more upheaval and they may see more opportunity for themselves and their children in their new homes, whatever the security situation in Ukraine. A recent survey found that about half of those who have moved to Germany, at least, intend to stay there for the foreseeable future.

There is not just an economic cost to the exodus, but a social one as well. According to Olena Zelenska, Mr Zelensky's wife, who heads a government mental-health initiative, there has already been a rise in the number of divorces “because women and children are abroad and men are here”. Mr Zelensky says there is a real risk that a war of attrition could accelerate an outflow of people from Ukraine, creating further economic problems and widening the gap between those who left and those who have stayed.

This is not the only source of social tension. Roman Hasko, a lieutenant from the 80th Airborne Assault Brigade, who volunteered in the first week

of the war, says he feels disappointed to see the bustle of night-time Kyiv, having just arrived on leave from the front line near Bakhmut. “I see a lot of potential recruits. I have many free positions in my unit. Not all have been killed—some are wounded or sick...If we are talking about winning this war, these empty lines need to be filled.”



The Economist

In the first weeks of the war men like Mr Hasko queued up to enlist. Now Ukraine is filling the ranks through conscription. Some young men who have not yet been called up are nervous about leaving home or passing checkpoints for fear of being dragooned. Many try to bribe their way out of military service and to leave the country illegally. Last month Mr Zelensky sacked the heads of all the regional military recruitment centres. He replaced them with soldiers with battlefield experience who had been vetted by intelligence services. Earlier this month the Ministry of Defence drastically cut the number of medical exemptions.

Ukrainians clearly have some concerns about how the country is being run. Approval of the army and the president remain sky high, but confidence in the country’s politicians in general is down from 60% in December to 44% in June. The share of Ukrainians who say the country is on the right track has also slipped (see chart). There is disquiet about corruption in particular.

But 76% tell pollsters they do not want new elections until the war is over. Support for Ukraine's independence is the highest it has ever been, at 82%. Most do not complain about restrictions on movement or other wartime curtailment of civil liberties. "War has become part of a new horrific normal," says Darina Solodova, a sociologist with the United Nations Development Programme in Kyiv.

Resistance to Russia's aggression remains a unifying principle for the vast majority. "It is not the question of whether to resist or not, but who has done more or less for that resistance," says Ms Solodova. Across Ukraine 42% say that even if Russia intensifies its bombing of cities Ukraine should keep fighting. Some 21% think that the conflict should be frozen without making any concessions to Russia. Only 23% think it is worth initiating negotiations. Even in the east and south, which have borne the brunt of the war, support for negotiations is relatively low, at 32% and 39% respectively. Only 5% of Ukrainians are willing to cede any territory to Russia and only 18% to forswear joining NATO.

Research by the Centre for Sustainable Peace and Democratic Development, a think-tank in Cyprus, suggests that Ukrainians have become more optimistic about the future despite the war. Most believe that future generations will be better off. Ms Zelenska is not surprised: "People know what they are fighting for, not just what against." ■

## A lean patch

# Western help for Ukraine is likely to diminish next year

*There is a shortage of weapons and munitions—and, in some quarters, goodwill*

Sep 21st 2023



Getty Images

THE END keeps receding. There was a time when some Ukrainian officials, having halted Russia's army outside Kyiv, thought it would take only a few more months to bring the war to a conclusion. "Most of the active combat actions will have finished by the end of this year," predicted Lieutenant-General Kyrylo Budanov, the head of military intelligence, in May 2022. By last November, shortly after a spectacular Ukrainian offensive in Kharkiv, Volodymyr Havrylov, a deputy defence minister at the time, was still expecting a swift victory. "My feeling is that by the end of the spring, this war will be over."

In fact, Ukraine's counter-offensive did not even begin until June. Far from hastening the war's end, it has demonstrated just how long the fighting could drag on. Ukrainian forces, stymied by Russian minefields and other defences, have inched forward on foot. The deployment of reserves and

spiffy Western weapons has not yet yielded any big breakthroughs. Wet weather and a shortage of ammunition will probably bring the Ukrainian advance, such as it is, to a halt by late October, if not earlier.

Another fighting season beckons. “We must prepare ourselves for a long war in Ukraine,” warned Jens Stoltenberg, NATO’s secretary-general, on September 17th. “It’ll take a considerable length of time to militarily eject all 200,000 or plus Russian troops out of Russian-occupied Ukraine,” agreed Mark Milley, America’s top general, the same day.

America insists it will stay the course for “as long as it takes”, as Joe Biden, the president, has put it several times this year. Britain, France, Germany and other allies have all used the same phrase. As ironclad as these pledges sound, they depend on two uncertain variables. One is the West’s ability to furnish Ukraine’s army with enough weapons and ammunition. The other is the political will to keep handing them over.

Start with the first. Russia’s defence industry moved onto a war footing in the last quarter of 2022, says Richard Connolly, an expert on Russia’s economy, who points to a big jump in steel production. British officials say that Russia can now produce around 200 tanks a year, twice as many as they had previously assumed. Mr Connolly says that, with refurbished tanks included, the true figure is probably 500 to 800. Western sanctions are not crimping output much, he adds, with crucial components such as semiconductors smuggled in via Hong Kong or Central Asia.

In principle, Ukraine’s friends should have no trouble helping it outgun Russia. The combined GDP of NATO’s members is 12 times that of Russia, even after accounting for Russia’s lower prices. The difference is that Russia is willing to spend much more heavily on the war: military spending now takes up almost 40% of the national budget, far in excess of Western levels. NATO countries are trying to redress this imbalance by investing in arms production, which has been neglected since the cold war ended. But there are two snags.

One is cost. Estonia spends around \$5,000 to \$6,000 on every new artillery shell, says Kusti Salm, the senior civil servant in the country’s defence ministry. That is relatively cheap by NATO standards, he notes. Russia, he

says, spends 60,000 roubles, or around \$620. The vast difference is largely down to cheaper labour and materials, lower quality products and lower profit margins for arms manufacturers, most of which are state-owned. Inflation is exacerbating the problem. “Prices for equipment and ammunition are shooting up,” complained Admiral Rob Bauer, a NATO bigwig, on September 16th.

The second issue is timing. “After a slow start,” says Mr Connolly, “Russia has reached race pace and they’re in gear now. They’re now going to start churning stuff out at the rate approximating what they need.” American and European investments in new capacity, having started later, will not yield much extra supply until the second half of 2024 or 2025, giving Russia more time to mobilise, build new defences and pin down Ukrainian forces.

Take the case of artillery shells. The good news is that American and European production is soaring. American officials say that their own output has risen from an annualised rate of 168,000 shells in the spring to 336,000 today. It will continue to rise, thanks both to new facilities and to more intensive use of existing ones. European production is set to double by the end of this year or the start of next, according to Estonia’s defence minister. Between them, America and Europe should comfortably produce nearly 2m shells next year.

## **Shell shock**

The trouble is, that is barely enough to keep up. Russia will produce 1m-2m shells next year, according to British estimates. That is on top of a stock of around 5m shells, new and refurbished. That should allow it to fire at least 15,000 rounds a day for a year, says Mr Salm. That is roughly on a par with Ukraine’s heightened consumption during its counter-offensive, according to people familiar with the data. But Ukraine can probably sustain that tempo for only a couple more months.

The gap could be bridged by borrowing from elsewhere. Ukraine’s counter-offensive was enabled by a massive transfusion of South Korean shells. America and its allies have discreetly purchased arms and ammunition from non-aligned countries such as Egypt and Pakistan on Ukraine’s behalf. But

such ready sources of weaponry are running out. Western armies' stockpiles have been depleted, too.

As the Western arms industry ramps up, this problem should ease. By 2025 there might even be a "glut" of shells, says a Western official. If most of the new output goes to Ukraine, and assuming that neither China nor North Korea bails out Russia, the Ukrainian army might then be able to out-pulverise the Russian army for the first time in the conflict. But 2025 is the military equivalent of a lifetime away. Next year, meanwhile, Ukraine will probably struggle to mount a big offensive.

The year after next is also a lifetime away in terms of politics. In Europe, the political winds seem favourable to Ukraine. Polls conducted in June and July showed that 64% of Europeans favour military aid to Ukraine, with strong support not just in countries with a long-standing suspicion of Russia, such as Sweden (93%), but also in more distant member states such as Portugal (90%).

Some hard-right parties, such as France's National Rally, led by Marine Le Pen, and Germany's Alternative for Germany (AfD), cast the conflict as a waste of European resources. "The German public is paying three times over for this war," complains Gunnar Lindemann, an AfD member of Berlin's regional assembly, "supporting 1m refugees, carrying huge energy bills and sending weapons to Ukraine." Both parties are rising in the polls, but both remain far from power.

Olaf Scholz, Germany's chancellor, has been mindful of anti-war sentiment, notably within his own Social Democratic Party. He dithered for months before agreeing to send Leopard tanks to Ukraine. He still refuses to send long-range Taurus missiles, even though Britain and France have given Ukraine comparable weapons. Yet Mr Scholz has by now realised that public scepticism is mushy: as soon as he sends a new weapon, approval broadly follows. On September 18th his government announced another €400m (\$429m) of arms, including ammunition, armoured vehicles and mine-clearing equipment.

Emmanuel Macron, France's president, who provoked grumbling in Kyiv last year over his frequent phone calls with Vladimir Putin, his Russian

counterpart, and over his hesitation in sending weapons, is now among the most gung-ho of European leaders. France has long resisted expanding the EU, yet Mr Macron has become a fervent supporter of Ukraine's accession to the bloc. A poll in July showed that 58% of the French backed this approach.

Ukraine's bid for EU membership is proceeding at a pace that would have astonished Europe-watchers just a few years ago. It formally became a candidate to join in June, 2022. This December, barring a shock, that status will be upgraded by the opening of detailed negotiations on accession. Ukraine is dazzling EU officials with its swift progress on the necessary reforms. It may still take years for Ukraine to become a fully fledged member, but the war seems to be speeding up the process rather than delaying it.



Now for Congress to get on board

In America, however, the outlook is much more divided and uncertain. On August 10th the White House asked Congress to authorise another \$24bn "supplemental" budget for Ukraine, which would bring total American aid thus far to \$135bn. Supporters of such assistance, among both Democrats and Republicans, constitute a clear majority of both chambers of Congress.

Were the request put to a simple up-or-down vote, it would be approved relatively easily.

But it is unlikely to be, because of America's dysfunctional politics. A majority of the members of the House of Representatives may support Ukraine, but a small number of Republicans hold extreme anti-Ukrainian views, including Matt Gaetz, who has proposed inviting Russia to join NATO, and Marjorie Taylor Greene, a conspiracy theorist who has promoted the absurd notion that aid to Ukraine is actually being siphoned off by donors to the Democrats. Since the Republicans have only a slender majority in the House and since the Speaker, Kevin McCarthy, does not want to rely on Democratic votes to push legislation through, the pro-Russia fringe has much more influence than its numbers would imply.

The likeliest course is for Mr McCarthy to attach the supplemental budget to other important legislation, making it harder to derail. Past efforts in the House to deny Ukraine funding have been overcome, although each one attracts more Republican votes. Mr Biden already has congressional approval to send a further \$6bn-worth of weapons to Ukraine from existing stockpiles. But after that there is likely to be a delay of several months while Congress contorts itself over the latest request. What emerges may be dribs and drabs of aid, rather than the big packages of last year.

In the longer run, aid for Ukraine is fast becoming a partisan issue, which makes its prospects ever less certain. Republican voters, egged on by the scepticism of Donald Trump, their party's likeliest nominee for president next year, have begun to question further aid to Ukraine. Democrats remain broadly supportive. The big budget deficit and high interest rates make politicians of all parties reluctant to rack up more debt. And even Democrats support the notion that America's European allies should be the ones taking the initiative in conflicts on their own borders.

And then there is the possibility that Mr Trump wins next year's election. His policy on Ukraine is characteristically incoherent. In March he promised that he would settle the war in "no longer than one day", before even entering office. "We don't have ammunition for ourselves," he complained in May, "We're giving away so much." But he denies he would push for a deal allowing Mr Putin to keep Ukrainian territory. "Nobody was tougher on

Russia than me,” he said this week, insisting he would strike “a fair deal for everybody”.



The Economist

Nevertheless, Western officials worry that Mr Putin will wait to see whether Mr Trump becomes president again before agreeing to negotiations. That scenario is already provoking frenetic debate in Europe. “If the United States tried to force a negotiated settlement on Ukraine,” argued Liana Fix and Michael Kimmage, a pair of Russia experts, in *Foreign Affairs* recently, “Europeans would have little capacity to resist.” Others say this is unduly fatalistic. French officials argue that, should America end its support for Ukraine, although Europe cannot replace American military aid gun for gun and missile for missile, the prudent and rational thing is for Europe to try to preserve its options by boosting arms manufacturing.

The question is whether Europe alone can drum up enough cash and weapons to keep Ukraine going. Although America provided the lion’s share of aid for much of the war, the latest analysis from the Kiel Institute for the World Economy, a German think-tank, finds this pattern has reversed. Europeans have long dispensed more financial aid. They are now providing more aid of all sorts, thanks in part to the EU’s recent €50bn pledge, a multi-year commitment which stretches to 2027 (see chart).

## Money isn't everything

Yet the figures do not tell the whole story. America has been the fulcrum of the allied effort to support Ukraine, chairing the regular meetings at which donations of weapons are pledged and co-ordinated at Ramstein, an American military base in Germany. It has provided diplomatic cover for other countries' aid: Mr Scholz, for instance, insisted that he would not allow German-made Leopard tanks to be sent to Ukraine unless Mr Biden first sent some American M1A1 Abrams tanks.

In some cases Europeans have sent arms to Ukraine on the understanding that they will receive new American weapons to replace the donated ones. America's security guarantees, underwritten by nuclear weapons, have given Europeans the confidence to stand up to Russian threats. Finally, America has provided vital intelligence that has helped Ukraine find and destroy high-value targets, from generals to warships. Substituting for this organisation and assistance would be a Herculean task.

It may be unavoidable. "The assumption of the West was—and I think everyone has been unspoken on this—was that we give them everything we can, then they will go on this one large offensive and whatever happens at the end of this we will settle for that," says Mr Salm, the Estonian official. "That was the plan." A new one is required, he suggests, involving not just more arms, but also more technology to offset Russia's advantages in mass, bolder sanctions, such as expulsion from the Paris Olympics, and new training that learns from the mistakes of the summer.

Above all, a change in mentality is needed. "This is exactly what a war of attrition is about: convince the West that we can out-suffer you, we can out-fight you, we can out-last you. They know the weak points of democracies," Mr Salm says. The task, he believes, is to persuade Mr Putin that the opposite is true. "We, as the Ramstein coalition, are 25 times richer, stronger and [more] technologically advanced than Russia...It's not that we are empty-pocketed here." ■

# Asia

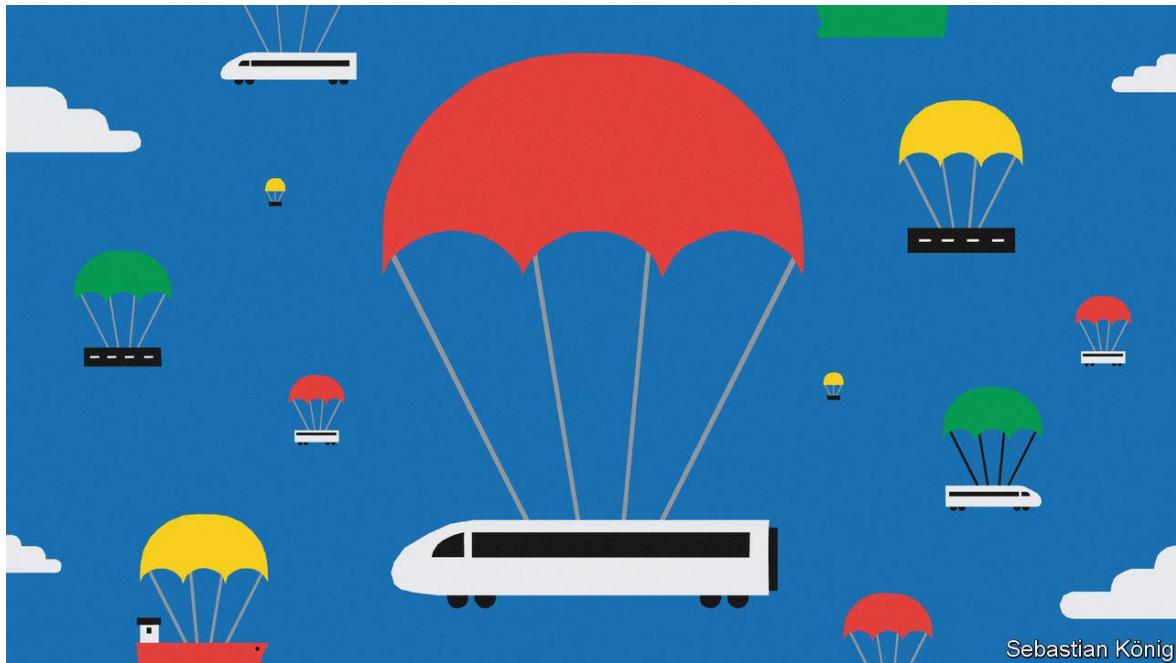
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## Asia's new aid diplomacy

# China isn't the only country giving out goodies in Asia

*Japan and South Korea are offering development cash too*

Sep 21st 2023 | SEOUL, SINGAPORE AND TOKYO



THE ASIA-PACIFIC region is the world's most dynamic, and yet its development needs remain vast. The Asian Development Bank (ADB) estimated them to be \$1.7trn a year until 2030. Fast growth breeds its own demands, in terms of roads, railways, power stations, ports and digitalisation. But swathes of the region still suffer from poverty, poor access to education and health care, misgovernment, and vulnerability to climate and other natural disasters. And that is before considering the damage caused by the covid-19 pandemic.

The good news is that all these challenges are coming into sharper focus among Asia's richer countries, as well as regional organisations including the ADB. Japan, South Korea, Australia and Taiwan have all recently shaped new aid and development policies intended to make scarce dollars more effective, with much talk of collaboration. This underlines two realities. The first is that Asia's appetite for aid and development finance will mostly be

met by donors within the region. (For all America’s security presence in Asia, its bilateral aid contribution is tiny, though somewhat redeemed by its large shareholdings in the World Bank and ADB.) A tally by the Lowy Institute, a think-tank in Sydney, noted that four of the top five donors to South-East Asia from 2015 to 2021, accounting for 73% of \$200bn of official development spending, were from Asia: China, the ADB, Japan and South Korea. The fifth was the World Bank.

The second reality is that this will have geopolitical consequences. China’s position as Asia’s biggest source of development finance in recent years was being challenged even before recent financial strains at home and souring loans abroad led it to pull back on lending. Development finance and co-operation are emerging as what the Lowy Institute calls “key tools” in Asia’s geopolitics. How Asian donors interact with poorer neighbours may shape the region as much as the defence and security contest between China and America.

China has exerted development influence mainly through President Xi Jinping’s Belt and Road Initiative to improve infrastructure and lower obstacles to trade (while presenting China as a benevolent and rightful global leader). In South-East Asia, for instance, China leads as the single biggest provider of official aid, shelling out about \$5.5bn a year, a fifth of the total. Yet it faces significant competition, from Japan and South Korea especially. While China is strong in infrastructure (with nearly 40% of all development finance in that sector), Japan funds transport slightly more than China does. South Korea is level with China in communications. China dominates energy—but in water and sanitation it is nearly absent.

The Chinese approach can breed resentment. It delivers fewer projects than promised. Often using Chinese companies and workers, it puts less emphasis on local hiring and training. And borrowers from China’s two main policy banks typically pay a full, “non-concessional” whack of interest. There is sometimes corruption and shoddy work. In Sri Lanka, the Maldives and Laos, Chinese loans have turned sour as borrowers struggle to repay. The scale of the problems is unclear—a lack of transparency also attends the Chinese approach.

Poor countries therefore relish options—and tend in particular to favour Japan. Its aid engagement is understated but long-standing. Japan began advancing aid in the 1950s, partly in atonement for its wartime aggression. Today it aims to build not only things, but also capacity. Unlike China, Japan often works with local contractors. Complex new subway systems, such as in Jakarta or Manila, come coupled with technical assistance on how to operate them. Hayakawa Yuho, South-East Asia head at the Japan International Co-operation Agency (JICA), says projects that often take a decade to complete require sustained commitment, insulated from interruptions and policy changes. Surveys show Japan as easily the most trusted power in the region. Young Japanese heading overseas as volunteers on Japanese poverty-alleviation projects help reinforce that trust.

Unlike China, Japan makes development-assistance loans mostly at concessional rates, principally through JICA, which also marshals world-class Japanese expertise for advice and training. The Japan Bank for International Co-operation (JBIC) provides project financing for infrastructure development. It is a winning combination. In India and Bangladesh, Japan is easily the biggest bilateral donor. In the Philippines, says one South-East Asian diplomat, Japan “does all the heavy lifting” among donors, competing “very, very aggressively” against China.

South Korea’s aid approach resembles Japan’s. As an exporting powerhouse, it has huge dollar holdings to recycle and a bunch of high-class companies in areas such as infrastructure, mining and communications to back up its aid strategy. (It helps that such companies are active in the region anyway.) President Yoon Suk-yeol wants to pitch his country into the ranks of the world’s ten biggest donors. He has sharply increased aid spending. A recent emphasis has been on health care. The fact that South Korea is a middling rather than a great power (except in its music, films and food, which Asia loves) makes it an uncontroversial benefactor.

Historically poor relations between Japan and South Korea have improved, increasing talk of collaboration over aid. Australia, the key donor to Pacific island states and keen to expand in South-East Asia, also talks of working with “like-minded” partners. In theory, countries can bring complementary strengths—such as financial nous, or expertise in training or renewable energy. But Kei Koga of the Nanyang Technological University in Singapore

says the challenges of collaboration will be great—starting with budgeting, since the countries’ fiscal calendars are not aligned. As for drawing in the private sector, which donors aspire to do, the challenge is making the proposition safe and attractive enough for private capital.

These regional partners are like-minded because they believe in the same things: transparency, low corruption, the rule of law, safe sea lanes and so on. Such qualities also define a prominent American-led ambition for a “free and open Indo-Pacific”, formulated with China’s disdain for international rules and grandiose territorial and maritime claims in mind. So it is no wonder that overseas development assistance is increasingly shading into security policy. Japan, for instance, provides the Philippines with patrol boats to police its waters against piracy and smuggling; a greater presence on the water also helps against frequent incursions by Chinese vessels, including warships. Projects to help improve ports, which could be used for both civil and military purposes, are similarly double-edged.

Aid experts often insist that security issues are beyond their remit. Yet the reality is that development assistance and security, butter and guns, are already linked in the Asia-Pacific region. And as China continues striving to assert regional dominance, and its rivals to resist it, they will become ever more tightly enmeshed. ■

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**Rebuilding Tokyo**

## Demolishing one of Babe Ruth's last stadiums

*Baseball fans and environmentalists are opposing a lavish redevelopment project*

Sep 21st 2023 | TOKYO



Getty Images

JINGU BASEBALL STADIUM in Tokyo has seen many iconic moments in its century-old history. Babe Ruth played there in 1934, on a tour of Japan that confirmed baseball's popularity in the country and led to its first professional team. Over half a million Tokyoites lined the streets to welcome the Bambino and his teammates. In 1959 Nagashima Shigeo, one of Japan's best-loved sportsmen, hit a walk-off home run at Jingu stadium in the only professional baseball game attended by a Japanese emperor.

A plan to demolish the stadium, as part of a broader redevelopment of the central Jingu Gaien area, is therefore proving controversial. Since the city's government approved it in February, outraged baseball aficionados have joined in opposition with heritage fans and environmentalists, concerned about hundreds of mature trees that are also slated for the chop. Over 220,000 people have signed an online petition against the redevelopment; thousands have showed up to protest against it.

It is the next phase of a project launched before the Olympic Games that Tokyo hosted in 2020, which included construction of a new national stadium next to the baseball one. In the process the city eased regulations against high-rise buildings in the area. By levelling and replacing the baseball stadium and a nearby rugby one, it aims to turn Jingu Gaien into a “world-class sports cluster”, which would also include two soaring towers, a shopping area and hotels.

To erect skyscrapers at the site, first developed as a recreational area in 1926 to honour the Meiji emperor, would be “sacrilegious”, says Ishikawa Mikiko of ICOMOS, a UNESCO advisory body. Hashimoto Satoko, an architect, says the existing baseball stadium, which was renovated in 2014 to be made earthquake-proof, should be maintained. She accuses the city’s officials of being trapped in the “scrap and build” mentality that defined Tokyo’s urban planning in the 1960s, a time of rapid economic growth and change in the metropolis.

Some baseball fans raise practical concerns, suggesting the planned skyscrapers could cause disruptive winds at the new stadium. Rampant redevelopment of baseball stadiums in America suggests such worries can be exaggerated. Of the dozens that hosted Babe Ruth, two remain, Fenway Park in Boston and Wrigley Field in Chicago. After Jingu Stadium goes, Koshien Stadium in Kobe will be the only other survivor.■

**Murder in the suburbs**

# A devastating accusation by Justin Trudeau against India

*The row between Canada and India could draw in America and Britain*

Sep 19th 2023 | Delhi and Ottawa



AP

ON THE EVENING of June 18th Hardeep Singh Nijjar, a Canadian Sikh leader whom India considered a terrorist, was sitting in his truck in a car park outside a *gurdwara* (a Sikh temple) in Surrey, a suburb of Vancouver in British Columbia, when two masked men shot him dead. They fled through a park and disappeared.

On September 18th Justin Trudeau, Canada's prime minister, told lawmakers in Ottawa that "credible intelligence" from the country's security services linked India to the killing. It is a highly unusual accusation for the leader of one democracy to make against the government of another. Mr Trudeau said that he had discussed the allegation with Narendra Modi, India's prime minister, on the sidelines of a [G20 meeting](#) in Delhi on September 10th, and that he would push India to co-operate with an investigation. "Any involvement of a foreign government in the killing of a Canadian citizen on

Canadian soil is an unacceptable violation of our sovereignty,” he told Parliament.

The accusation marks a new low in the already frosty relationship between the two countries. Shortly after Mr Trudeau’s remarks, Canada’s foreign minister announced the expulsion of the head of India’s intelligence agency in Canada.

India’s foreign ministry categorically denied the “absurd” allegation, and said Canada had shared no evidence for the damaging claim with India. It also announced the reciprocal expulsion of a Canadian diplomat and a suspension of visa issuance in Canada. It accused Canada of sheltering “Khalistani terrorists and separatists”, a reference to those who seek an independent homeland for Sikhs in the state of Punjab and other parts of northern India.

In India, the public reaction to Mr Trudeau’s speech broadly echoed the government’s line. A spokesman for the main opposition Congress party declared that India must be “uncompromising” in fighting terrorism. Several editorials highlighted Canada’s alleged failures in tackling Sikh extremism and accused Mr Trudeau of pandering to terrorists. Some supporters of Mr Modi also predicted that the row would help the prime minister. “Justin Trudeau starts campaigning for Modi ahead of the 2024 General Elections by blaming his govt of neutralising a terrorist on Canadian soil,” Nupur J. Sharma, the editor of OpIndia, a right-wing website, wrote on X (formerly Twitter).

A deterioration in India-Canada ties had been apparent for some time. On September 1st Canada said it had paused trade talks with India. In the days leading up to the G20 Canada, while doggedly raising its allegation, apparently tried to reduce tensions by quietly sending the head of its intelligence service and Mr Trudeau’s national security adviser to India. It did not help. At the G20 summit in Delhi, where other Western leaders held long meetings with Mr Modi, Mr Trudeau was fobbed off with a ten-minute huddle on the sidelines. A smiling Mr Modi draped a silk scarf round Mr Trudeau’s neck in what now looks like an ironic welcome. Mr Modi later accused Canada of allowing India’s enemies to promote secession and incite violence against Indians in Canada. (A previous trip by Mr Trudeau to India

in 2018 turned into a fiasco after a convicted Sikh extremist was invited to a reception for him at the Canadian High Commissioner's residence; the invitation was later withdrawn.)

Sikh separatism, the cause behind a bloody insurgency in India in the 1980s and early 1990s, has long been a sore point between India and Canada, which has a large [Sikh diaspora](#). India accuses Canada of being soft on militant separatists. Former Canadian security officials say India's government has conducted surveillance on Khalistani groups in Canada for years. Canada itself became the victim of Khalistani terrorism in 1985, when a bomb blew up an Air India aeroplane flying from Montreal to London, killing 329 people, mostly Canadians. It remains the deadliest terrorist attack against Canada in history. Just one suspect was convicted in connection with the bombing; another was shot dead in his car last summer, in the same city where Mr Nijjar was killed.

The plane bombing has in no way soured relations between the 770,000 Sikhs living in Canada and their fellow Canadians. An important political constituency, Sikhs are courted by all Canadian parties. Canada insists it has cracked down on the small minority who have brought their fight for Khalistan to the country. Mr Nijjar had been a vocal advocate for an independent Khalistan, but he denied involvement in violence.

A deepening estrangement between the two countries would have economic implications, if modest ones. Canadian investors have become more important in India as they seek to profit from its high-growth economy: CPP Investments, a giant Canadian national savings fund, has some \$20bn invested in the subcontinent. India is Canada's tenth-largest trading partner.

## All eyes on Modi

But the ramifications of Mr Trudeau's accusations go far beyond the relationship between Canada and India. The prime minister said that Canada, a member of the Anglophone "Five Eyes" intelligence alliance, was "closely co-ordinating" with allies on the matter. On September 18th America's National Security Council duly released a supportive statement, saying it was "deeply concerned about the allegations referenced by Prime Minister Trudeau" and urged India to co-operate with the Canadian investigation.

Britain and Australia, which have both had recent run-ins with India over the activities of Sikh separatists on their soil, issued similar statements. All three countries are [courting India](#) as a potential hedge against Chinese domination in Asia, and are painfully reluctant to antagonise it. Yet Mr Trudeau's public airing of the allegation, based on evidence that they will have seen, gave them little choice.

If Mr Trudeau's allegation is correct, the assassination points towards an activist turn in the operations of India's intelligence services in the West, not least the Research and Analysis Wing (RAW), India's foreign-intelligence arm, the likeliest candidate for such an operation. Carved out of the domestic Intelligence Bureau in 1968, reputedly with help from the CIA, RAW has focused mainly on gathering intelligence on, and conducting operations in, Pakistan, China and other neighbours of India. It has been suspected of conducting black operations to influence India's neighbours, and to arrest and sometimes to kill its foes. But it is hard to find a precedent for such a seemingly overt attack in the West. It would have been "madness to perpetrate an act like this in a Five Eyes country", says a European former intelligence official.

India may hope to emulate Israel's Mossad, whose famously long arm strikes foes far away. But it risks being classed with Russia, whose murders abroad have provoked widespread condemnation and Western sanctions. If the allegations are correct, RAW may have spotted a chance to get rid of a troublesome separatist in Canada and send a message to others like him. But the killing seems more likely to inflame than quell the Khalistanis—while forcing India's Western allies to ponder how benign a global power it really is. ■

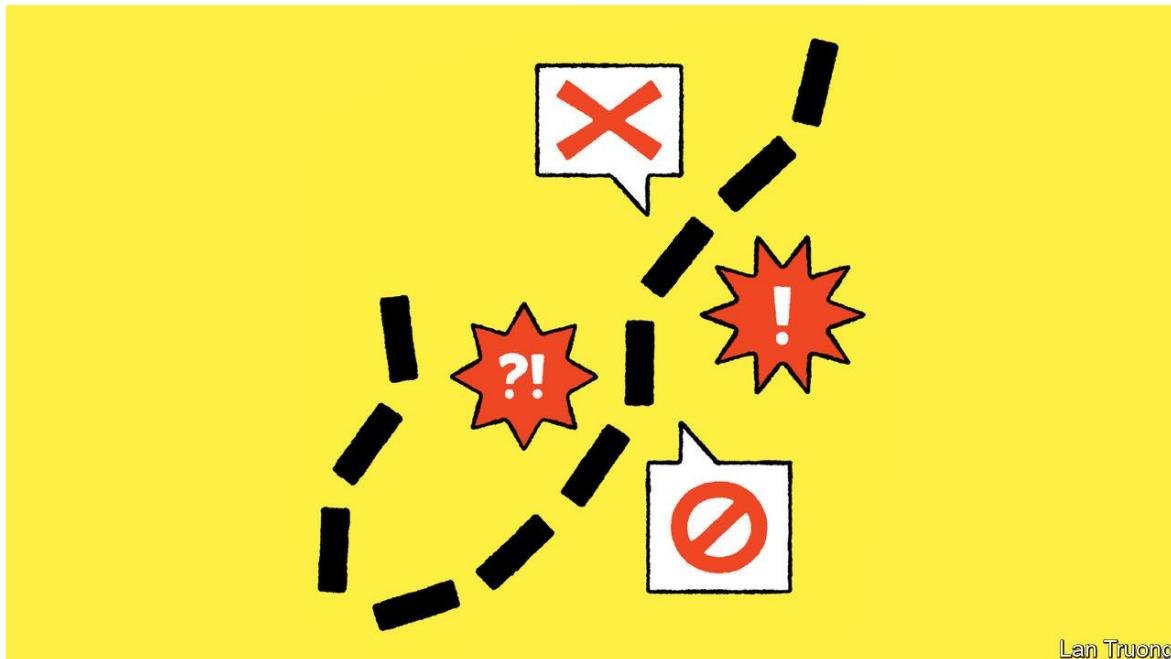
**Clarification (September 21st 2023):** This piece has been edited to provide further details of India's response to the allegation.

**Banyan**

## China's claim to the South China Sea gets even odder

*Despite its more co-operative tone, China will not stop its bullying in the South China Sea*

Sep 21st 2023



LATE LAST month the government in Beijing published a “standard map” of China and all its territorial claims. It did a strikingly efficient job of upsetting the neighbours, from India to Japan, but above all those around the South China Sea. Vietnam objected to the map’s inclusion of the Paracel Islands, which China seized from it in 1974. The Philippines protested over the Scarborough Shoal, from which China has barred it by force since 2012, even though it lies well within the Philippines’s 200-nautical-mile exclusive economic zone (EEZ). And the map’s inclusion of the Spratly Islands—a welter of islets, atolls and reefs spread out across a vast swathe of the South China Sea a very long way from China itself—angered those countries and Malaysia, too.

Yet that much was predictable. South-East Asians have long suffered from Chinese expansionism in the South China Sea. China’s notorious “nine-dash

line” is both symbol and tool of its extravagant claims: a U-shaped tongue of passive cartographic aggression, it encompasses almost the entire sea. In 2016 an arbitral tribunal at The Hague, in a case brought by the Philippines, ruled among other things that the line had no basis in law. Yet the new standard map even includes an extra dash to the line, placed east of Taiwan. This new, tenth dash has bred the most consternation. Some sense that it opens a new front in China’s grandiose claims. Is that likely?

The concerns are overdone, writes Bill Hayton in *Fulcrum*, house journal of the ISEAS-Yusof Ishak Institute, a regional research outfit in Singapore. This is not the first time Chinese cartography has included a tenth dash. Besides, Mr Hayton explains, the nature of the U-shaped line, which dates back to the 1940s, has always been vague and subject much of the time to “happenstance and incompetence”. Back then, Chinese mappers were not really clear what lay inside the line, which was intended as merely a schematic outer marker of what might in future be claimed within it. In recent decades, vagueness has suited the Chinese Communist Party as it has asserted (though never officially) absurd “historic rights” over everything inside the line. Maximalist claims, in turn, help China bully neighbours over things like fisheries and hydrocarbons exploration. The basis of the new line, says Mr Hayton, is as nonsensical as was the original.

In the *Diplomat*, an Asia-focused online magazine, Mark Raymond of the University of Oklahoma and David Welch of the University of Waterloo in Ontario go further. The tenth dash seems intended to incorporate Taiwan, which China has long claimed as its own. Yet the dash falls arbitrarily, neither demarcating Taiwan’s territorial waters nor fully including its official EEZ. It therefore does not match any maritime area China formally claims. The authors suggest this and other inconsistencies are tacit acknowledgment that China knows that claiming everything inside its U-shaped line is fanciful. Were it to be up front about this it would cause a backlash at home. That would be to confess to an “intensely nationalistic domestic audience that China does not have the full slate of sovereign rights in the South China Sea that it previously behaved as though it had”.

Since the map’s publication, senior Chinese officials have sought to dampen the controversy over it. They speak of China’s “brotherly ties” with its neighbours and need for co-operation on the troubled sea. Yet, says Jay

Batongbacal of the University of the Philippines, to expect good behaviour from China is fanciful. Its powerful coastguard has used military-grade lasers against Philippine counterparts and last month forcibly blocked the resupply of a Philippine military outpost on the Second Thomas Shoal. The shoal is perhaps the sea's likeliest flashpoint right now. Mr Batongbacal says China might want to provoke an escalation there and then blame it on the Philippines.

The expectation of continued Chinese coercion in the South China Sea is thickening military ties among others wary of it. Defence co-operation between America and the Philippines, a treaty ally, is growing fast. In August the Philippines held joint naval exercises with America, Australia and Japan—a first. This week the ten-nation ASEAN conducted its first-ever combined exercises (admittedly well to the south of the contested parts of the sea). Small steps add up to a big change from even a few years ago, when neighbours were reluctant to do anything to offend. China has only its behaviour, and ludicrous map, to blame. ■

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# China

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**Xi's troubled coterie**

# The disappearance of China's defence minister raises big questions

*Officials selected by Xi Jinping are going down. What does that say about his judgment?*

Sep 20th 2023



AN ABILITY TO groom talented officials, China's leader, Xi Jinping, once said, "largely determines the rise and fall, as well as the survival or demise" of political parties and countries. After a sweeping reshuffle of ministerial posts in March, the government's main news agency, Xinhua, recalled Mr Xi's words in an article aimed at showing how meticulous the selection process had been. Since late June, however, two of the most senior officials who were promoted in that shake-up have disappeared: first Qin Gang, the former foreign minister, and more recently General Li Shangfu, the defence minister. The swiftness of their apparent downfalls has been striking. The questions they raise about China's politics are big.

There is no sign that this is an existential moment for the Communist Party, or Mr Xi's rule. Adulation of Mr Xi continues unabated in state media. He stayed away from the G20 summit in Delhi on September 9th and 10th—an

unprecedented absence. But on September 16th and 17th Wang Yi, who succeeded Mr Qin as foreign minister in late July, met America's national security adviser, Jake Sullivan, in Malta. According to Bloomberg, they discussed a possible meeting between Mr Xi and President Joe Biden at a gathering of Asia-Pacific leaders scheduled for November in San Francisco. China's military activities appear unaffected, too. On September 17th and 18th about 100 Chinese fighter jets flew around Taiwan, an unusually high number in such a space of time.

But the churn at the highest levels of the state and military apparatus has been unusually fast, even by the standards of Mr Xi's purge-filled tenure. General Li has not been seen in public since August 29th, when he appeared at a China-Africa security forum. He was supposed to attend an annual meeting with Vietnamese defence officials on September 7th and 8th. But that plan was scrapped, with Chinese officials citing the general's health. Unspecified illnesses seem to be a common problem for those in political trouble. Mr Qin was said to have a health condition, too. But according to the *Wall Street Journal*, senior Chinese officials were told in secret last month that he had "lifestyle issues". They allegedly involved an extramarital affair, resulting in the birth of a child, while Mr Qin was ambassador in Washington before becoming foreign minister.

On official websites, no change has been indicated in General Li's duties. But American and other officials have told Western media that they believe he has been relieved of his post. Reuters reported that he was suspected of corruption related to the procurement of military equipment, which he oversaw from 2017 to 2022. The news agency said that eight senior officials from the procurement department were being investigated, too.

There is also speculation that graft is a reason for the replacement in late July (announced in state media) of General Li Yuchao and General Xu Zhongbo. They were the two most senior commanders of the Rocket Force, which controls China's nuclear and conventional missiles. General Li Yuchao had been put in charge only last year. A less high-profile but equally unusual personnel change came to light on September 1st with the dismissal of Major General Cheng Dongfang as president of the People's Liberation Army military court after just eight months in the job. No reason was given.

General Cheng had previously served as spokesman of China's military garrison in Hong Kong.

On Chinese social media, censors have stifled most discussion. Only one comment is visible on the post of a user with more than 670,000 followers who hinted at the defence minister's absence. "Aren't you afraid of having your account closed down?" it says. "Don't talk about him." But given Mr Xi's efforts to portray China's political system as a more stable and effective alternative to liberal democracy, the purges have provided rich pickings for his foreign critics. On X (formerly Twitter) America's ambassador to Japan, Rahm Emanuel, compared the turnover to Agatha Christie's novel, "And Then There Were None". He later offered another literary analogy: "As Shakespeare wrote in Hamlet, 'Something is rotten in the state of Denmark'."

To be sure, the posts of defence minister and foreign minister are not as critical in China as they often are in other countries. Neither General Li nor Mr Qin are among the 24 members of the Politburo, the apex of political power. But the ministerial jobs involve defending the country's interests abroad. (In China's eyes, Mr Qin's alleged behaviour may have made him a security risk.) And the purges raise questions about Mr Xi's ability to select the right talent and his capacity to scare officials into avoiding corruption.

The moves have targeted people who were clearly Mr Xi's men. Mr Qin's elevation to the rank of foreign minister was unusually rapid, suggesting he may have impressed Mr Xi during a stint as the chief organiser of his foreign trips. He was promoted last year to the party's Central Committee and in March got the additional title of state councillor (a senior role in China's cabinet). Only four others hold that rank, including General Li. The defence minister is also a Central Committee member and one of the six officers who work under Mr Xi in the armed forces' governing body, the Central Military Commission.

## **Team of no rivals**

General Li and Mr Qin were among many people close to Mr Xi who benefited from the reshuffle in March as well as another one last October involving party jobs. The overhaul produced a ruling team more seemingly

in lockstep with the paramount leader than any since the era of Mao Zedong. In China, questions will certainly be asked (in whispers) about how stable it is.

But Mr Xi must be used to muttering. His previous purges have affected hundreds of thousands of officials, high and low, including many in the services most vital to maintaining the party's grip on power: the armed forces, the police and the spy apparatus. Most of the fallen have been accused of corruption, but some, too, of political wrongdoing. Last September courts imposed lengthy prison sentences on several security chiefs accused of being corrupt, as well as members of a disloyal cabal. They included a former deputy minister of public security and a former justice minister. In 2015 Zhou Yongkang—a retired head of China's internal security services and former member of the Politburo's Standing Committee—was sentenced to life in prison for bribery and leaking state secrets. Mr Xi accused him and other jailed associates of attempting to "seize power".

If General Li is replaced as defence minister, there could be an upside for America. Last August, in response to a visit to Taiwan by the then speaker of America's House of Representatives, Nancy Pelosi, China halted regular talks between the two countries' defence establishments. America is keen to restart them, seeing them as useful for discussing ways of preventing unintended clashes. But while working in procurement, General Li was placed under American sanctions in 2018 for buying fighter jets and missiles from Russia. China wants the sanctions to be lifted before talks resume. Removing the man himself may resolve an impasse. ■

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## Claims on the past

# How China uses UNESCO to rewrite history

*The country's heritage sites often reinforce the Communist Party's view of the past*

Sep 21st 2023



Jigme Dorje/Xinhua/Eyevine

PU'ER TEA is an earthy brew beloved of dieters for its digestive qualities. Its leaves come from the forests of Jingmai mountain in south-west China, which was listed as a World Heritage site by UNESCO, the cultural arm of the United Nations, on September 17th. The designation, China hopes, will boost tea sales and lure tourists to the region, which is near the border with Myanmar, Laos and Vietnam. Chinese officials work hard to obtain the UNESCO stamp of approval. Only Italy has more such sites. No country comes close to China in terms of the number of cultural practices recognised by the organisation.

But there is more to China's efforts than increasing tea sales and tourism. The Communist Party claims that present-day China, which has dozens (perhaps hundreds) of ethnic minorities, is a single nation with a continuous history stretching back thousands of years. National identity is conflated with that of the Han, the ethnic group accounting for more than 90% of the

population. China's heritage laws aim to maintain "the unification of the country" and foster "social harmony". In practice, this often means distorting history so that it aligns with the party's view of the past and reinforces its vision of nationhood.

When UNESCO conceived its record of World Heritage sites in the 1970s, China was intent on crushing its cultural relics. Today, though, China donates more money and sends more delegates to the international body than any other country. Many of the sites ratified by UNESCO, such as the Great Wall, are well known. But others, along with certain cultural practices, are put forward in order to legitimise the party's rule over regions with large ethnic minorities, says Christina Maags of Sheffield University. Areas such as Xinjiang and Tibet have not always been part of China, nor dominated by the Han. Yet the party's version of history tells a different story.

In the far-western region of Xinjiang, over 40% of the population are Uyghur, an ethnic minority. Their culture, language and Muslim faith set them apart from much of China. The Uyghur heartland began to fall under formal Chinese control in the mid-18th century—revealingly, the Manchu rulers of the Qing dynasty named it Xinjiang, meaning "new territory". Over the past decade the party has forced Uyghurs and other ethnic minorities in the region to assimilate. After 2017 perhaps a million of them passed through "re-education camps". Security remains intense, with the government citing concerns about terrorism and separatism. Activists say it is erasing the Uyghur culture.

None of this is reflected in the government's nomination of the Tianshan mountains in Xinjiang as a World Heritage site. "Since ancient times, people of all Chinese nationalities have lived on this fertile land and have created a rich material culture and spiritual civilisation," reads the application. It describes a Xinjiang of Han military towns and transportation centres and cites Han poets who lauded the Tianshan mountains. In nearly 1,000 pages of documentation the Uyghurs are mentioned only a handful of times, often as part of a list of ethnic groups who live in the area. A similar history of Xinjiang was put forward by the Chinese government when a portion of the Silk Road was up for UNESCO recognition. The region was described as a cultural belt that saw the "integration" and "continuous fusion" of Han people with "local residents".

When Mao Zedong's guerrillas seized power in 1949, China's borders were not clearly defined, nor its population entirely submissive. In 1950, when Communist troops invaded Tibet, they were not welcomed by its residents as liberators, as the party claims. Promises of autonomy were broken, leading to an abortive Tibetan uprising against Chinese rule in 1959. The history approved by UNESCO, though, suggests a more harmonious past. In 2013 the organisation accepted the records of Tibet from China's Yuan dynasty (1279–1368) into its "memory of the world". These were proof, said the government in Beijing, of an ancient period when imperial rulers were "highly tolerant of the religious, political system and culture of Tibet"—and also evidence that the integration of Tibet into China under the Yuan was lasting.

## All for one

To bolster the idea of a Han-centric identity, the party seeks to dilute the contributions of minority groups in UNESCO claims. For example, documents filed with the organisation state that Tibet's Potala Palace, the winter home of Dalai Lamas from 1649 to 1959 (pictured), exhibits the skills of many ethnic groups, not just Tibetans. The government uses "radical selectivity" in choosing which places, people and practices to emphasise, says Rachel Harris of the School of Oriental and African Studies, part of the University of London.

The state is also selective about what cultural practices it ascribes to different groups. The Han are typically credited with "civilisation building", says Juheon Lee of Midwestern State University in Texas. So the group is associated with applications involving high culture, such as the Peking opera, or technical expertise, such as bridges. In contrast, ethnic groups in border regions are nominated for folk practices like medicinal bathing (Tibetans) and throat singing (Mongols).

UNESCO tends not to dispute China's claims. Nor would it be safe for historians in China to do so. Ms Harris notes that Uyghur scholars are locked up for asserting a different version of history. But the party's effort to put forward its own interpretation has been slowed, at least. In 2018 UNESCO changed its rules so that a country could nominate just one new site a year. ■

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## Spooked

# China tells its citizens to be on the lookout for spies

*They're everywhere, says the local intelligence agency*

Sep 21st 2023 | BEIJING



Reuters

A SEA-CUCUMBER farm is not an obvious target for spies. So when a group of foreigners turned up at one in north-east China last year, the owner, Mr Zhang, did not think much of it. According to state media, the guests received permission to install seawater-quality monitors. After they left, Mr Zhang noticed that the equipment was not working properly. It also had a mysterious, beeping antenna attached to it. So he called the authorities. They said it was transmitting strategic data on China's oceans to "hostile powers". The foreigners were found and arrested.

Stories like this, true or not, serve the purpose of China's intelligence agency, the Ministry of State Security (MSS). It claims that the kind of espionage discovered by Mr Zhang is rampant—and ordinary Chinese must help to stop it. On August 1st the MSS joined WeChat, a popular messaging app, to implore "all of society" to look out for spies. This followed a comment by William Burns, the CIA director, that America had made

progress in rebuilding its spy networks in China a decade after dozens of its sources were killed or disappeared.

The government is doing its part to increase public awareness. It has offered rewards of up to 500,000 yuan (\$68,500) for reporting spies. In the city of Zhengzhou, warnings about foreign snoopers have been placed on the back of bus seats. Elsewhere officials are using leaflets, lectures and comic strips to get the message out. In the region of Xinjiang officials produced a short film depicting a spy disguised as an amateur photographer. The spy asks a taxi driver to take him to a military base. The alert driver takes him to the police.

A specific appeal has been directed at young people. The MSS says it wants “the seeds of national security to take root and sprout” in their minds. Local branches of the ministry have joined up with schools to put on classes and exercises. One of these, at Xiamen University earlier this year, saw students play spies and spy-hunters. Middle-schoolers in Shanghai are taught about national security on board a mock aircraft-carrier, while dressed in fatigues.

But things get tricky when students go abroad. Officials worry they will be lured into spying for foreign powers. The MSS has shared cautionary tales on WeChat. In one, a Chinese student in Italy is said to have been recruited by American spooks over fancy dinners and trips to the opera. Another is said to have got too friendly with an American embassy official in Japan. Both of the students returned to China and sold secrets to the CIA; they have since been caught and punished, says the MSS.

The ministry’s campaign has gone down well with some members of the public. Netizens have warned government workers not to share too much about their jobs online, in case spies are reading. A video that claims the CIA was behind the recent deaths of several engineers and scientists has over half a million views.

Others, though, think the government is going too far. Hu Xijin, a well-known nationalist commentator, complained that people are growing increasingly scared to meet foreigners, lest they be reported. On Weibo, a social-media site, some users worried about a return to the days of the Cultural Revolution, a decade of Maoist madness when neighbours, friends

and even family members informed on each other. “History is a circle,” said one person. “Tragedies like sons reporting on fathers seem to be getting close again.”

The increased paranoia will make life even harder for foreigners in China. A photo circulating on social media shows an American teacher in Shanghai explaining to his class that he is not a spy. Your correspondent was recently intercepted by officials while on a reporting trip. A member of the public, the officials explained, had seen a foreigner asking questions. Being a good citizen, they had called it in. ■

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**Chaguan**

## China wants to be the leader of the global south

*An unusual speech in Cuba gives hints about its grand plan*

Sep 21st 2023



Chloe Cushman

IT IS NOT every day that someone from Xi Jinping's inner circle drops a reference to Zhou Enlai, Mao Zedong's chief diplomat. Yet Zhou's dapper ghost hung over a recent speech given in Havana to developing-world leaders by Li Xi, boss of the feared Central Commission for Discipline Inspection. Indeed, the whole speech was filled with nods to the past. Mr Li recalled mid-20th-century struggles for "national independence and liberation". He mentioned the "Bandung Spirit" and "Five Principles of Peaceful Coexistence". That refers to the Bandung Conference of 1955, at which Zhou committed China to a path of non-aggression and non-interference in the affairs of other Asian and African countries.

The discipline-enforcement boss was sent to Cuba as Mr Xi's personal envoy to a summit involving China and emerging economies from the G77 group. He promised that China will "always be part of the developing world and a member of the global south", no matter how advanced it becomes. By way of explanation, Mr Li reached back into history. China is forever bound

to other nations that fought colonial-era “exploitation and oppression”, he said.

Mr Li, a member of the Politburo Standing Committee, the top leadership body, was not speaking off the cuff. Nor was his cold-war history lesson a one-off, inspired by the sight of shark-finned old Cadillacs chugging through Havana. China has launched a new, concerted campaign to present itself as a natural leader for the developing world, starting with countries that have painful memories of bullying by colonial powers or by America.

On September 13th the foreign ministry published a “Proposal of the People’s Republic of China on the Reform and Development of Global Governance”. This urges sweeping changes to the rules and institutions that oversee international development, security and human rights. It finds many lessons in history. America (referred to as a “certain country”) is told to learn from past wrongdoing, including ignoring Russia’s “legitimate security concerns”, making “wanton use” of sanctions and hampering scientific progress with “hegemonic” controls on technology sales.

In the name of redressing “historical injustices”, China calls for developing countries to be given a much greater say at the United Nations, including seats for Africa on an expanded Security Council (the proposal makes no mention of China’s rival, India, a developing giant that has long sought a seat on the council). Restating long-standing Chinese arguments, the proposal calls the rights to subsistence and development “the basic human rights of paramount importance.” All other rights must bow to “national realities”. To advance that worldview, China proposes that UN human-rights bodies should employ more citizens from developing countries as soon as possible. More clearly than ever before, the document weaves together Mr Xi’s big foreign-policy proposals, from the Belt and Road Initiative to the Global Development Initiative, Global Security Initiative and Global Civilisation Initiative. It presents them as China’s unified plan for tackling everything from climate change to the regulation of cyberspace. The stated goal: to create a “better future for humanity”.

The proposal was followed days later by a joint statement issued by Mr Xi and Zambia’s president, Hakainde Hichilema, who was on a state visit to China. The statement names and endorses Mr Xi’s various global initiatives

in turn. China's preferred foreign policies are presented as in the common interest of developing countries. Rich states are reminded of their “inescapable historical responsibilities over climate change”, and told to take the lead in reducing emissions. Zambia declares China a new model for countries seeking independent paths towards modernisation. Independence is relative, of course. Zambia owes China billions of dollars. After long resistance, Chinese lenders agreed to restructure much of this debt in June, but largely by extending maturities and offering to suspend interest payments for some years, rather than by writing off loans.

## **Towards a China-crafted, China-led order**

Chinese officials and scholars detect a turning-point in history. Many low-and middle-income countries resent Western arguments about right and wrong. They blame sanctions on Russia, imposed by Western countries over its invasion of Ukraine, for high food and energy prices. In response, China is presenting itself as leader of something resembling a new, non-aligned movement. China calls for “true multilateralism”, delivered by international bodies, from the UN to the World Bank and International Monetary Fund, that are no longer dominated by America and other rich liberal democracies. It talks of respecting the diversity of the world’s civilisations: code for rejecting liberal values as a form of Western-centric racism.

China’s non-aligned posture does not stand much scrutiny, though. In the original non-aligned movement, Egypt, India, Yugoslavia and others gained clout by forming an ideologically unpredictable and diverse group, says Richard Gowan of the International Crisis Group, a think-tank. This time, for all the “mood music about anti-colonialism”, what China is offering is “a coalition of states that China would lead”.

By declaring that a rich China would still be a developing country, Chinese leaders are manipulating language so that “developing” ceases to be an economic term and means “non-Western”, says a diplomat. The goal is to rally non-Western countries around Mr Xi’s favoured vision for global governance. Some will be wary, adds the diplomat, for they wish “to diversify their strategic, economic and political interests”, not sign up to a China-led bloc.

Still, foreign leaders can expect pressure to endorse China's new proposal for global governance. It contains so many Xi-branded initiatives that Chinese diplomats must promote it, or risk seeming disloyal to their supreme leader. Chairman Mao's long-suffering envoy, Zhou Enlai, would understand. ■

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# United States

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## Uninsurable America

# Parts of America are becoming uninsurable

*Blame growth in hazardous areas, climate change and bad policy*

Sep 21st 2023 | Santa Clarita



Getty Images

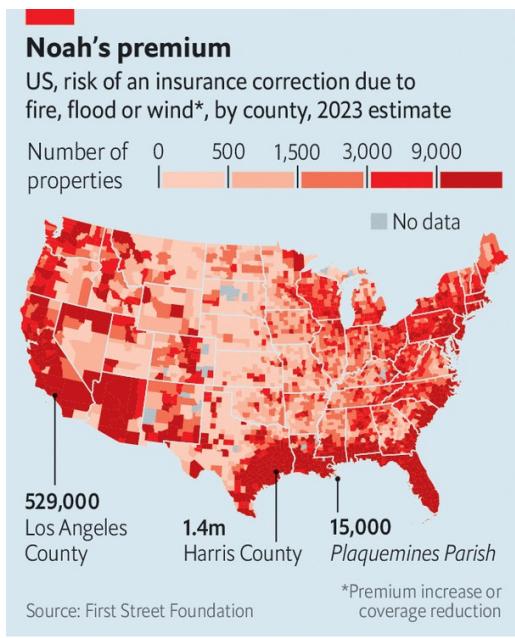
ELLIE LAKS remembers watching the wildfire crest the desiccated hills in front of her property. “We’re talking about a wall of fire coming towards you and eating everything in its sight,” she recalls. Ms Laks runs the Gentle Barn, an animal sanctuary nestled in the mountainous scrublands of Santa Clarita, in Los Angeles County. On most days the farm is a soothing place. But on October 24th 2019, fear was the dominant emotion. “You can’t see, you can’t hear...your throat hurts, you’re coughing, you can hardly breathe,” she says. The Gentle Barn survived the blaze. But this year, Ms Laks lost her property insurance when her insurer decided to limit its business in California. She is not alone. According to state data, 85% of properties in one Santa Clarita zip code were dropped by their insurers between 2015 and 2021.

In theory, insurance sends a risk signal. Homeowners could expect their policy to be expensive if they live in a floodplain or in a forest. It would be cheaper in places less prone to storms, wind or fire. Yet for decades

distortions in federal and state insurance markets have suppressed rates, enabling a mass migration to hazardous areas. The population of Florida, which suffers more hurricanes than any other state, grew more than twice as fast as the country did between 2000 and 2020. Texas, which is vulnerable to storms that form in the Gulf of Mexico, grew even faster. By 2015, the value of insured property along the Gulf and Atlantic coasts had passed \$13trn. A recent study from researchers at Stanford, the University of California in Los Angeles and the Australian National University suggests the population living in the “wildland-urban interface”, where nature meets development, doubled between 1990 and 2010, to nearly 21m people. Even more striking, the population in areas most prone to wildfires grew by 160%.

While Americans were moving to risky places, climate change was making them riskier. Now private insurers are sounding alarm bells. Firms are writing fewer policies in vulnerable areas, and are pulling out of some states altogether. A new report from the First Street Foundation, a non-profit research group, suggests 6.8m people have seen increased rates—or, like Ms Laks, cancelled policies—due to rising flood, wind or wildfire risk. Another 39m, or about a quarter of all properties in the continental United States, have climate risks yet to be reflected in their premiums. “We are marching steadily towards an uninsurable future in a number of places across the United States,” warns Dave Jones, a former insurance commissioner in California and director of the Climate Risk Initiative at the University of California in Berkeley.

To understand the challenges facing homeowners, insurers and regulators, it is worth examining three different markets: Florida, California and the National Flood Insurance Programme (NFIP).



The Economist

In Florida the average home-insurance premium in 2023 is around \$6,000, more than three times the national average and up 42% year-on-year. Yet rather than drooling over juicy profits, insurers are fleeing. At least 15 firms have recently limited their business in the state, according to the Insurance Information Institute; seven others were declared insolvent. With 1.3m policies, the state-backed insurer of last resort now has the highest market share in Florida and is insuring assets worth \$608bn. When it can't afford to pay claims, policyholders foot the bill.

Extreme weather is not all to blame. In 2021 Florida accounted for nearly 7% of American property claims but 76% of lawsuits. Last year state lawmakers eliminated a fee system that incentivised lawyers to sue insurers, in the hope that it would decrease litigation and prevent more costs from being passed on to homeowners.

The Golden State is following the Sunshine State into market failure, but for different reasons. Though California is a pricey place to live, property insurance is relatively cheap thanks to strict consumer-protection laws. Regulations prevent insurers from raising premiums high enough to cover inflation, increasing wildfire risk and rising reinsurance rates. State Farm, the biggest insurer in California, Allstate and Farmers Insurance have recently limited new policies. As in Florida, the state's insurer of last resort

is stepping in. California's FAIR plan nearly doubled its policy count between 2018 and 2021.

## **Broker breakers**

At the tail-end of the legislative session state lawmakers tried to craft a deal which, it is said, would have allowed insurers to raise rates and use forward-looking climate models to set premiums, in exchange for staying in the market. But time ran out. Rule changes that do not require legislation, such as allowing the use of catastrophe modelling, may still emerge.

The federal government is the champion of enabling development in risky areas, though. The flood-insurance programme was created in 1968 to provide cover which was hard to come by on the private market, and to help manage risk in flood plains. Yet because the NFIP was heavily subsidised, it had the perverse effect of enabling, rather than discouraging, development in such places. The subsidies, combined with increasing risk as development soared, have left the NFIP in a financial mess. Congress forgave \$16bn of its debt in 2017 so that the programme could pay claims for hurricanes Harvey, Irma and Maria. The NFIP's insolvency is not a recent problem, nor one created by climate change. The Government Accountability Office, a watchdog, has pointed out for 40 years that the NFIP's rates have not been actuarially sound.

Both in the states and in Congress, there is a bipartisan desire to keep rates low and constituents happy. In 2021 the Federal Emergency Management Agency (FEMA), which runs the NFIP, began implementing a new pricing scheme, called Risk Rating 2.0, to raise rates to a level that accurately reflects risk. Two-thirds of policyholders will see their premiums rise, some by astronomical amounts. Price rises are capped at 18% per year, but Plaquemines Parish, the toe of Louisiana's boot, will eventually see rates quintuple above 2022 levels. The backlash has been swift. More than 200,000 people have cancelled their federal flood-insurance policies. Ten states and dozens of parishes in Louisiana are suing FEMA to scrap the initiative.

If the NFIP is not reauthorised by Congress before September 30th, it will have to stop writing new policies. Over the past six years Congress has

granted the NFIP 25 short-term reauthorisations, punting any attempt at reform down the road. That seems likely to happen again. Yet Sean Becketti, a former chief economist at Freddie Mac, argues that taxpayers in safer places may soon wake up to the fact that they are subsidising insurance for homeowners in risky ones. "People in Montana are going to say: 'Why am I paying for someone to live in south-east Florida?'"

Some reforms reduce risk for insurers and lower costs for some homeowners. This year insurers in California must begin offering discounts for homeowners who protect their properties from wildfires. During a recent demonstration in Orange County, firemen set the grounds of two sheds on fire. One had all the hallmarks of a fire-safe home—such as a lack of plants and fencing up against the house. The other boasted shrubs, mulch and a wooden fence. After a few minutes, this house was engulfed in flames. The fire-safe one escaped the experiment unscathed.

Such tweaks cannot erase risk. As premiums rise and homeowners have trouble finding coverage, local economies may suffer. Some people will be priced out. Mr Becketti recently warned the Senate that overvalued homes will depreciate as their true risk is realised and, unlike after America's subprime housing bubble burst in 2007, they will not recover their value. Insurance is "the canary in the coal mine", for how climate change will affect property markets, he tells *The Economist*.

In time, the people who can afford to stay in coastal Florida or in the foothills of the Sierras will be those who can pay the exorbitant cost of insurance that comes with an ocean view or woodland retreat. Or, if there is no coverage to be found, those who can afford not to be insured at all. What about the people who can't afford to stay, and can't afford to abandon their homes? Jesse Keenan, a professor of sustainable property at Tulane University in New Orleans, argues local governments need to start thinking seriously about managed retreat. "At the end of the day, people who live in super-high-risk zones are going to have to move," he says. "And there's going to be a lot of political bloodshed along the way." ■

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**Pax Texana**

# What Ken Paxton's acquittal means for Texas Republicans

*Threats from the MAGA phalanx cowed lawmakers*

Sep 21st 2023 | Austin



Ilana Panich-Linsman/The New York Times/Redux/Eyevine

THOUGH THE Texas House of Representatives overwhelmingly impeached Ken Paxton in May, in a trial that concluded on September 16th a star-studded prosecution team failed to persuade the Senate that the attorney-general had illegally used his office to benefit his buddy Nate Paul, an Austin-based property developer. Only two of the 18 Republicans voted to convict on the articles handed to them by their sister chamber, falling seven votes short of ejecting him. The acquittal comes after two weeks of testimony from the office's former top brass, who were sacked or resigned after reporting to the FBI that their boss was taking bribes. It also promptly sends the conservative demagogue back to work.

After the senators set Texas's top cop free, Dan Patrick, the lieutenant governor who presided as a non-partisan trial judge, blasted the House for wasting taxpayer dollars on a sham probe. His change in disposition, though stark, is unsurprising. In July, one day after he issued a gag order that

forbade lawmakers from talking about the case, it came out that he had received \$3m from Defend Texas Liberty PAC, a pro-Paxton outfit. Mr Patrick may not have been the only one who accepted donations while the House was deciding whether to impeach Mr Paxton. Because of Texas's lax campaign-finance rules, the senators were free to accept cash from interest groups. That is unusual, considering they were meant to be acting as jurors.

Pundits correctly predicted that whether Mr Paxton was ousted or reinstated, it would be by a wide margin. Defend Texas Liberty vowed to lead the campaign to crush Republicans who betrayed the attorney-general. Before the trial San Jacinto 2023, a corporation newly registered in Virginia, spent at least \$30,000 on ads targeting swing senators; on his talk-show the War Room, Steve Bannon had them called out by name. The calculus became clear: if acquittal seemed likely, it could be political suicide for lone Republican senators to stick their neck out to convict. Neither Kelly Hancock nor Robert Nichols, the two who dared to, is up for re-election in 2024.

Mr Paxton applauded the senators for restoring the will of the people who voted him in. Yet according to the Texas Politics Project at the University of Texas at Austin, ahead of the trial 47% of registered voters thought the attorney-general ought to be removed and 18% did not (the others weren't sure). Dedicated partisans, however, closed ranks around him.

Because Texas is a one-party state—the Democrats have not held statewide office since 1994—fringe right-wingers have outsize influence. Republican primaries are the only contest in town and even though members of either party are eligible to vote in them, just 2m of the state's 30m residents typically do. Polls show that those who cast ballots prize far-right policies and have little interest in moderates.

Texas's now-reinstated attorney-general could yet be toppled by the feds. In February the Justice Department took over the FBI's investigation of the whistleblowers' claims. Though fellow Republicans led the impeachment inquiry, Mr Paxton contends that Joe Biden was ultimately behind it. Being dethroned by Washington officials after Texas lawmakers voted him back in would electrify animosity.

That case, which has been under way for three years, is unlikely to be settled soon. In the meantime, the nearly martyred Mr Paxton may jockey for higher office. His election-denying heroics make him a prime candidate for a gig in a second Trump administration. On Tuesday he was interviewed by Tucker Carlson. Following the playbook of the former commander-in-chief, who congratulated Mr Paxton on a “Texas sized VICTORY”, he aims to turn his legal liabilities into badges of honour. ■

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## Busting out

# Illinois is the first state in America to abandon cash bail

*Will it actually keep people out of jail?*

Sep 21st 2023 | CHICAGO



Jim Wilson/New York Times/Redux/eyevine

AT THE BACK of room 100 in the Cook County criminal court, in southwest Chicago, a conversation is taking place before proceedings start. The room is packed, and two young men awaiting a decision on the fate of a friend, arrested the night before, chat with a woman who explains why the place is so busy. As of this morning, she explains, nobody arrested or charged in the state will be asked to put up money to be set free before trial. “You mean you don’t even need to put up property?” asked one of the men in reply, surprised. No, she explains. “Nah,” says the other man, sceptically. “This is a business.” If the judges cannot charge people money, they will lock everybody up, he opines. “It is gonna be back to three men in a cell.”

On September 18th, Illinois became the first state to completely scrap cash bail, when it implemented a law passed more than two-and-a-half years ago. In the 1950s Nelson Algren, a poet, wrote that Chicago was “still the easiest joint in the country in which to get a jump bond”, with “the price commonly

being whatever you have in your wallet.” Now, the price will be less even than that. The idea, in the words of Kim Foxx, the chief prosecutor in Cook County, which covers Chicago and its inner suburbs, is that people should not be held in jail “by some arbitrary monetary amount”. Advocates hope it will set a precedent that other states might follow. But the men in the courtroom are not the only sceptics about how it will play out.

The case for the reform is simple. “The money-bond system is fundamentally irrational,” says Sarah Staudt of the Prison Policy Initiative, a criminal-justice-reform charity. Domestic abusers were often freed on bond, whereas homeless shoplifters ended up in jail, she says. And pre-trial imprisonment imposes huge costs on people who are still legally innocent. They can lose jobs, see relationships collapse or become victims of violence themselves inside. Some studies suggest that innocent people are more likely to plead guilty, so as to be released, sentenced to time already served. Against that, however, is the fear that dangerous criminals will be let free.

Under the new system, judges are meant to balance those risks more deliberately. Whereas bonds used to be decided in as little as a minute, now hearings to set bail conditions take at least five, and hearings to detain somebody longer still. Prosecutors deliver a summary of the arrest and charge, as well as the suspect’s criminal history. The defence offers mitigating factors, such as the suspect’s employment or caring responsibilities. An official from a new “pre-trial” agency delivers two scores: on threat to public safety and likelihood to skip bail. And then the judge decides.

Advocates such as Ms Staudt stress that reducing the number of people in jail is the point. Ms Foxx, a progressive district attorney, says that in fact she hopes more of at least some types of suspects will be locked up. “We have seen far too many people who have been able to access cash bail who have gone on to commit harm, to threaten to terrorise,” she says. Exactly how the balance shifts is yet to be seen. Those your correspondent witnessed freed on September 18th included people charged with offences such as shoplifting. But there was also a woman accused of pepper spraying several police officers; at least a dozen cases of people caught with illegal guns; and one man, released not that long ago from prison for murder, who was accused of threatening to “shoot everybody” in a shop he was stealing from.

In New York, a law that eliminated cash bail in all but a few serious violent offences led to a 40% reduction in pre-trial detention between 2019 and early 2020, according to the Centre for Justice Innovation, a charity. But as crime rose, from the summer of 2020 onwards, the result was a backlash (even though it rose everywhere). The law has been amended three times since. In Chicago, few shootings at least are committed by people on bail, says Jens Ludwig, of the University of Chicago's crime lab. But judges and prosecutors will probably be cautious. Do not expect three men to a cell; but the Cook County jail may not empty that quickly either. ■

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## Diplomacy in the new cold war

# Biden, alone at the top table as the UN withers

*Global power shifts to smaller groups*

Sep 20th 2023 | NEW YORK



Getty Images

COME SEPTEMBER, come the gridlock to Manhattan as leaders gather for the UN General Assembly. This year, though, there was less *grandeur* to it. President Joe Biden was the only leader of the big five permanent members of the Security Council to show up. This gave him more freedom to show a way through what he calls “an inflection point in world history”. And Ukraine’s president, [Volodymyr Zelensky](#), took the spotlight, warning that Russia’s invasion threatened all: “Many seats in the General Assembly Hall may become empty if Russia succeeds.”

Granted, Xi Jinping and Vladimir Putin rarely attend the talkfest. The Russian leader is anyhow indicted for war crimes. The surprise was that Rishi Sunak and Emmanuel Macron, the British and French leaders, passed up the UN stage. Blame summit fatigue—both European leaders were in Delhi earlier this month for the [G20 summit](#) hosted by Narendra Modi (who also skipped New York). Or blame concerns at home, as Mr Sunak

weakened green pledges and Mr Macron hosted the pope and the British king.

Yet the no-shows point to deep malaise at the UN, paralysed by the war in Ukraine, the rivalry between America and China and the outdated but unreformable Security Council. “Our world is becoming unhinged,” lamented the UN secretary-general, António Guterres. “Geopolitical tensions are rising. Global challenges are mounting. And we seem incapable of coming together to respond.” His cry barely caused a stir.

Some think the looser G20, whose economies account for four-fifths of global output, is the better venue to seek global solutions. America regards the smaller G7 group of industrialised countries as “the steering committee of the major democracies”, where its allies can best respond to Russia and China. And though China seeks to bend the UN to its liking, Mr Xi is keen to bulk up the BRICS group of developing countries.

“The real political value is moving to other places,” says Richard Gowan of the International Crisis Group, a think-tank. “Reform of the UN is blocked, so other political clubs inevitably become more important.” America has been creating ad hoc groups, notably in Asia. This week Mr Biden hosted a new summit with five Central Asian leaders. Antony Blinken, his secretary of state, launched a new “partnership for Atlantic co-operation” including African and Latin American states. Coalitions of the willing are part of diplomacy but lack “universal endorsement”, notes Mark Malloch-Brown, a former UN deputy secretary-general; the UN will endure, but will “busy itself with second-tier issues as it did during the cold war”. ■

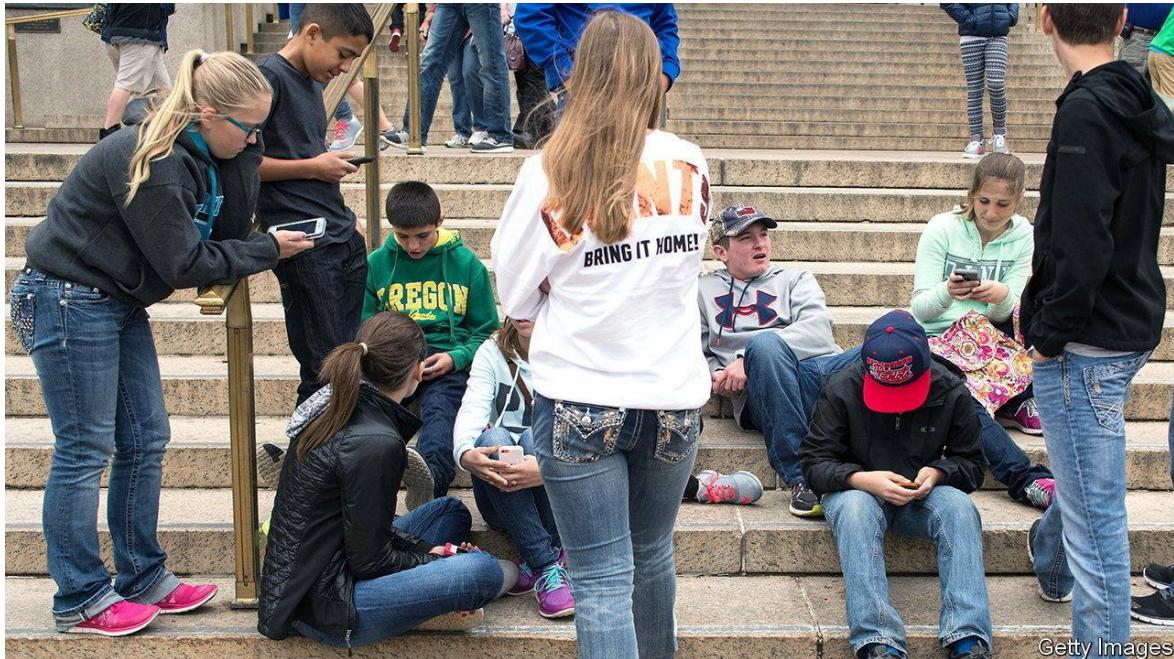
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## Blocking manoeuvres

# America's states are trying to set rules for the internet

*This sets up a clash between protecting children and free speech*

Sep 21st 2023 | WASHINGTON, DC



Getty Images

THE INTERNET has changed a bit since America Online's discordant tones marked the slow progress towards an even slower online connection. But federal and state legislators have struggled to keep up with policies to regulate it. California's new online-safety law for children, signed by Governor Gavin Newsom in September 2022, was supposed to correct for this. Child-safety advocates hoped it would be a major step towards regulating the internet. However, a federal judge has intervened, setting up a clash of values between child safety and free speech.

NetChoice, a trade organisation that includes Google and Meta as members, sued California on First Amendment grounds. On September 18th Beth Labson Freeman, a district-court judge, temporarily blocked the law. California's was supposed to lead the way; instead, it looks like a warning to other states that would like to do the same.

The law, known as the California Age-Appropriate Design Code Act, was supposed to go into effect in July 2024, and would require online platforms to treat children with more sensitivity. Car seats, cots and pyjamas have special regulations for children, says Buffy Wicks, a California legislator and co-author of the law. “Products that kids access online should have similar consumer-protection regulations.”

California modelled its law on Britain’s Age Appropriate Design Code, which came into force in 2020. If California’s law survives the legal challenges, companies would need to be careful about how they collect personal information, such as where a child is. Some firms might choose to disable direct messages between children and adults who are not in their network. Others may choose to turn off autoplay features or turn on bedtime reminders for children.

After California’s bill was signed, other states followed. Florida and Connecticut have drawn up similar bills. Other states are focused less on design and more on giving parents a say in what their children can do online. Utah’s governor signed two laws in March that require children to have parental consent to use social media. The state also prohibits minors from using the sites between 10:30pm and 6:30am, and holds companies liable for harming children. Utah’s laws will go into effect in March 2024. A similar law in Louisiana will start next summer. A different law in Arkansas that would have taken effect in September of this year has also been temporarily blocked by a federal judge.

Much of the legal pushback is on free-speech grounds. “Any law that limits the ability of younger people to access certain material...that sounds alarm bells,” says Megan Crowley of Covington & Burling, a law firm. She has represented tech firms on first amendment cases. “The Supreme Court has made it clear that kids have First Amendment rights,” she says. Ms Wicks is hopeful that the law will survive legal challenges, but Eric Goldman, a professor of law at Santa Clara University, is sceptical. The First Amendment is “pretty foundational stuff for us,” he says. “We were willing to go to war [with Britain] over that.”

Other states attempting to regulate tech have also stirred-up controversy. In July Pornhub, a hub for porn, blocked its website in Virginia after the state

passed a law requiring users to verify their age to access pornographic websites. In August a federal judge blocked a similar law in Texas. NetChoice is suing Texas and Florida over laws that prevent social-media companies from regulating content, such as removing extremist political opinions. That case could reach the Supreme Court in its next term. California's setback may give state legislators pause, but the legal battles over who rules the web have only just begun.■

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## Wasted organs

# In America, lots of usable organs go unrecovered or get binned

*That is a missed opportunity to save thousands of lives*

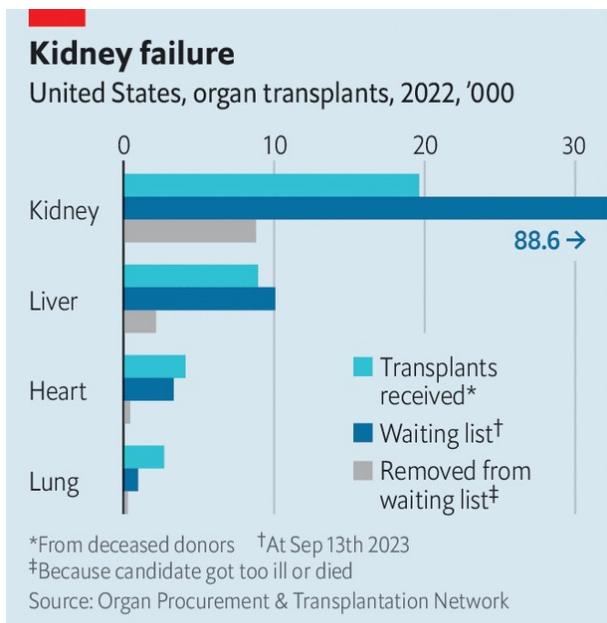
Sep 16th 2023 | New York



Science Photo Library

WHEN THE phone rings at LiveOnNY, death turns to opportunity. The organisation fields calls from 100 or so hospitals in and around New York City about every dead or dying person on a ventilator: stroke patients, gunshot victims, car-crash fatalities. Their organs might save sick people's lives. But most are not registered donors, so staff at LiveOnNY must persuade their families to donate, then rush the organs to transplant centres. Time is precious. A heart can go no more than six hours outside the body. Kidneys last longer, and can fly commercial.

LiveOnNY is one node in a network that gets organs from dead bodies into sick patients. America has more deceased donors, relative to its population, than any other country, but that does not adjust for type of death. Take into account America's surfeit of [drug overdoses](#), car crashes, suicides and [shootings](#)—which tend to be more conducive to donation—and the country probably looks less exceptional.



The Economist

Last year more than 36,000 organs from deceased donors were transplanted, though the pool of unrecovered, potentially usable organs is estimated to be at least double that. Tapping that supply would help meet a vast demand: 103,000 people are waiting for an organ. Last year about a tenth died while waiting or were delisted because they were too ill. Ignoring the “gap between the donors that we know are out there and the donors that we’re actually finding”, says Seth Karp, director of Vanderbilt University’s transplant centre, is “kind of unconscionable”. Modest increases could eliminate heart, lung and liver waiting-list deaths, and reduce the wait for a kidney, which averages four years.

More than four-fifths of all donated organs and two-thirds of kidneys come from dead people (who must die in hospital); living donors can give only a kidney or parts of a lung or liver. Whereas some countries, such as England, France and Spain, have an opt-out model, in America donors must register or their families must agree. Persuading them will always be hard: Dr Karp’s hospital gets consent from about half of potential donors. Elsewhere rates are much lower because those responsible are not trying hard enough, or at all. The Veterans Health Administration—the country’s largest health-care provider—yielded just 33 deceased donors out of roughly 5,200 donation-consistent deaths between 2010 and 2019.

Responsibility lies partly with some of the 56 nonprofit Organ Procurement Organisations (OPOs), like LiveOnNY, that do the legwork. Brianna Doby, a researcher and consultant, advised Arkansas's OPO in 2021 and was astounded to learn that most calls about potential donors went unanswered outside the nine-to-five workday and at weekends. Other OPOs, by contrast, sent staff to hospitals within an hour of an alert about a prospective donor.

Each OPO has a monopoly in the region in which it operates: the idea was that they should not jockey with each other at a deathbed. But none has ever lost its contract, even though performance varies hugely. If the bottom three-quarters of OPOs matched the top performers' recovery rates in 2021, about 6,000 more organs would have been transplanted, or 17% of the total from deceased donors that year.

## Kidney been

This will soon change. Laggards will be decertified in 2026 and taken over by high-performers that bid for them. The group responsible for monitoring the OPOs is also due for a shake-up. In July Congress passed a law to open bidding for parts of that job, which has been done for decades by the United Network for Organ Sharing (UNOS).

Yet unrecovered organs are not the only reason America could do more transplants. A surprising number of organs from deceased donors end up in the rubbish: more than a quarter of kidneys and a tenth of livers last year. In the past few years UNOS have expanded the geographical area in which organs can be allocated, increasing travel times and discard rates. The system is “groaning under this new complexity”, says Peter Reese of the University of Pennsylvania’s medical school.

Hospitals are often risk-averse, too. Discard rates are higher for organs of lower quality. Olivier Aubert at the Necker Hospital in Paris and his colleagues found that between 2004 and 2014 America’s kidney-discard rate was twice that of France, which makes use of older kidneys. During that time three in five kidneys binned in America would have been transplanted in France. Extrapolation from French data yielded more than 132,000 unrealised life-years had they been transplanted.

For elderly recipients, getting older or otherwise risky kidneys generally means better odds of survival than staying on dialysis. But hospitals dislike using them for two reasons. First, they can lead to more complications and thus require more resources, eating into margins. Second, if the recipient dies soon after the transplant, hospitals suffer—a key measure used to evaluate them is the survival rate of recipients a year after transplant. According to Robert Cannon, a liver-transplant surgeon at the University of Alabama at Birmingham, hospitals succeed by being excessively cautious and keeping patients with worse prospects off waiting lists.

Meanwhile, usable organs are going to waste. Sumit Mohan of Columbia University found that kidneys of the same quality were 25% more likely to end up in the rubbish if procured on Friday or Saturday. That would mean operating at weekends. ■

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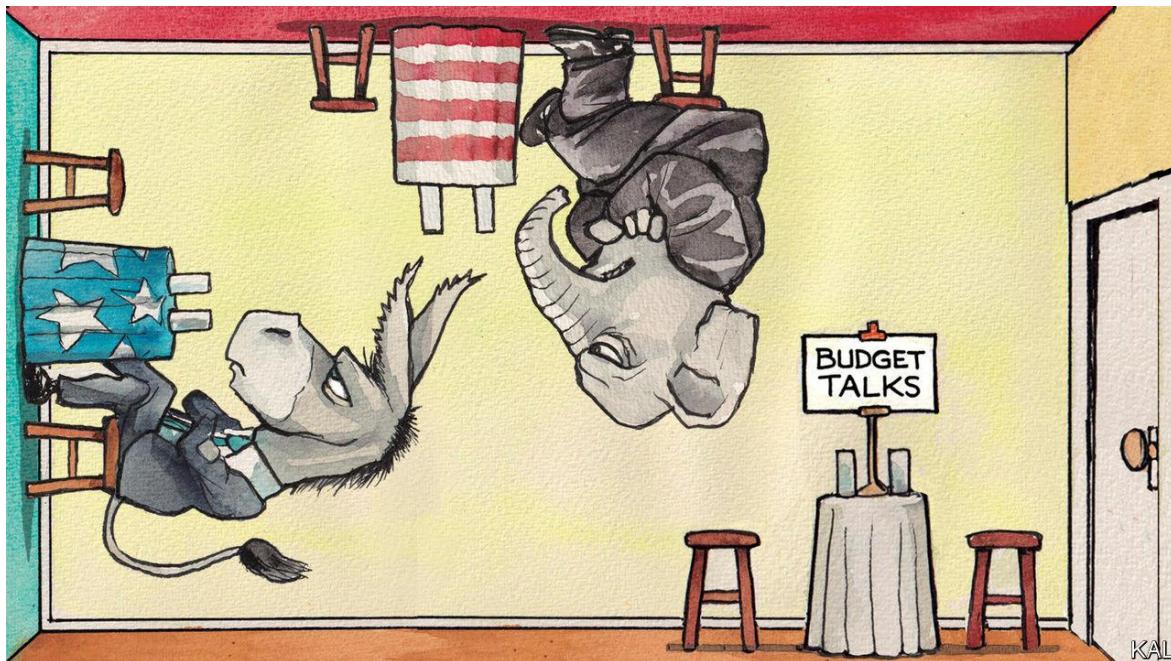
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**Lexington**

## America's dumbest, wildest budget fight yet

*Sensible lawmakers should exploit it to make some demands of their own*

Sep 21st 2023



HOW STRANGE that some American politicians have persuaded themselves it is patriotic and wise to menace their own country's credit or shut down its government. Amid such nonsense, one can forget that Washington teems with bureaucrats, non-profits and even members of Congress who are devoted students of public policy, brimming with zeal for sensible reform. Upon encountering such would-be do-gooders in this era of legislative hissy fits, should one be filled with relief, or pity?

Lexington found himself mulling this question as, buffeted by successive waves of each sentiment, he roamed recently among the hundreds of boffins mingling at the annual "Budget Bash" of the Committee for a Responsible Federal Budget, a non-profit group whose name rings more plangently with each passing year.

It was a muggy September evening at the top of a Washington office building; through the gloaming glimmered the dome of the Capitol, where the speaker of the House, Kevin McCarthy, had just given up persuading

fellow Republicans to vote for a defence-spending bill the Republicans themselves had written. With the end of the fiscal year approaching, and Republicans in the House at each other's throats—let alone in serious talks about the budget with Democrats in the House, let alone the Senate, let alone the White House—the government was careening again towards a shutdown. Small wonder there was talk among the “budget community”, as these beleaguered believers refer to themselves, of rolling boulders up hills. “Obviously, there’s not much to celebrate,” announced one of the evening’s toastmasters.

As the budget community knew well, the current stand-off was dire, and dumb, even by the dismal standards of impasses past. Though Congress decades ago abandoned the orderly budget process it created in the early 1970s, budget fights in recent years have tended to be over how to allocate a certain amount of money stipulated by law or agreement. That was supposed to be how things would go this year: under pressure last spring from House Republicans, who threatened to force America to default by not raising the statutory limit for its debt, President Joe Biden in June signed the Fiscal Responsibility Act, which set caps for the next two years on “discretionary spending”—that is, money for programmes that are not entitlements, such as Social Security.

But some House Republicans think those caps are too high. They want to break the deal made just over three months ago. Meanwhile, Senate Republicans have joined Democrats to seek more spending than the caps allow. As a result, even the top-line numbers, this time, are up in the air.

The budget community also knew well, as it laid siege to the bar at the Budget Bash, that Mr McCarthy had made matters even more fraught in a blundering attempt to appease his most radical colleagues: he had unilaterally started an impeachment inquiry into Mr Biden over his son Hunter’s business dealings, despite lacking any evidence the president has broken a law. Mr McCarthy’s gambit made House Democrats even less inclined to lend him any votes, but it had not mollified his berserkers, members of the so-called Freedom Caucus. They were still threatening to shut down the government and to topple Mr McCarthy.

And yet, in the face of this mounting chaos, the budget community was collectively shrugging. It knows that, though a real rupture is always possible, these dramas tend to follow a certain script. Stopgap funding bills keep the government open (or, should a shutdown occur, eventually reopen it) and negotiators work their way to a deal—one that none of the wonks will recognise as “responsible”.

That is what preoccupies the budget community: not the pantomime in the foreground, with its gestures at rectitude, but the real crisis building in the medium to long term. As revenue has slipped and the cost of the federal debt has risen with interest rates, the deficit has, in effect, doubled in a year to \$2trn, reaching its highest level as a percentage of GDP, 7.4%, in any fiscal year when the country was not facing some national emergency, such as a war or recession. The gross federal debt is above 120% of GDP and climbing. With pensioners multiplying relative to workers, the fund that tops up Social Security benefits is due to be depleted in ten years, which will mean mandated benefit cuts of 23-25%.

But because Democrats have successfully campaigned on the sanctity of entitlements, even the Freedom Caucus has fled from trimming them. And because Republicans have successfully campaigned on tax cuts, even Mr Biden favours keeping most of Donald Trump’s profligate tax law of 2017, set to expire after 2025, a gimmick meant, at passage, to camouflage its long-term cost.

### **Just another word for nothing left to choose**

That leaves the Freedom Caucus, in its false piety, focused on discretionary programmes, such as education and transport, which account for about a quarter of spending. This is magical budgeting. Since neither party wants to reduce money for defence or veterans either, the Committee for a Responsible Budget estimates that, to reach balance, spending on all other programmes would have to be cut by 85% from current levels over ten years.

If the budget community got its wish, responsible representatives would use their votes in this collision to insist on concessions, too. They would demand a commission of respectables to map all paths back to fiscal stability, with a

plan due after the election. Much as the heart might sink at this hoary strategy, it is probably the only way for Washington to confront such hard choices. Lawmakers should also demand passage of a bipartisan Senate bill that, in a shutdown, would force members to stay in session seven days a week until they pass a budget. They owe the country at least that, and it might help them get back in practice. In the lulling era of low rates, austerity fell out of fashion. That is changing gradually, and, one of these days, may change very suddenly indeed.■

**Read more from Lexington, our columnist on American politics:**

[Why some GOP candidates don't act as aggrieved as Donald Trump](#) (Sept 14th)

[What Democrats can learn from Bobby Kennedy](#) (Sep 7th)

[Joe Biden's re-election bid is in trouble](#) (Aug 31st)

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## Middle East & Africa

- [Is the end of AIDS in sight?](#)
- [Iran's \\$6bn hostage deal is part of a broader diplomatic strategy](#)
- [Lebanon's prison inmates are running short of food](#)
- [Khalifa Haftar will use Libya's floods to deepen his control](#)

**Making sex safer again**

# Is the end of AIDS in sight?

*The virus can be brought under control, but it's complicated*

Sep 18th 2023 | JOHANNESBURG



Anna Parini

HOW CAN cotton wool help in the fight against AIDS? The answer is surprising, and illuminates how complicated it will be to beat the deadliest sexually transmitted sickness of all time. The struggle involves not only dazzling science but also old-fashioned insights into human behaviour, rational and irrational.

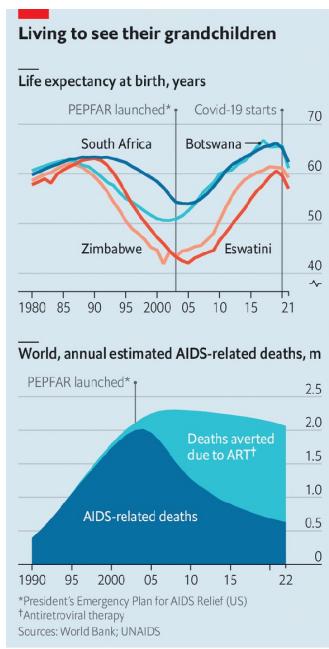
Many people who do not have HIV, the virus that causes AIDS, know they are at risk. They can take pre-exposure prophylaxis (PrEP), a kind of drug that reduces their chance of contracting it by 99% or so. This comes as a daily pill, and is popular among gay men in rich countries.

However, there is a much larger group of people at high risk, for whom a daily pill is far from ideal: heterosexual women in poor places where HIV is still very common. If their boyfriends discover they are taking the pill, they may conclude that their girlfriend does not trust them, or that she is planning to cheat on them. And a depressing number of boyfriends who suspect such things react violently.

A [high-tech solution](#) is on the horizon: cabotegravir, from ViiV Healthcare, a single injection that lasts for two months and is much more discreet than a daily pill. Alas, it is new, costly and not widely available, especially in Africa, where the virus is most widespread. So Patrick Mdletshe of the KwaZulu Natal Provincial Council on AIDS in South Africa offers a low-tech fix: stuff cotton wool in the bottle so the daily pills don't rattle and your boyfriend won't notice that you are taking them.

UNAIDS, a UN body, hopes to end AIDS as a major public-health threat by 2030, building on the staggering success of the past two decades. AIDS, which weakens the immune system, has killed about 40m people—more than covid-19. However, the pace at which people are dying of it has fallen dramatically. In the early 2000s it was 2m a year, largely in poor countries, where hardly anyone could afford \$10,000 a year for life-prolonging pills. In some African countries between a fifth and quarter of the adult population was infected with HIV; nearly all were expected to die of it. Life expectancy in Zimbabwe and Eswatini fell by two decades.

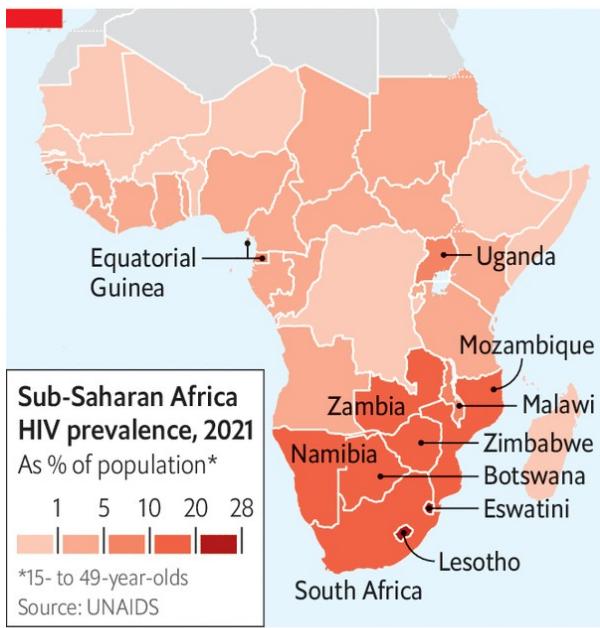
AIDS slaughtered adults in their productive prime—slowly. Breadwinners sickened, stopped earning and needed care. Their spouses looked after them until they, too, fell ill. Daughters dropped out of school to care for ailing parents. Households headed by orphaned children became frighteningly common.



The Economist

Then the price of antiretroviral pills plummeted, as drug firms offered steep discounts for poor countries and donors chipped in billions to pay for them. Today a year's supply can cost a mere \$45. Between 2001 and 2019 life expectancy in sub-Saharan Africa rose by 17%—and much more in the worst-affected countries (see chart). Globally, some 21m deaths have been averted, by one estimate. Today, three-quarters of those infected—roughly 30m people—are receiving treatment.

Unfortunately, triumph has bred complacency, argues Peter Sands, the head of the Global Fund to Fight AIDS, Tuberculosis and Malaria, a donor-financed body. “There’s a diminishing sense of urgency,” he says. Or worse. The biggest donor by far is America. Its global AIDS programme, PEPFAR, which was set up by President George W. Bush, expires on September 30th and some Republicans are trying to block its reauthorisation. A recent report from a conservative think-tank described AIDS as “primarily a lifestyle disease” and griped that PEPFAR was being used to promote a “radical social agenda overseas”. (It does not bar aid recipients from talking about abortion.) Mr Bush is horrified. “To abandon our commitment now would forfeit two decades of unimaginable progress and raise further questions about the worth of America’s word,” he fumed in the *Washington Post* on September 13th.



The Economist

An estimated 39m people are HIV positive—more than half of them in Africa. All will need lifelong treatment unless a cure is found. Meanwhile, the virus is still spreading. Some 1.3m people were freshly infected last year. In eastern Europe and the Middle East, the numbers of new infections in 2022 were 49% and 61% higher than in 2010, albeit from low bases.

There are two main approaches to tackling the virus. One is to invent new medicines: ideally a cure or an effective vaccine. The other is to reach more people with existing technology. Both approaches—in the lab and on the ground—are being pursued in tandem by governments, private companies, donors and NGOs.

A cure seems a long way off. A vaccine may be closer, but HIV is an elusive target. It is highly mutable, and hides its DNA inside some of the immune cells that are supposed to destroy it. Nina Russell of the Gates Foundation, who has worked on HIV vaccines for “many, many, many, many” years, is nonetheless hopeful.

From past failures scientists have discovered that they need to design vaccines that can teach the body to make antibodies to tackle a wide range of viral strains. They might have to create three, four or five different vaccines and jab people with all of them, in the correct order. Firms such as Moderna

and BioNTech are using mRNA technology to speed up the process. However, even optimists do not expect success this decade. So hitting the 2030 target will depend largely on two things. First, finding and treating more infected people. Second, identifying those who are at risk of infection and helping them avoid it.

UNAIDS urges countries to aim for “95-95-95”: where 95% of those who have the virus know they have it, 95% of those who know they have it are receiving treatment, and crucially that 95% of those in treatment are “virally suppressed”. If the drugs suppress the virus to a level where it is undetectable—and keep it there—it cannot be passed on sexually.

If the world were to reach 95-95-95, the disease would be brought under control, UNAIDS reckons, though tens of millions would still be living with it. In 2022 the figures were 86-76-71, a hefty improvement on 71-48-40 in 2015. But the “last mile” will be hard. “You have to be much more creative,” says Dr Quarraisha Abdool Karim of CAPRISA, a research centre in Durban.

One enormous, tricky group is men. They are less likely to get tested than women, not least because they do not get pregnant. Prenatal clinics are a wonderfully convenient place to test women who have recently had unprotected sex. If they test positive, many countries now offer them free drugs, which protect mother, child and future romantic partners.

There is no male equivalent of a prenatal clinic. Also, some men have a macho reluctance to seek medical help. They “get very sick before they get tested”, says Sibongile Tshabalala, the chair of the Treatment Action Campaign, an NGO in South Africa.

“As men, we’re embarrassed to go to a clinic. We’re taught we need to be strong, so we cannot be seen to be sick,” says Ronnie Sibisi, a 60-year-old from Vosloorus, a township near Johannesburg. He was “a player” with many girlfriends, he says. He knew how the virus was transmitted, but seldom used condoms. “I didn’t think about it,” he shrugs. He did not get tested until he collapsed and woke up in hospital.

It is, perhaps, most crucial to reach young women and girls. In sub-Saharan Africa HIV is three times more common among females aged 15-24 than among their male peers. This is because older men often seek younger partners. There is peer pressure on young women to have trendy clothes and hairstyles, says Ms Tshabalala. These cost money, which impels some girls to sleep with older men. And only 36% of young women in eastern and southern Africa report having used a condom the last time they had sex with a casual partner. In West Africa it is only 25%.

If their “sugar daddies” infect them, the girls may pass the virus to a partner of their own age. This is the most common way that HIV passes from one age cohort to the next. Breaking that link would allow the younger cohort, who are largely virus-free before they become sexually active, to stay that way. If you can reduce new infections among young girls, “you break the back of the pandemic in Africa,” says Dr Salim Abdool Karim, an epidemiologist (who is married to Quarraisha Abdool Karim).

A tangle of social problems makes everything harder. Poverty is one. If you are poor, getting tested can be a challenge even if the test is free. A day off work and a bus fare to the clinic can scupper your budget.

Male violence is another obstacle. A study in six African countries found that women who had been physically abused in the previous year were 3.2 times more likely to have been infected with HIV recently. Women who live in fear may find it harder to say no to unprotected sex. And the first wave of AIDS, by killing so many parents, made families in some countries even poorer and more unstable than they already were. In South Africa, for example, thanks to a long tradition of migrant labour under apartheid and the recent ravages of AIDS, only a third of children live with both biological parents.

Social dysfunction helps the virus spread. Thulina Moukangwe was raped by four different relatives, starting when she was 11. She does not know which one infected her. She did not get tested until she was 17, “because I was young and ignorant”, she says. She received little support from her chaotic family, and did not seek treatment for another five years.

Fear of death can make bad boyfriends behave even worse. After Makhosazana Molotsane tested positive her partner was furious. For years he refused to get tested himself, drunkenly sang in the street that she was bringing disease into his home, and burned the condoms Ms Molotsane wanted to use. He seized her antiretroviral drugs and tossed them away. She hid her pills in a nappy bag. He beat her up; eventually she left him.

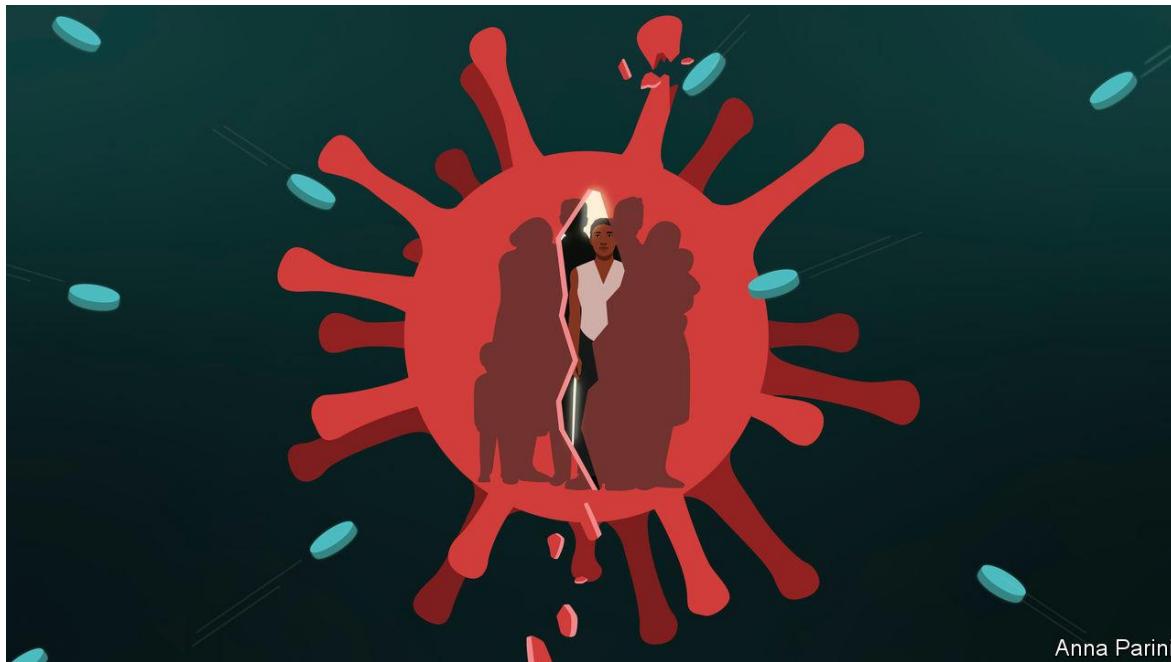
Both women's fortunes eventually improved. Ms Molotsane, who is 40, found a more supportive partner, who reminds her to take her drugs. Her viral load is low enough that her doctor tells her it is safe for them to have a baby. Ms Moukangwe, who is now 29, has become a "peer educator": a volunteer who helps people make informed decisions about their health.

This is one area where NGOs are especially useful. Health services are overstretched, and people often resist instructions from officials. A more effective way to persuade scared, reluctant people to take the right medicine is for them to talk to people from similar backgrounds. Ms Moukangwe, who had heard that antiretroviral drugs "made you crazy", started taking them after she saw that a friendly volunteer, who had been taking them for years, was sane and healthy. "You can't just tell people to go to a clinic," says Ms Moukangwe. "I talk about myself, as a way of encouraging others."

## Testing, testing

Private companies pitch in, too. Mining firms in southern Africa saw AIDS as a huge threat two decades ago. Their workers were often migrants, who lived far from their families in hostels surrounded by prostitutes. Companies such as Anglo American started offering staff free testing and antiretroviral drugs even as South Africa's president at the time, Thabo Mbeki, publicly questioned their efficacy. It was a delicate task, recalls Brian Brink, who used to run Anglo's AIDS programme. Unions had to be convinced that tests would not be used to identify sick staff and fire them.

Stigma lingers even in countries where nearly everyone knows someone with HIV. People worry that if they get tested near home, or pick up antiretrovirals from a pharmacy, a neighbour will spot them, says Mr Mdletshe. This makes it less likely that they will get tested in the first place, or stick to a lifelong drug regimen.



Anna Parini

Sometimes stigma is compounded by law. Aspects of sex work are criminalised by 168 governments. This deters sex workers from seeking help. Nokwanda Gambushe, an activist in Durban, complains that cops search sex workers' handbags and, if they find condoms, arrest them. This hardly encourages safe sex.

In addition, 145 countries criminalise drug use and 67 criminalise gay sex. The sharp increase in infections in eastern Europe and the Middle East is largely due to a lack of prevention services for marginalised populations, reckons UNAIDS. Uganda introduced the death penalty this year for “aggravated homosexuality”, which might make gay Ugandans think twice before walking into a clinic to get tested.

Policy can make a huge difference. President Mbeki’s AIDS denialism cost an estimated 300,000 South African lives. However, when he was sacked by his party in 2008, experts persuaded a caretaker government to adopt a first-rate AIDS policy. Drugs were swiftly rolled out, and between 2009 and 2012 the proportion of children under five in South Africa who were orphans plunged from 12% to 7.3%.

The best foundation for fighting AIDS is a well-functioning public-health system with short queues and sensitive staff, says Mr Mdletshe. Many

countries fall short. Waiting times are often long, pharmacies run out of pills, staff are sometimes judgmental. When Ms Moukangwe tested positive, a nurse shouted at her for her lax morals. Even in rich countries, governments that fail to prioritise the disease tend to deal with it badly. The proportion of infected people taking antiretroviral drugs is actually lower in eastern Europe and central Asia than in sub-Saharan Africa.

Governments do not work in a vacuum. The places that have come closest to hitting the 95-95-95 targets are typically African countries where donors are pouring in resources and expertise, such as Botswana, Rwanda, Tanzania and Zimbabwe. The second tier are often rich countries with generous public services (Denmark, Saudi Arabia) or places that developed a serious anti-AIDS strategy early on in the pandemic, such as Cambodia and Thailand.

One of the biggest obstacles to curbing the spread of HIV is that the symptoms take a long time to appear. “Recently infected people have high viral loads, and are more likely to infect others. The problem is that those who have been infected don’t yet know it,” laments Dr Salim Abdoool Karim. “The gap between being infected and being tested is usually years.”

So he suggests something radical: offering PrEP to girls in schools. Instead of waiting for those who think they are at risk to come to a clinic, health workers should go to schools and offer PrEP to all the girls above a certain age, along with testing, contraception and health-care services. This could meet stiff resistance from traditionalists who think it would encourage promiscuity. Also, it is “only feasible if you have a PrEP that lasts six months,” says Dr Salim Abdoool Karim. “You can’t keep going to the schools more than...once every six months. It’s not practical.”

Longer-lasting drugs are in the pipeline, and could “change the trajectory” of the disease, says Deborah Waterhouse, the boss of ViiV. The first not-for-profit delivery of ViiV’s two-month injection, to PEPFAR, will be in October. It has regulatory approval in four southern African countries, and has been licensed to cheap generic manufacturers. Gilead, an American firm, has a drug called lenacapavir, which is already used as a treatment, and which breaks down so slowly that it might work as a prophylaxis for six months. It is in clinical trials among girls in South Africa and Uganda.

Rolling out new drugs would cost a lot. Roughly \$21bn was spent on fighting HIV in poor and middle-income countries in 2022, with slightly less than half coming from donors; UNAIDS thinks \$29bn will be needed in 2025. To those who would penny-pinching, Mr Sands retorts that it is “rational to hit this thing hard and fast”. Fighting AIDS slowly would be “much more expensive...If you don’t reduce the number of new infections, every new infection is translating into a lifetime of antiretroviral treatments...and complications.”

A lifetime of treating someone with HIV in a poor country costs around \$5,000, by one estimate; in rich countries, it is \$380,000. By comparison, the cost of averting an infection in Zambia or South Africa is \$2,000-\$3,000, according to a different study published in the *Lancet* in 2021. And so long as the virus is circulating somewhere, nowhere is safe. ■

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## **Hostages and a fortune**

# Iran's \$6bn hostage deal is part of a broader diplomatic strategy

*But inside the country, tensions are running high*

Sep 18th 2023



FEW IRANIAN acts outrage its enemies more than its taking of hostages. Foreigners are offered visas to visit Iran and are then seized on departure by the Islamic Revolutionary Guard Corps, Iran's strongest force. Iran then uses them as bargaining chips for prisoner swaps and cash, among other things. "The Islamic republic isn't a banana republic, but...it still behaves like a mafia state," says a Western diplomat, previously based in Iran.

On September 18th Iran and America each exchanged five prisoners in a deal sweetened by America's unfreezing of \$6bn of Iranian funds—mainly payments for its oil—held in South Korea. The released hostages include Siamak Namazi, an Iranian-American businessman held since 2015, and Morad Tahbaz, an Iranian-American environmentalist who also holds British citizenship. But perhaps a dozen Westerners and several dozen more dual nationals remain behind bars as leverage for future deals. And on September 16th Iran arrested another dual national in Karaj, a city west of the capital, Tehran.

Iranian officials claim they have no choice but to take prisoners, since their adversaries also flout international law. Their ire has been stoked by America's imposition of sanctions and by the unloading last month of Iranian oil from a tanker America had seized and taken to Texas.

Over the longer run such hostage-taking cripples Iran's hopes of developing a tourism industry and hampers foreign investment and trade. But the cash it generates is tempting for a regime that faces discontent amid soaring inflation and a currency that earlier this year fell to a record low (before rebounding on hopes of a prisoner-for-cash deal). America's Treasury will monitor how Iran spends the \$6bn to ensure that funds are used by Iran only for humanitarian purposes. But, says Norman Roule, a former American spy in the region, the deal could free up cash for Iran's military programmes, too. Iran might also gain a sanctions-waiver mechanism that could be reused in other financial transactions. "This could be a learning moment for future diplomacy over sanctions relief," says Esfandyar Batmanghelidj, an Iranian-American economist in London.

A flurry of diplomatic activity has followed. Iran's president, Ebrahim Raisi, went to New York to address the UN General Assembly. Further talks are planned between the Iranians and their erstwhile regional foe, Saudi Arabia, together with the other five Arab states of the Gulf Co-operation Council on the sidelines of the UN meetings. And to coincide with the prisoner release, Iranian and European officials met for talks, too.

But in the wake of the deal, the two belligerents toughened their stance. America unveiled new sanctions targeting Iran's drone production. Mr Raisi used the UN podium to denounce "the project to Americanise the world". And buoyed by the prisoner deal, Iran's parliament passed a law imposing jail sentences of up to ten years on women who flout the dress code (it still needs to be approved by the country's Guardian Council).

Few observers see this as the first step towards reviving the JCPOA, an agreement signed in 2015 that was intended to prevent Iran from enriching uranium to a level that would have put it on the "threshold" of acquiring nuclear weapons. The Trump administration withdrew from the deal in 2018, prompting Iran to ignore its key restrictions. "Iran is already a threshold state so that horse has bolted," says a mediator. In protest at Iran's

enrichment of uranium beyond civilian levels of 60%, Britain, France and Germany announced earlier this month that they were enshrining UN sanctions in national law before they expired under the terms of the JCPOA.

Still, the hostage deal continues a remarkable diplomatic offensive under Mr Raisi, a supposed clerical hardliner in a historically xenophobic regime. In recent months his administration has restored diplomatic relations with its regional competitor, Saudi Arabia, begun talks on joining the BRICS, a club of big emerging markets, and finally joined the Shanghai Co-operation Organisation of Eurasian countries. Even the Israeli prime minister, Binyamin Netanyahu, has muted his criticism, apparently for fear of exacerbating tensions with the Biden administration and spoiling his own hopes of establishing diplomatic ties with Saudi Arabia.

But hubris in the wake of the prisoner deal may get the better of the regime. The clerics need to shore up international support as the Islamic Republic grapples with plans for the succession of its 84-year-old supreme leader, Ayatollah Ali Khamenei, and tackles its greatest threat—its disgruntled population.

The ayatollahs' opponents have criticised the deal as a slap in the face by America, particularly since it coincides with the first anniversary of the death of Mahsa Amini, an Iranian woman detained for showing her hair. More than 500 Iranians were killed in the months of protests that followed. In Iran, riot police and bully boys on motorbikes are roaming the streets to prevent demonstrations.

For now the regime has the upper hand. The few small protests that have occurred in Tehran have been rapidly dispersed. In the province of Kurdistan, where Ms Amini lived, the security forces reportedly used live ammunition. But Iranians speak of mounting tension. Many have resorted to civil disobedience. Women continue to discard their headscarves and refuse to pay fines for doing so. Implementation of the new law carries risks. Renewed unrest could reopen the rift that the last bout exposed between hardline clerics and less ideological commanders in the IRGC. Iran might have hoped to mollify international opinion, at least temporarily, but Iranians' anger remains unassuaged. ■

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## Prison blues

# Lebanon's prison inmates are running short of food

*And most have not even been convicted*

Sep 21st 2023 | BEIRUT



Getty Images

WHEN RABEA, a small-time drug dealer from Tripoli in northern Lebanon, was caught with two kilos of hash in 2017, he knew what to expect. His local lock-up, Qubbah Prison, where he would spend the next five years, was already filled with men from his neighbourhood. He knew about the years-long wait to see a judge. And he had heard about the crowded cells where 60 detainees take it in turns to sleep on the floor, the gangs and the fights.

But Rabea did not know that things were about to get even worse. In 2019, halfway through his sentence, Lebanon's economy went into meltdown. The country's economic crisis—in the course of which its GDP has contracted by almost 40%—caused havoc in its prisons. Food and medical supplies became ever scarcer and violence surged in jails that are now at 323% of capacity.

Amid a multitude of crises, the welfare of Lebanon's prisoners is not a priority. The budget for the interior ministry, which runs the prisons, has officially increased in recent years. But a collapsing currency—the lira has lost 98% of its value since 2019—and soaring annual inflation (official figures put it at over 250% in July) mean that its purchasing power has been steadily eroded.

Inflation also means that families struggle to afford to buy food to supplement prisoners' increasingly meagre rations. By the end of his sentence, Rabea says he was expected to survive on as little as a spoonful of bulgar wheat a day. Amid budget cuts, prisoners are being denied crucial medical treatment. More than 800 were taken to hospital in 2018; only 107 were taken in 2022, even as the total prison population has remained stable, according to Amnesty International, a human-rights charity. Deaths in prisons almost doubled between 2018 and 2022.

Meanwhile, the vast majority of Lebanese detainees are technically not guilty—not yet at least. Some 82% of prisoners have yet to see a judge, compared with 54% in 2017. When Rabea at last had his day in court, he had already been in jail for almost three years. Budget cuts within the justice ministry are slowing the government's ability to clear the backlog, so the proportion of detainees in pre-trial detention is expected to grow. In 2022 just 2,672 criminals were convicted compared with 4,772 in 2020. Strikes by judicial officials and shrinking resources are making the problem worse. At least one recent trial was suspended when prison wardens had insufficient petrol to transport the accused to court.

## Time keeps draggin' on

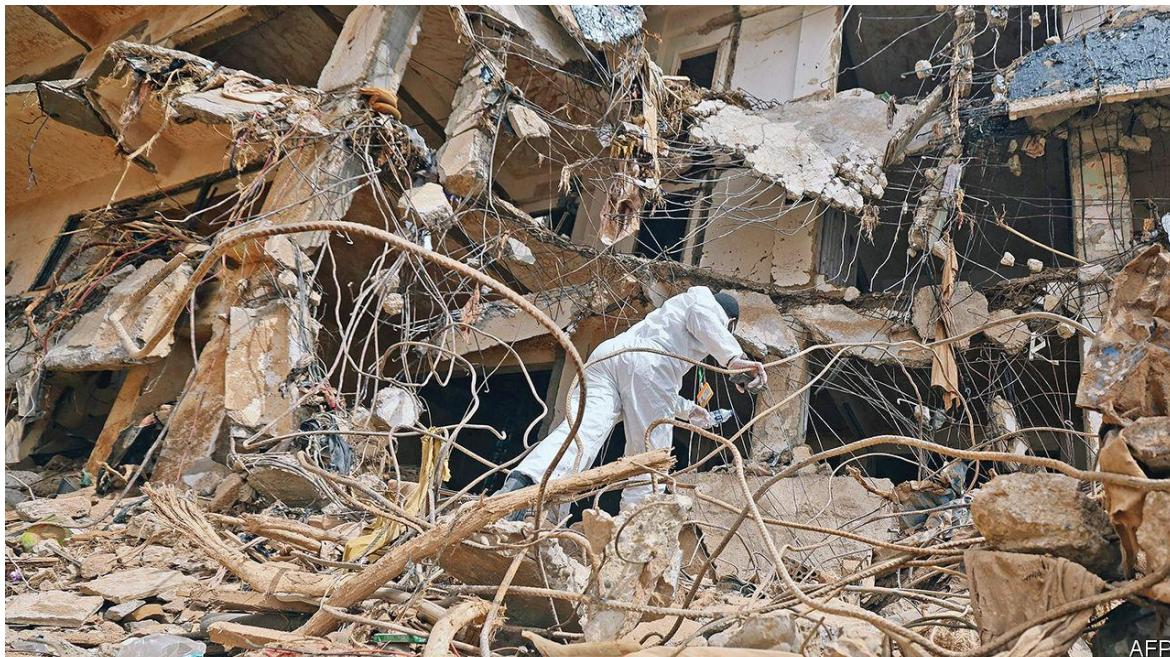
When Rabea was released in 2022 almost everyone in his cell was awaiting trial. Some had been incarcerated for ten years, he says, only to be handed a one-year sentence. He watched with envy as a lucky few took advantage of the country's chaos to secure a quicker release. "If you've got money, you can pay a good lawyer and he can get your case torn up," Rabea says. "But if you haven't, you're not going anywhere." ■

**Never let a crisis go to waste**

## Khalifa Haftar will use Libya's floods to deepen his control

*His son is in charge of disaster aid, while talk of elections will be put on hold*

Sep 21st 2023 | DUBAI



AFP

IN THE DAYS after a disaster, even the most maladroit politician knows to follow a script: soothe survivors, praise aid workers, vow to rebuild. For thugs who dominate eastern Libya, however, even such basic displays of human decency are a struggle. One, clad in army fatigues, tooled around a flood-battered city behind the wheel of a Humvee, more conquering general than contrite governor. Another blamed the victims for their own deaths.

The response was tone-deaf but hardly surprising. Khalifa Haftar, the warlord who controls Libya's east, cares only about empowering his family. A catastrophe that could have been prevented is, for him, a chance to consolidate power.

Rescuers describe scenes of utter despair in Derna, the city walloped earlier this month by a Mediterranean storm called Daniel. Record rainfall caused

two dams south of Derna to fail. Floodwaters surged through the narrow *wadi*, or riverbed, that bisects the city, sweeping away entire neighbourhoods in minutes.

The Libyan Red Crescent says that 11,300 people died, while the World Health Organisation (WHO) says it has identified 3,958 bodies, with another 9,000 people missing. The final toll may not be known for months, if ever. Many bodies were washed out to sea or buried under rubble. Libya has not conducted a census since 2006.

Aid has trickled in, but slowly. The west of the chaotic country is run by a rival regime. The divisions make Libya a hard place to work. Hospitals are overwhelmed. Survivors are terrified that rotting bodies will spread cholera and other diseases (although the WHO says such fears are overblown). Many residents are homeless.

On September 18th hundreds of angry protesters gathered outside a well-known Derna mosque. They chanted slogans against Aguila Saleh, the head of Libya's eastern parliament. Some then burnt the home of the mayor, who was suspended after the flood (and is Mr Saleh's nephew).

While the crowds were not large, they were evidently too big for the military men who run the region. The next morning, telephone and internet links to Derna went down. Authorities blamed a severed fibre-optic cable. But then journalists began receiving orders to leave within hours. A United Nations team scheduled to travel from Benghazi to Derna was barred from entering the city. Libyans fear the Haftars are preparing for a violent crackdown. Mr Haftar once laid siege to Derna for months to root out Islamist groups.

The floods could have been lessened if Libya had invested in repairing the dams, which were half a century old. But Mr Haftar cares little for upgrading Libya's infrastructure. His son Saddam, whose name is a homage to the late Iraqi dictator, has taken charge of relief efforts. That helps cement the family's control, but it offers little succour to survivors. Asked by a journalist from Sky News if the flood could have been prevented, Saddam all but shrugged: *kulu tamam*, he replied, everything is fine.

Another son, Elseddik, claimed that residents ignored Mr Haftar's warnings to leave. "My father, thanks to his wise leadership, sensed things before the disaster hit," he said. Never mind that Mr Haftar issued no such evacuation order: he is the saviour, the victims are the villains.

Elseddik recently launched a long-shot bid to become president. After the flood, though, talk of elections—which the UN had hoped would happen this year—is probably on hold. That will not bother Khalifa Haftar, who runs eastern Libya as a military regime and has no interest in a fair vote. Municipal elections in Derna were cancelled earlier this month after his men arrested the front-runner.

The Haftars were not the only ones to find fault elsewhere. Kais Saied, the authoritarian president of neighbouring Tunisia, knows who to blame for the flood: Jews. At a cabinet meeting on September 18th he noted that the storm's name was also that of a Hebrew prophet. To Mr Saied this was no coincidence; it was proof of how deeply Zionists had "penetrated mind and thought". Libyans need help from their rulers and their neighbours. What they get instead is repression, condescension and occasional anti-Semitic rambling. ■

This article was downloaded by [zlibrary](#) from <https://www.economist.com/middle-east-and-africa/2023/09/21/khalifa-haftar-will-use-libyas-floods-to-deepen-his-control>

# The Americas

- Brazil's hinterland now resembles Texas

**Sertanejo swagger**

## Brazil's hinterland now resembles Texas

*It is a land of “roughs”, not playboys*

Sep 21st 2023 | SINOP, MATO GROSSO



Getty Images

THINK OF BRAZIL and, if you're like most people, you'll think of palm-lined beaches, samba and caipirinhas. The cliché needs updating. In the past two decades the centre of political and economic gravity has started shifting from the humid coasts, to which Brazilians were said to cling "like crabs", to the vast, arid plains of the interior. Its soundtrack is *sertanejo* (country music). The preferred beverage is cold beer.

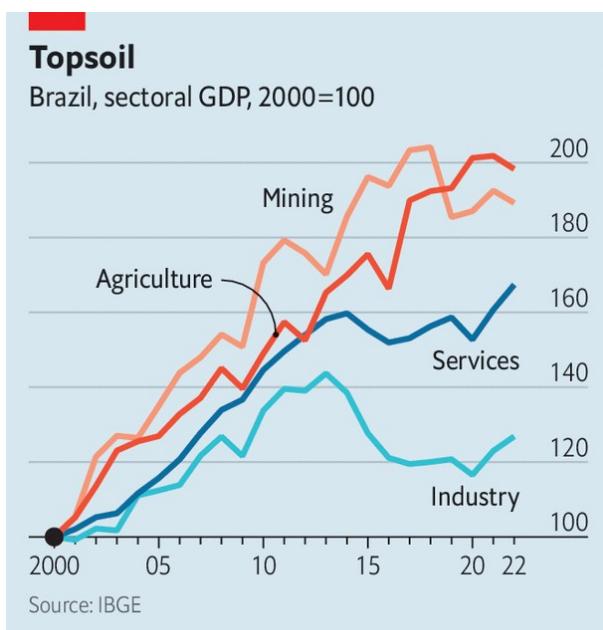


The Economist

Brazil's census, its first in 12 years, showed a notable trend when it was published in June. Seven of the ten municipalities that have grown most are in the farmbelt in the southern half of the country and the centre-west. The population of the centre-west, which includes the states of Goiás, Mato Grosso and Mato Grosso do Sul plus the capital, Brasília (see map), grew by 1.2% a year, more than double the national rate. The south-east still has the most people and money—São Paulo state alone produces a third of Brazil's GDP and is home to a fifth of its population. But even within that state, it is in the farmbelt where the population and economy are growing most.

Migrations within Brazil are nothing new. A movement from the poor north-east to the industrial hub around the city of São Paulo did much to shape the country's economy and culture in the second half of the 20th century. Brazil's current president, Luiz Inácio Lula da Silva, is the most famous of the millions who made that journey. After a famine struck his birthplace in Pernambuco, his mother packed her eight children onto a *pau de arara* (macaw's perch), a flatbed truck, and headed south. Lula rose to prominence as a trade-union leader in the car industry near São Paulo. Now when people leave the poor north-east they tend to head to the interior. What has changed is the perception of which activity can offer better lives, says Carlos Vian of the University of São Paulo. “Before, it was industry; not any more.”

The magnet that drew Lula to São Paulo has lost strength. In the mid-1980s manufacturing accounted for a third of Brazil's GDP; now it represents just 10%. The country's surplus in manufacturing trade, \$6bn in 2005, became a deficit of \$108bn by 2019. Productivity in manufacturing and services has stagnated or shrunk.



The Economist

Cultivation, the basis of Brazil's economy in the 19th century, has made a comeback. The country still exports coffee and sugar, which were once grown on plantations worked by slaves. Since the early 2000s voracious demand from China has encouraged a rise in production of soybeans, grains and meat (see chart). Agricultural exports as a share of the total have more than quadrupled since 2000, to 40%. Today the sector accounts for a quarter of GDP and employs a similar share of workers. From 2002 to 2020 the economy of Mato Grosso, the soyabean heartland, grew by 4.7% a year in real terms, more than that of any other state and more than double the national rate.

The agri-business boom is slowly changing demography and culture. In the 1970s, more than four-fifths of population growth occurred in the biggest cities. In the past 12 years, during which the population grew more slowly, two-thirds of the growth has taken place in mid-size towns.

Sinop, a soyabean centre in Mato Grosso, typifies the trend. The state, whose name means “dense forest”, had few inhabitants until the middle of the 20th century. A succession of Brazilian governments set out to populate the country’s hinterland. Agencies were established to offer land and cheap credit to people who moved west. They flourished during a military dictatorship, which ruled from 1964 to 1985. Sinop, founded in 1974, is named after one such company.

Life at first was hard for the settlers (though harder for the indigenous people they pushed out). The rust-coloured earth yielded little and disease was rampant. Technology came to the rescue. In the 1980s Embrapa, the national agricultural-research agency, developed a variety of soyabean that thrived in the region’s acidic soils. Among the beneficiaries was the father of Juliano Antoniolli, who arrived in Sinop in 1981, before farms had access to electricity. Back then, downtown was “just a big mud bath”, says Mr Antoniolli, a 38-year-old farmer.

Now 4,000 head of cattle roam alongside the soyabean fields and rows of maize on his 2,400 hectares near Sinop. Drones spray fertiliser and John Deere tractors pull ploughs. Three base stations from Starlink, owned by Elon Musk, connect the farm to the internet. Mr Antoniolli employs 12 people full-time, plus temporary workers during the harvest. He pays an average wage of 8,000 reais (\$1,600) a month, three times Brazil’s median salary. He sells most of his produce to COFCO, a Chinese food giant.

## **Sertanejo’s soft power**

Thanks to the money and jobs brought by the farming boom, not just for farmhands but for construction workers and others, Sinop’s population has swelled by 73% in the past 12 years, to 200,000. Now a city of roundabouts and car dealerships, it resembles a settlement in the United States’ deep South more than Brazil’s coastal metropolises. A petrol station calls itself Texas; a butcher, Super Beef.

With economic clout comes other sorts of influence. *Sertanejo* is Brazil’s most popular music. In 2003 16% of the top songs on Brazilian radio were of that genre. By 2022 three-quarters were. A sub-genre, *agronejo*, praises big agriculture. Luan Pereira, a lanky singer, wrote a hit song about fooling

around in a Dodge Ram, a muscular American pickup truck favoured by soya barons. The video has been viewed almost 100m times in the past six months on YouTube. Some country singers style themselves “roughs”, as opposed to “playboys” from the city. “Five playboys can’t do what one rough can,” boasts a cowboy-hatted DJ Kévin, joined by Mr Pereira.

*Sertanejo* self-confidence poses a challenge for Lula and his government. On the one hand, they welcome the economic growth that comes with agricultural expansion. On the other, they worry about its environmental cost and its political implications. Farmland is growing partly at the expense of the *cerrado* (tropical savannah), Brazil’s second-largest biome after the Amazon. Its owners tend to be fans of Jair Bolsonaro, the right-wing president whom Lula defeated in the election last year. (Indeed, according to a news website, Mr Antonioli was present in January this year when supporters of the former president attacked federal buildings in Brasília to protest against Lula’s inauguration. He told the website that he left as soon as the vandalism began.) In response to the census, Brazil’s Supreme Court in August ordered the first reapportionment of seats in the lower house of Congress since 1993. The Lula-friendly north-east will lose; the farmbelt will gain.

Lula began his third term in January (he had been president from 2003 to 2010) as a foe of farming and ranching. During the election campaign he proposed limiting beef exports to hold down domestic prices. Yet he has since tried to get along with agri-business, offering more support while cajoling it to be greener. On June 27th he announced 364bn reais of subsidised loans to farmers, Brazil’s biggest-ever agricultural-credit plan. Farmers who use renewable energy and non-chemical pesticides will qualify for the cheapest loans. The national development bank, set up in the 1950s to promote industry, is shifting towards financing agriculture. In 2009 agri-business received just 5% of the bank’s loans. Last year nearly a quarter of its financing went to agriculture, and less than a fifth to industry. The balance is unlikely to shift back under Lula’s government.

Many farmers profess to support the government’s push to make farming greener. Daniel Freire, the head of a chain of slaughterhouses in Pará, an Amazonian state, says that his company needs environmental permits to export to Europe and the United States. “To ship to the best markets in the

world, it's important to improve our sanitary and environmental standards," he says. In April the European Parliament passed a law that from the end of next year will oblige producers of commodities to verify that their goods have not contributed to deforestation since 2020.

But privately many farmers grumble about environmental rules. They oppose, and sometimes flout, the national forest code, which obliges farmers in the *cerrado* to maintain native vegetation on 20-35% of their land. Some growers and ranchers move into the rainforest in states such as Pará, where the requirement is stricter (80% of their forest has to be preserved) but enforcement is even weaker.

Brazil is one of the few countries where farmland is still expanding. The US Department of Agriculture estimates that by 2031 another 20m hectares, close to a quarter of the area now planted with crops, will be brought into production. Growth need not mean destroying trees. Some 170m hectares of pasture are thought to be under-used. If farmers grew soybeans on just 10m of those hectares, they could raise output by 40m tonnes a year over the next decade, roughly a tenth of today's global output, says Daniel Amaral of the Association of Brazilian Vegetable Oil Industries. The productivity of each hectare could also increase. Brazilian maize farmers grow an average of six metric tonnes per hectare, half the yields American farmers achieve. Better infrastructure could boost profits and investment. The lorries that carry Mato Grosso's grains to port must travel along a single 1,000km pothole-filled road. Brazil's logistics costs are the equivalent of 12.1% of gross national product, compared with 7.6% in the United States. Farmers have much to gain from a government that would invest in reducing them.

In places like Sinop the future looks bright. But fears are growing that the success of Brazil's farmers could contain the seeds of its undoing. Deforestation of the *cerrado* could eventually reduce rainfall. Already signs of stress from global climate change are beginning to appear. *Sertanejo* could some day lose its swagger. ■

# Europe

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**A one-day war**

# Azerbaijan is close to taking control of Nagorno-Karabakh

*The ethnic-Armenian enclave has agreed to disarm*

Sep 21st 2023 | ISTANBUL



AP

THINGS COULD have got much nastier, and they still might in the days and weeks ahead. On September 20th, a day after Azerbaijan launched an armed offensive against Nagorno-Karabakh, an ethnic-Armenian enclave inside its borders, a ceasefire took hold. Under its terms, the region's Armenian separatists agreed to surrender and disband, something Azerbaijan has insisted on for some time.

The deal may have prevented a massacre on Europe's doorstep; in a single day, Azerbaijan's drones and bombs had reportedly killed at least 200 people across the region. Images showed Armenians hunkering down in basements as sirens sounded over Stepanakert, the regional capital. But the agreement, brokered by Russian peacekeepers deployed to the region three years ago, also appears to spell the end of the enclave's semi-independent status. Thousands of Armenians have already abandoned their homes. Many more may decide to flee to Armenia.

Azerbaijan called the assault an “anti-terrorist operation” intended to restore constitutional order. Officials in Armenia, including the country’s prime minister, Nikol Pashinyan, called it an ethnic-cleansing campaign against Karabakh, home to some 100,000 ethnic Armenians. Azerbaijan says the offensive was in large part a response to elections held in the enclave on September 9th and to recent mine explosions that killed six Azerbaijanis, including four police officers. But the attack seems to have been in the making for some time. Armenia accused Azerbaijan of massing troops near the border separating the two countries and around Nagorno-Karabakh in early September.

Nagorno-Karabakh, populated by Armenians but formally part of Azerbaijan, has been bloodied by two large wars in three decades. The most recent of these, in 2020, saw Azerbaijan recapture territories occupied by Armenian forces since the 1990s. Since last December, Azerbaijan has blocked the Lachin corridor, the only road connecting Karabakh with Armenia, so as to force its leaders to relinquish any dreams of autonomy. The government in Baku agreed to reopen the corridor on September 9th, in exchange for the opening of another road linking Nagorno-Karabakh with the rest of Azerbaijan. But the new offensive and the ceasefire agreement seem to have sealed Karabakh’s fate.

Azerbaijan now plans to “reintegrate” Nagorno-Karabakh, says Hikmet Hajiyev, a presidential adviser. But how this is supposed to happen without an exodus of the region’s Armenians is unclear. The government in Baku refuses to offer them any special rights or security guarantees. “It will be just like any other region of Azerbaijan,” says Mr Hajiyev. For the Armenians, that is hardly a comforting thought. Following three decades of bloodletting on both sides, they are more likely to leave than to live under Azerbaijan’s rule and risk discrimination and retribution.

No one plans to stand in Azerbaijan’s way. Western powers have largely contented themselves with routine condemnations. Afraid of being drawn into a wider war with Azerbaijan, which it would almost surely lose, Armenia’s army claims to be staying out of the dispute.

Striking in its absence has been any reaction from Russia, the region’s power-broker. As Azerbaijan massed its troops on the Armenian border and

prepared to shell Nagorno-Karabakh, Mr Pashinyan accused Russia of failing in its peacekeeping duties. Margarita Simonyan, the boss of “Russia Today”, a Kremlin mouthpiece, openly mocked the Armenian leader. “He is asking for help from Russian peacekeepers,” she said. “Why doesn’t he ask NATO?”

The conflict began in 1988 when the Armenians of Karabakh, then part of Soviet Azerbaijan, called for the region’s merger with Soviet Armenia. It snowballed into a brutal war in the early 1990s, after the Soviet empire collapsed. Armenia, backed by Russia, prevailed, and ended up in control of Karabakh, though the region formally remained part of Azerbaijan. Russia has since retained an army base in Armenia.



Since the 2020 war, Armenia has regularly accused Russia, with which it has a defence pact, of leaving it out in the cold, and drawn closer to America. The country recently hosted military exercises featuring a small number of American troops and has turned to India and other countries for weapons. Most insultingly for the Kremlin, Armenia has moved to join the International Criminal Court, which has issued an arrest warrant for Russia’s dictator, Vladimir Putin. Armenian officials were well aware of the risk they were taking in pivoting to the West. “But if we did nothing, we would almost certainly lose our statehood,” one says. By washing his hands of

Nagorno-Karabakh, Mr Putin wants to show there is a price to be paid for leaders who turn their back on Russia.

The ceasefire may have saved Karabakh from a bloodbath. Barring a breakdown in the newly announced talks between Azerbaijan and the Karabakh Armenians, the agreement will probably hold, because Baku has achieved its objectives.

But there is little to celebrate. Officials in Baku claim the Karabakh Armenians are welcome to stay and enjoy the rights extended to Azerbaijan's other minorities. But even assuming pure intentions, the bad blood between the two sides, the trauma of past wars and years of vile propaganda may be impossible to overcome. "It's hard to see a scenario", says Laurence Broers of Chatham House, a think-tank, "in which coexistence is possible." ■

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**Energie-wander**

# Angst mounts over Germany's green transition

*Meeting its targets looks hard*

Sep 21st 2023 | BERLIN

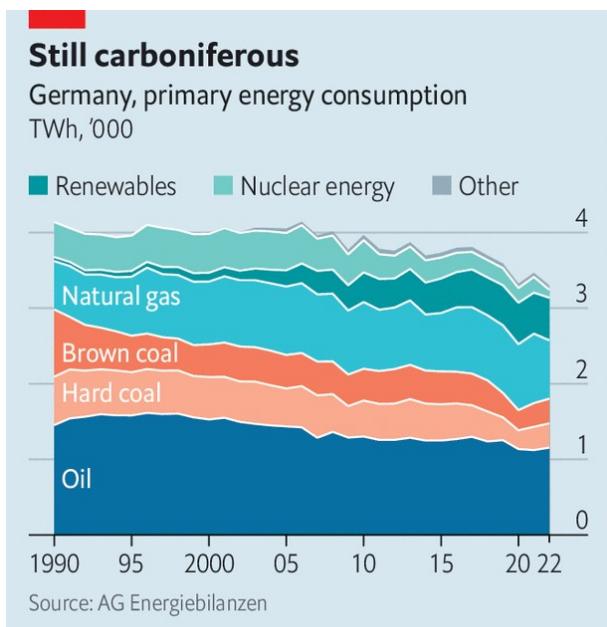


Getty Images

WHEN ROBERT HABECK, co-leader of the Green party and the economy tsar in Germany's ruling coalition, floated a bill last spring that mandated replacing gas and oil boilers with cleaner heat pumps, he got more heat than he bargained for. Tabloids screamed his "heat hammer" would push millions into debt. Whipped-up fury against "Green fascism" boosted ratings for the hard-right Alternative for Germany (AfD) party. The minister spent much of the summer tweaking his bill. His patience paid off. In early September the Bundestag passed it by a cosy 397-275 votes.

Yet the new law may prove a sign of things to come. For one thing, the spring storm exposed just how fast and how low enthusiasm for environmental initiatives can sink the moment they threaten wallets. Mr Habeck's compromise also showed that despite much progress in Germany's *Energiewende*, the now two-decade-old national effort to shift entirely to clean energy remains a steep uphill climb. Indeed, at current rates it looks

increasingly doubtful that Germany will reach its target of net carbon neutrality by 2045.



The Economist

Home heating is a small part of the puzzle, but well illustrates the challenge. Some 80% of Germany's buildings heat using fossil fuels, contributing about 15% of total CO<sub>2</sub> output. The draft law, which would have forced adoption of electric heat pumps starting next year, aimed to cut this in half by 2030. A longer time-frame and wider exemptions under the new law mean it will reach perhaps 75% of this goal, says Mr Habeck's ministry. And that sounds optimistic. Trade groups say there are few skilled pump-fitters. Older buildings will need costly insulation upgrades. And the complexity of state subsidies for the pumps, which can cost upwards of €20,000 (\$21,000), may slow take-up.

There is another problem. For all their efficiency, heat pumps draw on electricity that in Germany is largely still supplied by hydrocarbons. True, on good days solar and wind power now generate well over half the power supply. But with demand expected to grow by 20% by 2030—pushed up by millions of new electric cars and now heat pumps—the addition of renewables capacity will need to speed up markedly. So will investment in the already stressed distribution network, which must increasingly cope with capricious wind and solar rather than steady thermal inputs.

And so, say many experts, will investment in dirty old thermal plants. A recent report on bottlenecks to German growth from Deutsche Bank is categorical: “The basic problem is that no cost-effective electricity-storage technologies on a large industrial scale are in sight...Germany will therefore continue to rely on traditional back-up power-generation capacity.” This means not just gas and coal but even stinkier domestic lignite: scrambling in 2022 to make up for cut-off Russian gas supplies, it relaunched no fewer than five mothballed “brown coal” plants.

Hans-Werner Sinn, an economist in Munich, is also blunt. The 40% decline since 1990 in the amount of CO<sub>2</sub> that Germany emits, he said in a recent lecture, was reached by plucking “low-hanging fruit”, such as letting grimy smokestack industries in former East Germany die. In Germany’s current primary-energy mix, including such things as fuel used for transport and heating as well as electricity generation, the share of renewables still remains below 20%. Given that Germany abandoned nuclear energy earlier this year, Mr Sinn reckons that making the remainder clean would mean covering some 2% of Germany’s surface, as much as its entire transport network, in wind and solar farms. Maybe Germany should have invested in more nuclear power instead. ■

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## Geopolitical monster v Brussels effect

# Why the EU will not remain the world's digital über-regulator

*It is not a big enough player in AI*

Sep 21st 2023 | BERLIN



EUROPE HOPES to become the promised land—in the digital realm, at least. Harmful posts on social-media platforms will be rapidly removed. Texts will fly between rival messaging apps. You will be able to get apps from all over the internet, not just from your phone's app store. And artificial intelligence (AI) models will be trained exclusively on data free of bias.

This is the noble aim of a set of new digital laws in the EU. Implementation of the Digital Services Act (DSA), which regulates social media, and the Digital Markets Act (DMA), which aims to keep big tech firms from competing unfairly, is entering a critical phase. Earlier this month, the European Commission designated what it calls “gatekeeper” firms, ranging from Alphabet to Microsoft, which will have to follow the DMA’s rules or risk vast fines.

And as if these new rules were not enough, the powers in Brussels are already negotiating their next big tech-policy package: an AI Act. By the end of the year this may impose significant changes on the AI models that power such services as Alphabet's Bard and ChatGPT of OpenAI, a startup, which exhibit human-like skills in writing text. Not one of the ten leading models evaluated came close to being compliant with a draft passed by the European Parliament in June, according to a study by Stanford University. The proposed act includes requirements to reveal which data are used to train models and how much energy such training consumes. OpenAI's model, called GPT-4, for instance, scored only 25 out of 48 possible points, the researchers said.

This latest wave of digital rule-making rolling out of Brussels raises one question that is particularly important: will it cement the EU's role as über-regulator of the virtual world, established in the late 2010s with its General Data Protection Regulation (GDPR), which became the model for most of the world's 150 privacy laws? Two new books provide a framework for predicting what may come to pass.

The first is "Digital Empires", by Anu Bradford of Columbia Law School. In a previous tome, she noted that EU laws, particularly digital ones, tend to become global standards. She termed this the "Brussels effect", a phrase that has caught on. Tech companies have found it cost-effective to comply with the GDPR globally. Governments around the world have adopted the law to make trade with the EU easier.

In her new book, Ms Bradford compares the EU with the other two main digital empires: America and China. Many believe that the EU will be a bystander in the clash of these two, but Ms Bradford disagrees. America's market-driven model, which tends to place the interests of firms above those of citizens, is facing growing criticism around the world. Consequently, she thinks, America will end up being forced to adopt elements of the EU's model. The bloc is thus likely to "remain the primary source of regulatory constraint for the tech industry", she writes.

The authors of the second book, "Underground Empire", paint a far gloomier picture for the old continent. Henry Farrell of Johns Hopkins University and Abraham Newman of Georgetown University also draw on

their influential earlier work, a widely read paper entitled “Weaponised Interdependence”, the central thesis of which was that America uses its control over financial networks to force other countries to do its bidding. “Just as all roads once led to Rome, the world’s fibre-optic networks, financial systems and semiconductor supply chains converge on the United States, allowing it to project its might,” they argue, expanding this thesis.

One could argue that the Brussels effect describes a network that America has tended to ignore: the web of rules, mostly controlled by Europe. In the case of the DSA and the DMA that set-up may still work. Copycat laws so far are rare, but other countries are interested in drawing up their own. Firms say that implementing the newer regulations will be hard to automate. But some of the DSA’s rules, such as those for content-moderation and transparency requirements, are already being followed by American companies.

In AI, however, the chances are that the outcome will be very different. For a start, being the keeper of the rules was useful in a world based on rules and markets, but may prove irrelevant in one defined by a growing rivalry between great powers.

Secondly, in privacy and social media, the EU can rightly claim it represents one of the world’s biggest markets, so that tech giants need to follow its rules. While this is still true, Europe’s global position in AI is much weaker. According to another study by Stanford University, EU researchers have yet to contribute in a significant way to such models as GPT-4. Whereas 54% of makers of AI models were American in 2022, only 3% came from Germany, which leads the EU pack. The picture is similarly one-sided when it comes to private investment in AI: in America it amounted to \$249bn between 2013 and 2022, while Germany spent only \$7bn.

Finally, America seems to be adding the web of new tech rules to its own underground empire—or at least trying to neutralise Europe’s role as the rule-setter. Despite recent congressional hearings on AI, an American AI act is still unlikely. But the White House is trying to develop its own alternative to the EU’s regulatory network. In July it secured “voluntary commitments” from the principal model-makers, including OpenAI and Alphabet, to limit the technology’s risks.

Thus the geopolitical and technological “monster” that is America will eventually overpower the Brussels effect, predicts Mr Farrell. For the EU, this means that it cannot rest on its regulatory network. Instead it should redouble its efforts to strengthen its own AI industry, especially by completing the EU’s single digital market, which would make life easier for European startups. Since Europe is unlikely to become an AI superpower soon, the Centre for European Reform, a think-tank, argued in a recent report, it should also focus on getting businesses to adopt the technology.

Observers often ask how long America can use its invisible networks to throw its weight around the world. It is a good question: excessive use of network power can push other countries to seek alternatives. But perhaps the more pressing question to consider is how long the EU can lay claim to the role of global standards-setter, when it may well play such a minor role in the next wave of technology. ■

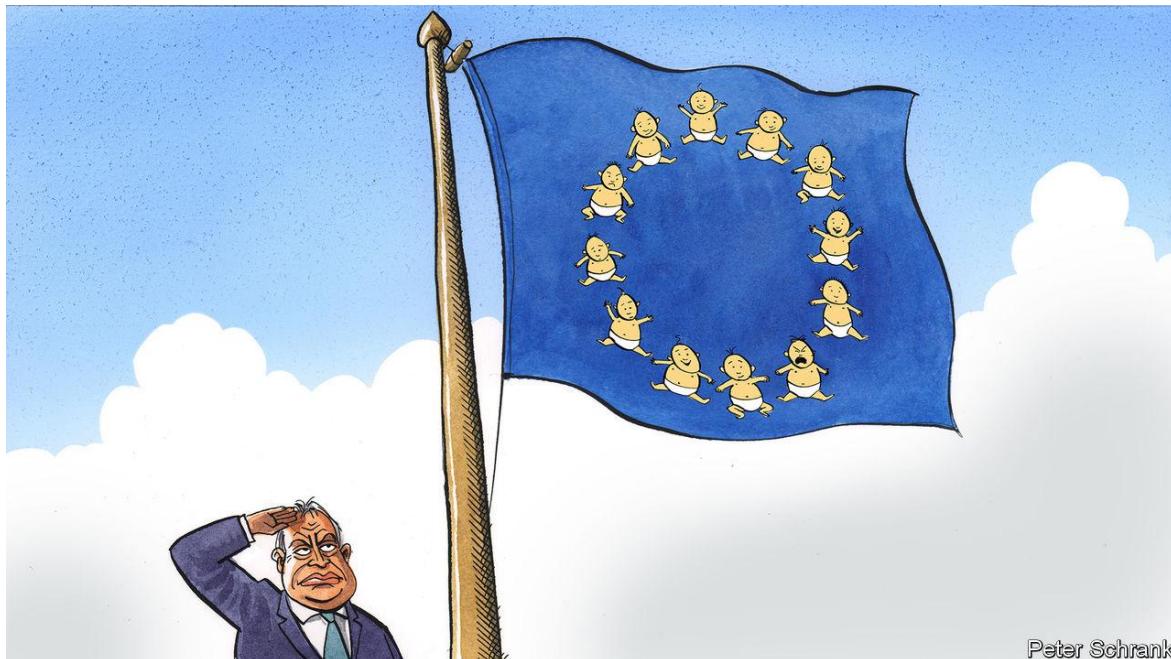
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**Charlemagne**

## Europe's conservative populists pit migrants against babies

*Viktor Orbán and Giorgia Meloni want their citizens to have more children*

Sep 20th 2023



WITHIN MOMENTS of a wedding cake being cut, one of the happy couple's parents inevitably drops a hint about extending the family tree, nudge nudge. By the time the honeymoon is over, lobbying for sprogs is in full swing. Only when the request is fulfilled do the young parents realise the production of a single offspring merely fuels demands for many more. If such endless nagging by in-laws seems exhausting, imagine such pestering done by national leaders, with [Hungary's Viktor Orbán](#) and [Giorgia Meloni of Italy](#) in the role of berating wannabe grandparents.

Like much of the rich world, Europe is in the midst of a [demographic winter](#). No EU country is producing anywhere near enough babies to sustain its population. This vaguely worries liberals, who wonder about the sustainability of the welfare state as retirees start outnumbering workers. But conservative leaders like Mr Orbán and Ms Meloni paint the struggle for

babies as existential. To them, families mark the bedrock of an orderly state —as long as they are straight and of local ethnic stock, that is. Holding back on procreating undermines the nation, no less. Even worse are those who think migration might offer a quick fix to the demographic morass Europe finds itself in. Who wants migrants when you can have homegrown babies instead? So make babies, people.

Mr Orban and Ms Meloni were at their naggiest at a “Demographic Summit” organised by the Hungarian authorities between September 14th and 16th. Held every two years since 2015 in Budapest, the forum provides a safe space for conservatives tired of liberal takes on everything from those migrants to LGBT rights. Mr Orban held court in front of delegates from dozens of countries, many of them from central Europe and the Balkans. After boasting of his five children, he explained how there is “no freedom without authority”, an Orwellian pastiche. It is making babies that allows us to “become who God intends us to be”, especially women. Ms Meloni, mother of one and this year’s special guest, blamed hostility towards families for derailing the birth rate; she now has a minister whose job title includes boosting that single statistic. “We want Italy to go back to having a future,” she said. Cultural interludes livened up the summit: dancers in traditional garb frolicked around a wholesome couple only one or two plum brandies away from discovering the secrets of procreation for themselves.

Demography is the perfect issue for Mr Orban in particular to burnish his reputation beyond Hungary. In Europe he is a bête noire, thanks to his pro-Russia stance and perennial fights with the EU over his hobbling of the judiciary. But to those who think Europe is facing a demographic abyss, none of this matters. Pesky questions around judicial arrangements, or even issues Brussels types bang on about like climate change, are small fry compared with the baby drought. Better yet, the “progressive elite” can be cast as baddies, the instigators of an unwitting demographic death-cult. By giving individuals too much licence to focus on their own wants, liberals have lost the plot. Women have become prone to thinking of children as a pointless sacrifice. Now they must go back to acknowledging their duty to society. One speaker spoke of feminism needing to be replaced with “familism”.

Hungary thinks it is showing the way. When Mr Orbán regained power in 2010, its fertility rate was just 1.26 children per woman, the lowest in the EU. Now it is in the middle of the European pack, at 1.52—still well below the 2.1 replacement number, but a marked improvement. Conservatives credit family-friendly policies. Women with four kids or more are exempt from income tax for life, a measure that might be extended to those with just three. Would-be parents can apply for loans that get written off as they have children. Fertility clinics have been nationalised. Whether those costly measures are at the root of the baby mini-boom is a matter of debate: incentives probably bring forward child-bearing, but have little impact over the long term. Other countries in Europe, from Sweden to Slovenia, have seen similar surges in the past, especially after baby slumps. Nobody quite knows why. When it comes to understanding long-term trends, demographers make economists look like oracles.

### **Hit me baby, one more time**

Natalists lay another charge on liberals: that what they really want is to replace missing Hungarians or Italians with immigrants. For conservatives, to bring in adult foreigners instead of pushing up the domestic birth rate is as baffling as a newly married couple eschewing having a child in favour of adopting a 25-year-old Senegalese bloke. In the same week as her jaunt to Budapest Ms Meloni visited Lampedusa, a Mediterranean island belonging to Italy where around 7,000 people had landed from north Africa in just two days. Populists paint the fight for babies and the one against migration as two sides of the same coin: make babies or else we will have little choice but to welcome these African hordes. This is, to put it politely, utterly crackers. Those risking their lives in small boats have not recently consulted Hungarian fertility tables.

As a mainstream media type, Charlemagne stands as immediately suspect in the eyes of the Budapest crowd (though perhaps his track record as a father of three will lend him a degree of credibility). But as far as he can tell, the progressive elite's plot is even more dastardly than the Hungarian-Italian axis suspects. Liberals do not, in fact, see immigration as a straight-up replacement for baby-making. Their approach is, if anything, worse: it is to do nothing. People should make babies according to their own preferences, not those of the state; occasionally the tax or child-care systems can help

with measures that make it easier for parents to work. Separately, some people will move across countries and cultures, not to “replace” anything or anyone but in a bid to improve their family’s lot. Quite plausibly all this will kick up some problems down the line; but they are vastly better than the solutions being proffered by Mr Orban and his friends. ■

**Read more from Charlemagne, our columnist on European politics:**

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# Britain

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Panicky policymaking

## Rishi Sunak's anti-green turn on Britain's climate targets

*It creates uncertainty, will deter investors and probably won't win voters*

Sep 20th 2023



Reuters

IN A HASTILY arranged speech on September 20th, Rishi Sunak promised a “new approach” to Britain’s [climate policy](#). The prime minister snipped at his predecessors for imposing unnecessary costs on people rather than letting them choose when to make changes. He said a target to end the sale of new vehicles with internal-combustion engines by 2030 would be delayed. Another, to phase out new gas boilers by 2035, would be weakened. Regulations on energy efficiency and on oil boilers would be loosened. Bizarrely, he also “scrapped” a non-existent meat tax and reassured voters there would be no “diktat to sort your rubbish into seven different bins”.

He has been weighing such moves since a by-election in Uxbridge in July, where a backlash over a charge for drivers of polluting cars in outer London helped the Conservatives cling to the seat. Labour, which has a stubborn lead of around 20 points in national polls, has promised more ambitious

climate action. If Mr Sunak hopes attacking its [green plans](#) is a way to turn around the polling figures, then he is almost certainly wrong.

It is true that reaching net zero will be both costlier and more disruptive than many politicians admit. And Labour's plans—notably a focus on large public subsidies—do need more scrutiny. But his own hodge-podge of delays is likely to deter investors, making it harder to cut the price of technologies such as heat pumps. That will raise the costs paid by consumers in the long term, not reduce them.

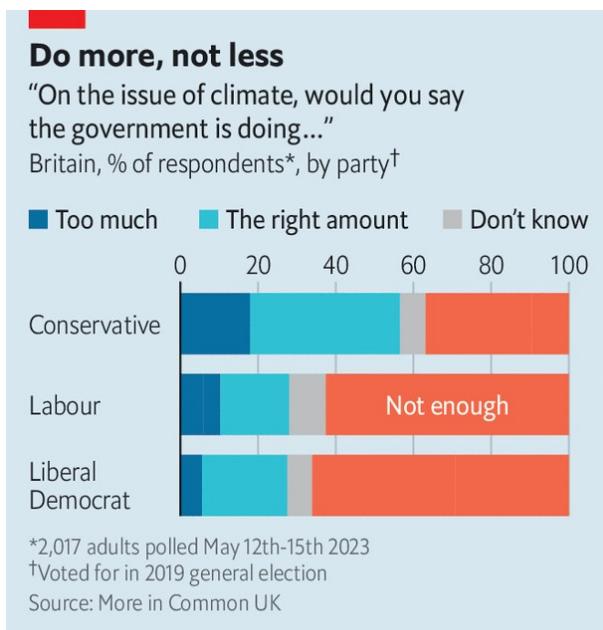
The speech marked a U-turn from the Conservatives' previous stance. Green action was a big part of the boosterish agenda on which Boris Johnson, Mr Sunak's predecessor but one, got elected in 2019. Two years ago Mr Johnson published a net-zero strategy, built on long-term targets that would drive market transitions in energy, transport and homes. Mr Sunak has unpicked the latter two. There were already doubts over the first, having a clean power system by 2035, after the government's latest auction failed to attract any new offshore-wind projects.

The immediate consequence will be questions over Britain's commitment to emissions targets and uncertainty for businesses. Mr Sunak emphasised that Britain had cut emissions faster than others. But the country is off course for its legal climate targets beyond 2028. In 2022 a court ordered the government to publish more details to show how it would get back on track. Mr Sunak's new approach will probably provoke another legal challenge and opposition in Parliament.

It is stable, long-term policies that drive down the costs of new technologies. In March, renewables provided 47% of Britain's electricity production. But too often, action has been hindered by stop-start schemes. Britain's market for insulating homes and installing heat pumps remains tiny, partly because firms have been burned by repeated policy changes. More delays will not help. Mr Sunak did promise more subsidies for heat pumps, but without clear regulations the market will take longer to grow, meaning costs will be slower to fall.

The backtracking on electric vehicles was most surprising. Just two months ago, the government promised a £500m (\$643m) subsidy to Tata, an Indian

conglomerate, for a new battery plant in Somerset. (And in July Michael Gove, a cabinet minister, had agreed the 2030 deadline was immovable.) Other carmakers immediately reacted angrily. Ford said the industry needed “ambition, commitment and consistency” from government, all of which had been undermined. Sir Simon Clarke, a former Conservative cabinet minister, asked how businesses should plan “if we respond to one by-election...by tearing up key planks of government policy.”



The Economist

Some Conservatives dream that there are electoral gains in all of this. But they risk overinterpreting the Uxbridge result. None of the policies that Mr Sunak dumped imposes immediate and direct costs in the way the London car scheme has. It will be hard to terrify voters with the prospect of not being able to buy a gas boiler in 12 years’ time. Pollsters are also sceptical that greenery is a strong wedge issue for Mr Sunak—rowing back on commitments looks more likely to divide his own voters, not opposition-leaning ones. Across all parties, voters are much likelier to say the government should do more, not less, on climate (see chart). They do want a fair transition, but Mr Sunak “risks putting the Conservatives on the wrong side of Britain’s climate consensus”, says Luke Tryl, of More in Common UK, a think-tank that carried out polling on the issue.

Mr Sunak may hope to focus attention on Labour's economic credibility and its plan to spend, eventually, £28bn yearly on climate change measures. But Labour can adjust that stance without much loss of face. Given a crisis over crumbling schools, some in that party had anyway started to ask if limiting extra capital investment to green measures made sense. For all of Mr Sunak's protestations that his own new position was "not actually about politics", it evidently was. Whether it will anyway help looks doubtful. ■

*For more coverage of climate change, sign up for the [Climate Issue](#), our fortnightly subscriber-only newsletter, or visit our [climate-change hub](#).*

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**A shot in the arm**

## Britain's war on drugs enters a new phase

*A new overdose prevention centre in Glasgow will save lives. It could also change drug policy*

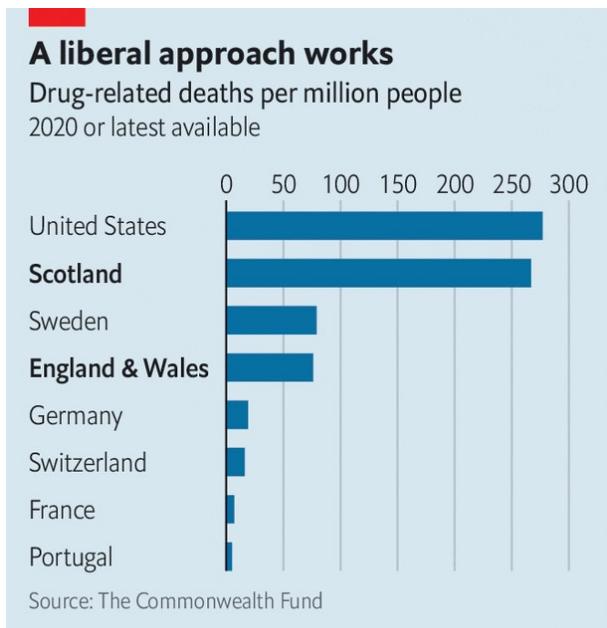
Sep 21st 2023 | GLASGOW



Getty Images

THE SHOOTING gallery will be behind the car park of a pram shop in the east of Scotland's biggest city. Inside, drug users who have brought heroin or other illicit drugs may shoot up under medical supervision. On September 27th Glasgow City Integration Joint Board, which makes public-health decisions in the city, is set to approve its opening. Remarkably, no opposition is expected.

Safe drug-consumption rooms, or overdose-prevention centres (OPCs), are already legal in 16 countries, but this will be Britain's first. Studies suggest they do nothing to increase drug use but do help to get users to enrol in other treatment. The pilot should save many users who would otherwise succumb to overdoses. Potentially, it will spur a much-needed shift in the country's out-of-date drug policy.



The Economist

The need is urgent. “We are in a public-health emergency,” says Allan Casey, a Glasgow city councillor. Last year 1,051 Scots died of drug misuse. That was a 21% fall from the year before, but still quadruple the annual tally seen two decades ago. Worryingly, drug deaths have risen again in the first half of 2023. In deaths per million people, among rich countries, only America has a worse record (see chart). Death rates are highest in the post-industrial cities of Glasgow and Dundee.

Scotland’s exceptional problems have multiple causes. Scots in the poorest areas are 16 times more likely to die a drug-related death than those in the richest places. The nation has a high rate of problematic drug users, which puts a larger cohort at risk. Deaths rocketed as physicians cut the prescription of benzodiazepines in the late 2000s, notes Andrew McAuley, at Glasgow Caledonian University. More dangerous street varieties, pressed into pills in home factories, and then taken with heroin and other drugs, took their place.

The Scottish National Party (SNP), in power for 16 years, blames Westminster for austerity and not devolving drug policy to Holyrood. In fact the party is also to blame for previous cuts to frontline services including on beds for recovering addicts. More recently the SNP has spent more, and

named a minister for drugs, but both governments have been woefully slow to act.

Frustrated at the impasse, in 2020 Peter Krykant, an activist, started an illegal OPC in a minibus in Glasgow, saving lives after nine overdoses. It appears his experiment has focused minds. On September 11th Lord Advocate Dorothy Bain, Scotland's chief legal officer, said her office would not support prosecutions of those who took drugs in the pilot facility. The Scotland secretary in Westminster Alister Jack confirmed that the British government would also not intervene (although the Home Office continues to oppose OPCs).

That matters nationally as more cities could feel emboldened to set up OPCs. "We will see them in Wales and also England within the next 12-18 months", predicts Steve Rolles of Transform Drug Policy Foundation, a charity. Drug deaths are some three times higher in Scotland than in the rest of Britain, but a record 4,859 people died from overdoses in England and Wales in 2021.

Yet the pilot in Scotland does not in itself change the law. The Scottish government now wants to decriminalise the possession of drugs for personal use. It hopes to emulate the progress made in countries such as Portugal and Switzerland, where drug deaths are far lower. Yet Scotland is still beholden to Britain's punitive Misuse of Drugs Act, passed in 1971. Helen Clark, who chairs the Global Commission on Drug Policy, a lobbying group of former world leaders, says Britain is "behind" many rich countries on harm reduction.

Politicians are reluctant to move ahead of public opinion; seven out of ten Britons think that possessing small quantities of heroin or cocaine should be a criminal offence. On September 12th MPs voted by a majority of 368 to amend the Misuse of Drugs Act. Unfortunately, they did so to toughen it—banning sales or possession of laughing gas. Lawmakers thus look increasingly out of step with their own experts who advised against a ban.

Still, the pilot programme in Glasgow counts as one of various small steps towards decriminalisation, eked out with needle exchanges, heroin

prescriptions and drug-safety checks at festivals. “Each time, the War on Drugs rhetoric becomes a little less effective,” says Mr Rolles.■

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## Inflation and wages

# What supermarkets reveal about Britain's economy

*It's an exceptionally good time to work for a big grocer*

Sep 21st 2023



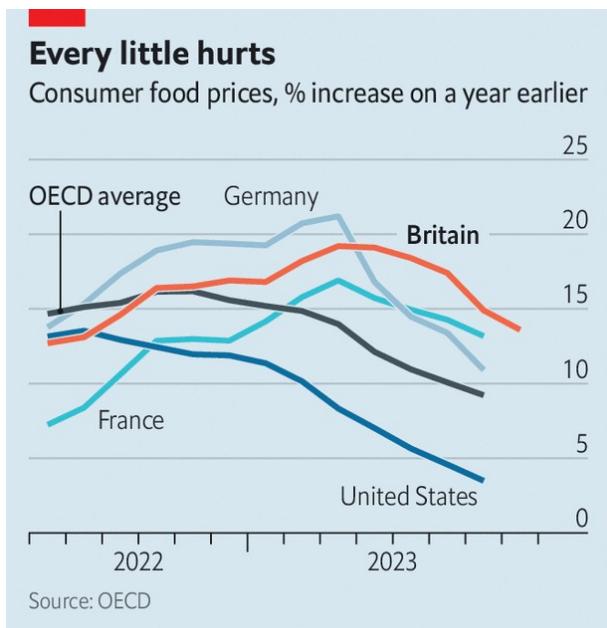
ON A RAINY afternoon outside a north London branch of Aldi, a German-owned discount supermarket, Ibrahim and two co-workers are enjoying their cigarette break. They most like the fact they are earning as they smoke. For Aldi, unusually among supermarkets, offers paid breaks. Times have been tough for British workers over the past two years with price rises outpacing average wage growth in each month from December 2021 until May this year. But for Ibrahim what politicians dub the cost-of-living crisis has never bitten quite so hard. In July Aldi implemented its fourth pay increase in just over a year. The starting rate for London-based shop workers is now £12.85 (\$15.90) an hour, 23% above the minimum wage.

Workers are doing well from a new front in the battle between supermarket chains. The firms have long competed fiercely on prices to woo customers. (Until recently Britons enjoyed access to the cheapest food in western Europe.) Now they find themselves in a similarly intense contest over

wages, terms and conditions in order to recruit and retain staff. Despite a cooling economy, the jobs market remains tight with labour demand still outstripping supply. According to the official numbers, average regular weekly pay rose at an annual pace of 7.8% in the year to July, the joint fastest rate since data were first gathered in 2001.

Running a supermarket takes a lot of labour. In the industry, which employs around 870,000 people, bosses sound almost wistful about wage-growth rates that other sectors have seen. Pay rises of 10-15% have been commonplace for grocers. Recruiters are keen to emphasise that headline hourly pay rates understate the extent of rising labour costs. Sainsbury's, for example, has offered staff free food during shifts since 2022. Waitrose, an upmarket chain, gave each member of staff £500 last December, as a one-off cost-of-living payment. Tesco allows employees as much as 15% off their weekly shop. Lidl, another German discounter, has increased the hourly premium it pays workers who toil in its freezer rooms to £1.50.

Rapid wage growth is helping to keep inflation uncomfortably high. New data released by the Office for National Statistics on September 20th showed the annual pace of consumer-price inflation falling slightly from 6.8% in July to 6.7% in August. Analysts, who had pencilled in a rise, greeted that with relief. Though prices in Britain are rising faster than in America, France or Germany, the Bank of England decided to leave interest rates at 5.25% on September 21st, after a long run of increases. Still, policymakers believe the jobs market needs to loosen considerably more to return inflation to the 2% target. Few sectors show this more clearly than food retailing.



The Economist

Food and non-alcoholic drinks prices have risen by 13.6% over the past year and inflation in the sector has outpaced that of Britain's peers (see chart). The primary driver of Britain's higher rate of food inflation is the battle for staff. Earlier this year, as food-price inflation neared 20%, Sir Edward Davey, leader of the Liberal Democrats, called for a public inquiry into supermarket prices and accused firms of profiteering. Retail analysts were not impressed. "You have to be criminally insane to believe that," says Clive Black, director of research at Shore Capital, a stockbroking firm. The "sweet spot" for the firms, according to Mr Black, is food-price inflation of 2-4%. Any more and consumers begin to switch to cheaper brands and a worsening product mix hits firms' bottom line.

Operating margins in British supermarkets have historically been low at around 3-4% and wage bills typically make up 10-15% of their total operating costs. The Competition and Markets Authority, a regulator, reported this summer that average operating margins fell from 3.2% in 2021-22 to 1.8% in 2022-23. The level of operating profits across the sector, meanwhile, dropped by more than 40%.

All labour-intensive industries employing low-wage workers have faced a margin squeeze and pressure to increase prices in the past year. The legal minimum wage rose by 9.7% last April. But problems have been most acute

in food retailing. Bosses point to the German discounters, Aldi and Lidl, as the underlying driver. The two firms somehow offer the lowest prices to consumers and yet also top the league table for pay.

They do so at a cost. Lidl's British arm reported an annual loss on September 14th despite 19% sales growth and Aldi operates on ultra-thin margins. The two firms, which are both privately owned, have strong balance sheets and can, rivals say, play a long-term game of building market share. Rival supermarket chiefs are not the only ones complaining. Last year a boss in the social-care sector told a parliamentary committee that he dreads hearing that an Aldi is opening nearby, as "I know I will lose staff." ■

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**Brits in Paris**

## France rolls out the red carpet for Britain

*Emmanuel Macron plays host to the royals, and Sir Keir Starmer*

Sep 18th 2023 | PARIS



Getty Images

A YEAR AGO, trust between France and Britain was in free fall. Liz Truss, briefly British prime minister, had won office after claiming not to know whether Emmanuel Macron, the French president, was a “friend or foe”. The two countries were at odds over fish, migrants, borders and more. So it is a mark of the cross-Channel turnaround since then that France this week rolled out the red carpet for Britain.

Sir Keir Starmer, leader of the Labour Party, was the first beneficiary. On September 19th Mr Macron hosted him at the Elysée Palace, the day before King Charles and Queen Camilla arrived for a three-day state visit. Some in Labour circles presented Sir Keir’s meeting as a coup. In reality Mr Macron periodically receives aspirant leaders, among them Olaf Scholz in 2021 before he became Germany’s chancellor and, in 2019, Volodymyr Zelensky when he was running to be Ukraine’s president.

Nonetheless it was a moment for Mr Macron and Sir Keir, who had never met, to get the measure of each other. Both come from the centre-left: Sir

Keir as a Labour moderate, Mr Macron as a former minister in a Socialist government. Both count Sir Tony Blair, a former Labour prime minister, as a regular interlocutor. Both have a professional background outside politics: Sir Keir as a lawyer, Mr Macron as an investment banker.

After the meeting Sir Keir, who gave Mr Macron an Arsenal shirt, seemed pleased, although it was never going to be a moment for any negotiation. He turned up having restated his ambition that, if he became prime minister, he would try to secure improvements to a Brexit deal agreed in 2020. It is due for a review in 2025-26. Sir Keir would not seek to re-enter the European Union's single market or customs union, but hopes for better arrangements on a broad swathe of subjects from border checks on animals and food to migration and security. France has always been clear, however, that discussions about Brexit must happen between the British government and the European Commission.

Up to a point, the French have already turned the page on the dismal cross-Channel years under Boris Johnson, and then Ms Truss. Broadly, they work well with Britain's current prime minister, Rishi Sunak. Last year they agreed to reinforce policing of "small boat" crossings from the French coast, although the results have been limited. The bilateral optics have improved, too. In March the two governments got together at the Elysée for a Franco-British summit, the first for five years.

The French are well aware, though, that they also need to look ahead. There is obvious appeal for them in working with a future British government under a leader who voted against Brexit and is serious about engaging in a more structured way with the EU, especially on defence and security. "The French really miss the strategic dimension that the British bring to the table," says Mujtaba Rahman, of Eurasia Group, a consulting firm.

After Sir Keir's audience, the trumpets came out in force. The royal state visit was postponed from March because of rioting over Mr Macron's pension reform. This time France was gripped by royal mania. Mr Macron treated King Charles to a banquet at Versailles, which the French insist is a nod to a state dinner held there in 1972 for Queen Elizabeth II, not a reminder of the reason their monarchs got into trouble in the past. The king was due to give a speech, at least partly in French, to members of both

houses of parliament in the Senate, and to visit Notre Dame, still being repaired after the fire in 2019. Events touching on climate change and biodiversity were also scheduled, as well as, *naturellement*, a trip to a classy organic vineyard near Bordeaux.

The king and Mr Macron are said to have already forged a bond. As for the French at large, fully 71% say that they have a good opinion of the British royal family. Indeed in 2015 a little-known French minister argued that on some level the French “did not want the death” of their own king. The minister in question? Mr Macron. ■

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**Scary mutts**

## A fight over dangerous dogs in Britain

*The promised ban of the Bully XL shows how policy is made*

Sep 15th 2023



THE GREAT British public loves two things: dogs and banning things. What happens when the two passions collide? To answer that, consider the plight of the Bully XL, a type of dog. To its fans the Bully XL is a (mostly) gentle giant. The creatures, which can grow to be 60kg, make for “an excellent family dog” according to the United Kennel Club in America. To campaigners, they are a menace responsible for a sharp increase in fatal attacks.

After a man was killed by a pair of dogs, suspected to have been Bully XLS, in Staffordshire on September 14th, the government sided with the campaigners. Speaking with the solemn manner of a prime minister declaring war, Rishi Sunak announced that the type of dog would be banned by the end of the year. “It is not about a handful of badly trained dogs, it is a pattern of behaviour and it cannot go on,” said Mr Sunak.

The Bully XL, a mix of pit-bull and Staffordshire terriers, as well as other breeds, was introduced to Britain in 2014. Although pit-bull terriers are

illegal in Britain, the Bully XL was deemed to be a distant enough relative that it was not forbidden. Their popularity exploded during the pandemic lockdown, when people rushed to buy or adopt dogs of all kinds.

Although Bully XLs account for barely 1% of all dogs, they are responsible for almost half of all reported attacks in Britain, according to Bully Watch, a campaign group that has called for the type to be banned. The data are sketchy. Not all dog bites are recorded. But not all dog bites are equal. Being nibbled by a chihuahua is one thing; being mauled by a 60kg mutt is quite another. According to Bully Watch, Bully XLs have killed as many as 14 people in Britain since 2021.

Before the dog can be banned, the government will first have to come up with a definition of the Bully XL. Then the breed will be added to an existing list of four illegal ones—Dogo Argentino, Fila Brasileiro, pit-bull terrier and Japanese Tosa—with consequences for anyone who owns, sells, breeds or abandons them.

Lawyers argue that the law being used, the Dangerous Dogs Act of 1991, is a mess, with the forbidden breeds poorly defined. Instead, a dangerous dog is classified like the old joke about pornography: the Home Secretary should know it when they see it. Animal charities have long campaigned against the law, arguing that ownership rather than breed was the deciding factor. Ban one breed and irresponsible people may still opt for other breeds of large, equally menacing dogs.

The law is, however, relatively effective in practice. Until the emergence of the Bully XL, dog-related deaths were less common in Britain than in America, where there are no limits on pit-bull-types of dog. Likewise, the law is less brutal than it was. Before 1997, forbidden doggies faced an automatic death sentence. Since then, well-behaved dogs of prohibited breeds can live under certain conditions, such as if they are neutered and kept muzzled when out in public. Other methods of control, such as licensing or banning dogs whose jaws are dangerously strong, would be far more intrusive to the vast majority of dog-owners whose pets pose little threat to passers-by.

The coming ban on Bully XLs demonstrates how easy it can sometimes be to influence policy in Britain. The topic came to prominence only after Lawrence Newport, an academic and YouTuber, drew attention to the number of attacks. With the help of a handful of allies, Dr Newport and co whipped up attention on the problem, mostly on social media, and in turn the mainstream media and politicians took notice. Few regular readers hang around on X (as Twitter is now known). But lots of bored politicos and journalists are still there. The result is that a few well-targeted posts can have a big impact, especially when the problem is cheap to fix. The posting-to-policy pipeline is an increasingly short one. A niche campaign can become a national issue. It pays to be dogged. ■

*Correction (September 17th 2023): Lawrence Newport is not part of Bully Watch as we originally stated, but of another organisation that has worked with them.*

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**A year after the disastrous mini-budget**

## The legacy of Liz Truss

*Is Britain still paying a moron risk premium?*

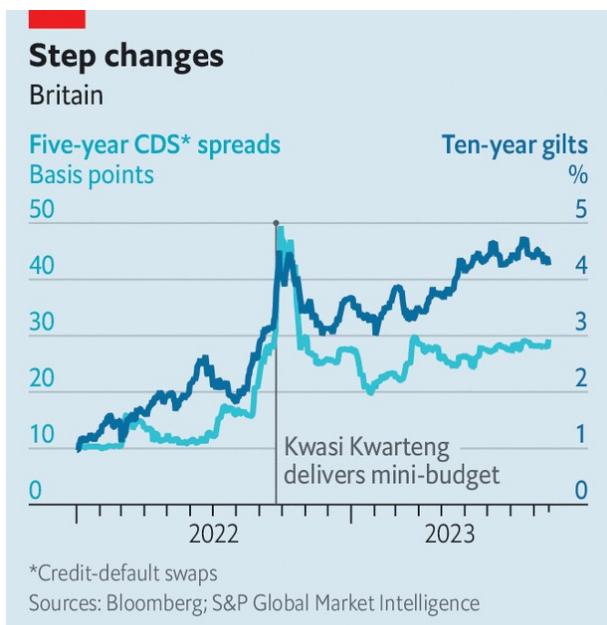
Sep 21st 2023



JAMES CARVILLE, an adviser to Bill Clinton when he was president, once quipped that when he died, “I would like to come back as the bond market. You can intimidate everybody.” A year ago financial markets gave Britain a fright, after Liz Truss’s new government unveiled a “growth plan” on September 23rd that involved £45bn (\$56bn) of annual, unfunded tax cuts, equal to 1.8% of GDP. The cavalier approach to public finances sent yields on gilts spiralling and the pound plummeting to its lowest-ever value against the dollar.

The chaos was short-lived—as was Ms Truss’s hapless government. The Bank of England intervened to steady markets, and Ms Truss sacked her chancellor and closest ally, Kwasi Kwarteng, on October 14th, before resigning herself six days later. Ms Truss’s 49 days in office were the briefest of any prime minister. Although economic orthodoxy has now been restored by Rishi Sunak’s government, is Britain still paying a “moron risk

premium”—a term coined by Dario Perkins of TS Lombard, a research firm—for Ms Truss’s misadventure?



The Economist

The bond market has provided mixed signals. After the yield on ten-year gilts peaked at 4.5% last September, it fell to 3.0% by the beginning of 2023. But it now stands at 4.3%. The main reason is that inflation has proved stickier than expected, so the bank’s policy rate has increased faster and will stay higher for longer—exactly as investors feared it would after Ms Truss’s tax cuts. The bank has also been selling bonds, which in combination with continued debt issuance by the government may have further pushed up yields.

So why all the fuss a year ago? The telltale sign of investor panic was the combination of rising rate expectations and a crashing currency. Under normal conditions high rates should entice investors to buy sterling, not shun it. Today that relationship has been restored. The pound is 20% higher against the dollar than at its nadir on September 26th 2022.

For a better sense of whether a risk premium persists, look instead at credit-default swaps. These instruments insure investors in the event that the bond-issuer goes bust, so give a clearer indication of financial competence. Last September the price of insuring British government debt against default for

five years rose from 29 basis points to 49 basis points after Ms Truss's growth plan was unveiled. Today, that instrument trades once more at 29 basis points.

While financial order appears to have been restored, the Conservative Party is still reeling. The Tories' deficit to Labour is close to 20 points in the polls. The party's reputation for economic competence has been shattered, too. Ms Truss shows little contrition. On September 18th she told the Institute for Government, a think-tank, that her regret was moving too quickly, not executing the plan itself. ■

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## Pollution in Northern Ireland

# The largest freshwater lake in the British Isles has been poisoned

*Cleaning up Lough Neagh in Northern Ireland will be a challenge*

Sep 21st 2023 | Cranfield Point



Alamy

SEEN FROM afar, Lough Neagh should appear as a glittering inland sea. The biggest freshwater lake in the British Isles supplies drinking water to some 750,000 people, 40% of the population in Northern Ireland, and is a much-loved spot for fishing, swimming, and other recreation. Or at least it used to be. These days much of its water is clogged with sludge, its surface a luminescent green.

Stand at Cranfield Point, on the lough's northern shore, and the stink from congealed slime can be overwhelming. Discarded rubbish fails to sink into the glop. Signs warn would-be bathers to stay onshore and keep pets close. The danger is from a form of blue-green algae, cyanobacteria, which produces toxins powerful enough to kill cows. Swans, dogs and foxes have died. Populations of migratory birds that stop off at the lough are said to be much reduced.

Various factors explain the massive growth of the bacteria. For decades nutrients have built up, the result of fertiliser run-off from farms and of dumped wastewater, including sewage. As the numbers of pigs and poultry farmed nearby soared in the past decade, the outpouring of slurry on land—and into water—also surged. Heavier rainfall, in more intense bursts, is probably washing more nutrients from fields. The water has also warmed by 1°C since 1995. The arrival of an invasive species, the zebra mussel, is another problem. As a filter feeder it first makes the water clearer, letting sunlight penetrate deeper, which encourages algae.

Solutions exist, at a cost. Boats can scoop up the thickest sludge. Better water-treatment plants would reduce the volume of raw sewage being dumped. Some farmers are being paid to plant “riparian strips”—fencing off fields near to water and letting plants absorb excess nutrients. Most of all, farmers should be encouraged not to over-use fertiliser. Machines could inject slurry into the soil rather than spreading it on the surface. A project to map the soil composition of every field in Northern Ireland is under way. When complete, farmers should understand better the chemistry of their soil, and so judge the right quantity of fertiliser to use.

Lough Neagh’s freshwater has gone stale because for years it has been taken for granted. At least the problem is being discussed in newspapers, on radio talk shows and by politicians. Getting concerted action will take time and leadership. Unfortunately Northern Ireland’s politics is, for now, about as gummed up as the lough. Don’t expect inspiration from the political leaders. ■

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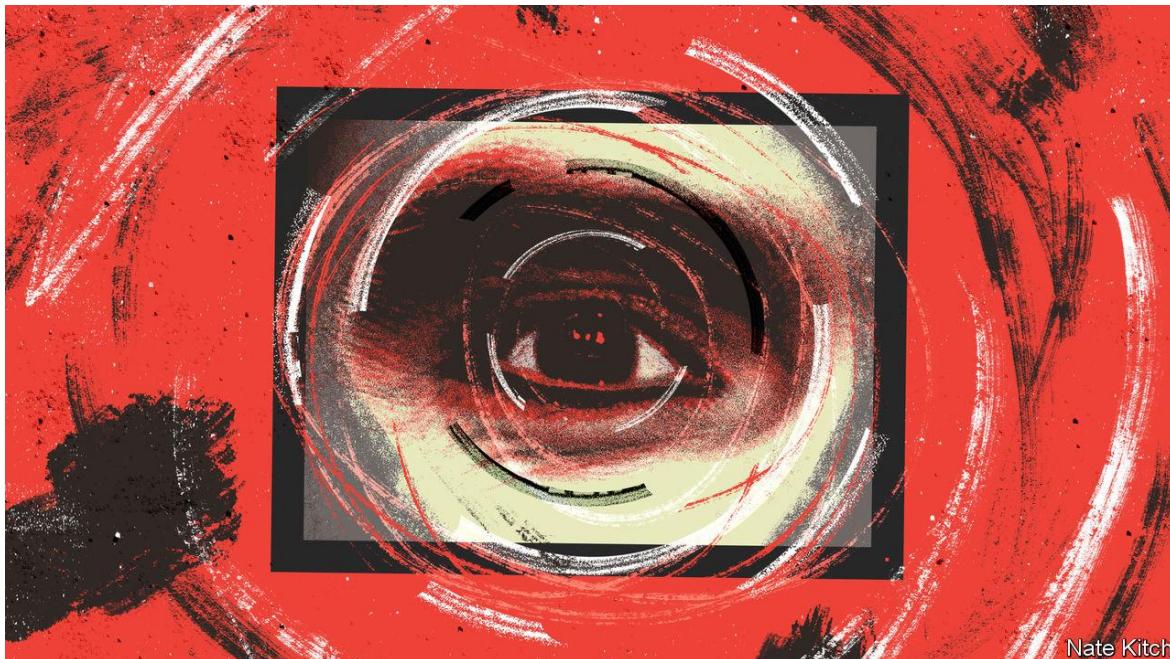
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**Bagehot**

## Russell Brand was the norm in the nasty noughties

*The disgraced comedian is the symbol of a cruel, misogynistic and politically vacant era*

Sep 19th 2023



AT SIX FEET two and closer to seven when a hairspray-induced beehive hairdo was added, Russell Brand was hard to miss. From about 2005, the comedian-cum-presenter-cum-wannabe politician bestrode British society like a skinny-jeaned colossus. He evolved from bit-part presenter on Channel 4 to household name, hosting radio shows, writing columns and interviewing politicians. He married a pop star, broke into Hollywood and became a self-styled revolutionary. All the while he boasted of a rampant sexuality, which was applauded by press and punters.

Now several women have accused Mr Brand of crimes including sexual assault and rape. An investigation by the *Sunday Times* and Channel 4 revealed two decades of misogynistic behaviour, ranging from criminality to the harassment of junior staff. (Mr Brand has not been charged and rejects all allegations.) Although the most serious allegations are new, the bulk of coverage regurgitates the behaviour Mr Brand once bragged about and

which was blithely accepted by media executives, politicians and viewers. Mr Brand is the personification of a cruel, misogynistic and politically vacant age, which Britain would rather forget but should not.

Enthusiastic cruelty shaped British media in the noughties and into the 2010s. Mr Brand revelled in it. He came to national notoriety in 2008 after he rang Andrew Sachs, who played Manuel in “Fawlty Towers”, a 1970s comedy, and boasted of having sex with the actor’s granddaughter. The recording was then broadcast on BBC Radio 2. Mr Brand was forced to resign by the BBC. He had crossed a line. “There is no line,” he wrote afterwards. “People draw that line in afterwards to fuck you up.”

It is easy to see why he thought that. British television at this point delighted in torture. “Little Britain”, a sketch show with grotesque caricatures, was the dominant comedy of the era. Two decades after it first emerged, audiences now wince at the blackface and incessant cruelty. At the time people loved it. Its characters were household names. Vicky Pollard, a yob, became the face of Britain’s working class: fat, lazy and fecund. Cherie Blair, wife of Sir Tony Blair, said it was the family’s favourite show. Sir Tony discussed appearing on it for charity.

Newspapers are filled with appalled references to jokes that Mr Brand made on stage to sell-out arenas and on TV to millions. In one, he boasted about his predilection for “them blowjobs where the mascara runs a little bit”. At the time, the jokes were lauded. Britain was, after all, a comfortably misogynistic country. The *Sun* awarded Mr Brand the title “Shagger of the Year” for three years running. It long ran topless women on page three. Anyone who offered criticism was hounded. When Clare Short, a former Labour cabinet minister, complained, the newspaper photoshopped her face onto a topless woman. The headline called Ms Short “fat and jealous”. The feature stopped only in 2015.

Among the most chilling allegations are the claims that Mr Brand sexually assaulted a teenager, with a BBC car picking up the 16-year-old from school. During their relationship, Mr Brand referred to her as “the child”. When it came to women, an attitude of the younger the better permeated the media. When in 2007 another 30-something comedian was linked with a 16-year-old studying for her GCSEs, it was gaily framed by the press as a problem

only because it might upset her father. “Soccer AM”, a football show that peaked in the noughties, featured young women in skimpy football kits being interviewed and bombarded with innuendo. When they were asked their age, the audience would shout “Great age!” unless they were 18, at which point the crowd would simply cheer.

By 2014 Mr Brand had evolved from celebrity into wannabe politico. He published “Revolution”, a deranged manifesto that suggested forbidding any company from having revenue more than the GNP of the smallest country (Tuvalu, with \$60m). Political debate was so vacant that Mr Brand was lauded, rather than spurned. Readers of high-minded *Prospect* magazine voted him the fourth-greatest of the world’s leading thinkers of 2015. Mr Brand guest-edited the *New Statesman* (joking that he would rename it the *Nude Statesman*); Ed Miliband, then the Labour Party’s leader, appeared on Mr Brand’s YouTube channel. It was not that Mr Brand’s misogyny was unknown. It was that it did not matter.

## The nasty noughties

Nostalgia and amnesia combine to isolate Mr Brand from an era he dominated. The folk memory of the noughties is of a kinder, more pleasant time. The economy was growing. Social media mattered less. “Grown up” politicians settled the issues of the day. The result is that the media bosses who coddled Mr Brand, and the politicians who sucked up to him, now dismiss him as a vile exception rather than the norm.

He was not an aberration. The audio of Mr Brand trying to arrange a meeting with Jimmy Savile, who was later revealed as a serial rapist, by offering the chance to see his assistant nude sounds like a surreal parody. It was a genuine broadcast on Radio 2 in 2007. The decision to share it “beggars belief”, says Lorraine Heggessey, a former BBC executive. Yet it was the spirit of the times. A few years before, Savile had appeared on “Have I Got News For You”, a satirical television show, and declared: “I’m feared in every girls’ school in this country.” The audience laughed.

Putting Mr Brand in this context is to explain rather than excuse him. Britain has, thankfully, changed a lot in the past decade. The needless cruelty and casual misogyny has dwindled. An obsession with teenage girls is now seen

as weird, not natural. Censorious and sometimes puritanical attitudes that are prominent today exist as a reaction to the excesses of a previous era. Mr Brand, relegated to a modest audience on YouTube, which has stripped him of the right to earn money from his videos, now sits on the fringes of society. It is comforting to think that he was always there. But it is wrong. ■

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*Also: How the Bagehot column got its name*

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# **International**

- [Meet the world's new arms dealers](#)

**Young guns**

## Meet the world's new arms dealers

*Where to buy drones, fighters and tanks on the cheap*

Sep 19th 2023



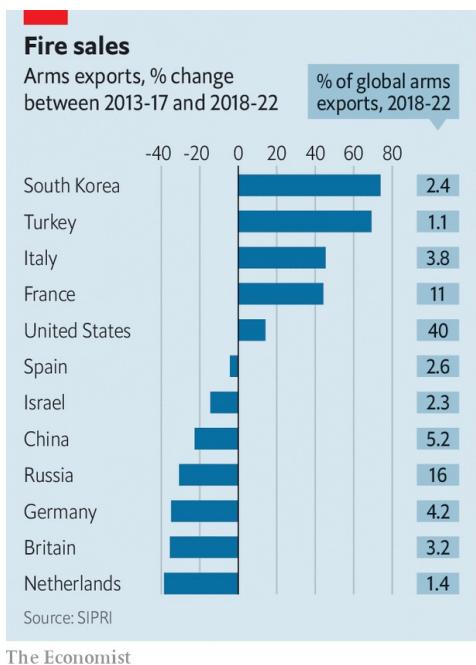
Getty Images

THE SIGHT of North Korea's chubby leader, Kim Jong Un, shaking hands with [Vladimir Putin](#) on September 13th—having travelled by train to a spaceport in Russia's far east to discuss selling its dictator a stash of North Korean weapons—was remarkable both on its own terms and for what it said about the business of selling arms. The world's five biggest arms-sellers (America, Russia, France, China and Germany) account for more than three-quarters of exports. But up-and-coming weapons producers are giving the old guard a run for their money. They are making the most of opportunities created by shifting geopolitics. And they are benefiting from the Russian invasion of Ukraine.

Mr Kim's trip to Russia followed a visit to Pyongyang in July by Sergei Shoigu, Russia's defence minister, who wanted to see if North Korea could provide gear that would help his country's faltering war effort. North Korea would love to find buyers for its kit. And few regimes are willing to sell Russia arms. China has [so far been deterred](#) from providing much more than

dual-purpose chips (although it could yet channel more lethal stuff through North Korea). Only Iran has obliged, selling some 2,400 of its [Shahed “kamikaze” drones](#).

North Korea could provide a wider range of stuff. As well as drones and missiles such as the KN-23, which is almost a replica of the Russian Iskander ballistic missile, it could offer self-propelled howitzers and multi-launch rocket systems. According to sources in American intelligence, North Korea has been delivering 152mm shells and Katyusha-type rockets to Russia for the best part of a year. Russia is shopping in Pyongyang and Tehran because both regimes are already so heavily targeted by international sanctions that they have nothing to lose and much to gain by doing business with Mr Putin’s government. They are not so much an “axis of evil” as a marketplace of pariahs.



The Economist

If the North Korean arms industry is being boosted by the war in Ukraine, its southern foe is doing even better. South Korea’s arms exporters were cleaning up even before the conflict. In the five years to 2022 the country rose to ninth place in a ranking of weapons-sellers compiled by the Stockholm International Peace Research Institute (SIPRI), a think-tank (see chart). The government aspires to make South Korea the world’s fourth-

largest arms exporter by 2027. Last year it sold arms worth \$17bn, more than twice as much as in 2021. Some \$14.5bn came from sales to Poland.

The size and scope of the agreements South Korea has reached with Poland, which sees itself as a front-line country in Europe's defence against a revanchist Russia, are jaw-dropping. The deal includes 1,000 K2 Black Panther tanks, 180 of them delivered rapidly from the army's own inventory and 820 to be made under licence in Poland. That is more tanks than are operating in the armies of Britain, France, Germany and Italy combined. It also includes 672 K9 Thunder self-propelled howitzers; 288 K239 Chunmoo multiple-rocket launchers; and 48 Golden Eagle FA-50s, a cut-price fourth-generation fighter jet.

South Korea's success in the arms business is down to competitive costs, high-quality weaponry and swift delivery, says Tom Waldwyn at the International Institute for Strategic Studies, a think-tank based in London. Its prices reflect South Korea's efficient manufacturing. The quality derives from South Korea's experience working with the best American weaponry, and from its own high-tech civil sector. Speedy delivery is possible because the South Koreans, facing a major threat across their northern border, run hot production lines that can also ramp up quickly.

Siemon Wezeman, a researcher with SIPRI's arms-transfer programme, says wholehearted support from government and attractive credit arrangements are also critical to South Korea's success. Asian customers like the fact that it has close ties to America without being America, which is often seen as an unreliable ally. This could also help South Korea clinch a \$45bn deal to renew Canada's submarine fleet. Questions for the future include how far South Korea will go in transferring technology to its customers—a crucial issue for Poland, which sees itself as an exporting partner of South Korea's, competing with Germany and France in the European market.

If South Korea is the undisputed leader among emerging arms exporters, second place goes to Turkey. Since the ruling AK party came to power in 2002 it has poured money into its defence industry. A goal of achieving near-autarky in weapons production has become more pressing in the face of American and European sanctions—the former imposed in 2019 after Turkey, a NATO member, bought Russian S-400 surface-to-air missiles.

## Rocket-fuelled

SIPRI thinks that between 2018 and 2022 Turkey's weapons exports increased by 69% compared with the previous five-year period, and that its share of the global arms market doubled. According to a report in July by a local industry body, the value of its defence and aerospace exports rose by 38% in 2022, compared with the previous year, reaching \$4.4bn. The target for this year is \$6bn. Pakistan is receiving modernised submarines from Turkey. And the last of four corvettes which Turkey has sold to the Pakistan navy was launched last month. More sales to other countries are likely, both because Turkey's ships are competitively priced and because Turkey has few qualms about who it will sell to.

Yet Turkey's export charge is led by armed drones. On July 18th Turkey signed a \$3bn agreement with Saudi Arabia to supply the Akinci unmanned combat aerial vehicle (UCAV). It was made by Baykar, which also produces the Bayraktar TB2—a drone that has been used in combat by Azerbaijan, Ethiopia, Libya and Ukraine. The TB2 was developed to hunt Kurdish militants after America refused to sell Turkey its Predator drone. More than 20 countries lined up to buy it because it was cheaper and more readily available than the American alternative, and more reliable than the Chinese UCAVs that had previously dominated the non-Western market.

The Akinci (pictured right, next to the TB2) is more powerful. It can carry lots of big weapons, including air-to-air missiles and the SOM-A, a stealthy cruise missile with a range of 250km. It will find buyers among several other Gulf countries, such as Oman, Qatar and the UAE, which are keen to hedge against souring relations with America by reducing their reliance on its weaponry. These countries also have ambitions to build their own defence industries; they see Turkey as a willing partner and as an example to follow.

Turkey's ambitions are shown by what else is in the pipeline. Its new navy flagship, the *Anadolu*, is a 25,000-tonne amphibious assault ship and light aircraft-carrier that will carry Bayraktar UCAVs. At least one Gulf country is said to be in talks to buy a similar ship. Turkey's fifth-generation fighter jet, the KAAN, in which Pakistan and Azerbaijan are partners, should fly before the end of the year. Developed with help from Britain's BAE Systems and Rolls-Royce, the KAAN could be seen as a response to Turkey's ejection

from the F-35 partner programme (as punishment for buying the S-400). Turkey will market the plane to anyone America will not sell F-35s to—or who balks at the conditions. Once again, Gulf countries may be first in line.

South Korea and Turkey have benefited from the woes of their main competitors. [Russia's arms exports](#) between 2018 and 2022 were 31% lower than in the preceding five-year period, according to SIPRI. It is facing further large declines because of the strain its war of aggression is putting on its defence industries, its geopolitical isolation and the efforts of two major customers, India and China, to reduce their reliance on Russian weaponry.

India, previously Russia's biggest customer, cut its purchases of Russian arms by 37% in the 2018-22 period. It is probably wishing it had gone further: Russia's largely state-controlled arms industry is having to put its own army's needs ahead of commitments to customers. Many of India's 272 Su-30MKIs, the backbone of its air force, are kaput because Russia cannot supply parts. Some of Russia's weapons have performed poorly in Ukraine compared with NATO kit. And sanctions on Russia are limiting trade in things such as microchips, ball-bearings, machine tools and optical systems, which will hinder Russia's ability to sell combat aircraft, attack helicopters and other lethal contraptions. The longer the war in Ukraine lasts, the more Russia will struggle to claw back its position in the global arms market.

## Damp squibs

As for China, over half its arms exports in the 2018-22 period went to just one country, Pakistan, which it sees as an ally against India. Nearly 80% of Pakistan's major weapons needs are met by China, according to SIPRI. These include combat aircraft, missiles, frigates and submarines. Beijing has no interest in its customers' human-rights records, how they plan to use what China sends or whether they are under Western sanctions.

But China's arms industry also has its problems. One challenge, says Mr Waldwyn, is that although China set out to dominate the military drone market a decade ago, its customers got fed up with poor quality and even worse support, opening a door for Turkey. A second is that, with the exception of a putative submarine deal with Thailand and a package of

weapons for Myanmar, countries in South-East Asia are tired of Chinese bullying and “won’t touch them”, says Mr Wezeman.

At least China does not have to worry about competition from India. Despite much effort, India’s growth as an arms exporter has been glacial. The government of Narendra Modi has listed a huge range of weapons parts that must be made in India; it hopes home-made light tanks and artillery will enter service by the end of the decade. But India has relied for too long on the transfer of technology from Russia under production-licensing agreements for aircraft, tanks and warships that have failed to deliver. Investment is wastefully channelled through state-owned bodies. Red tape suffocates initiative.

Projects such as the Tejas light combat aircraft have taken decades to reach production and remain fraught with problems. The Dhruv light helicopter, launched in 2002, has crashed dozens of times. After decades in development, the Arjun Mk-2 tank turned out to be too heavy for deployment across the border with Pakistan. Locally made kit is often rejected by India’s own armed forces. “If they don’t want it, exporting it becomes impossible,” says Mr Wezeman. South Korea and Turkey show how countries can build lucrative arms businesses that underpin domestic security. India, for all its bombast, is a lesson in how not to do it. ■

# Business

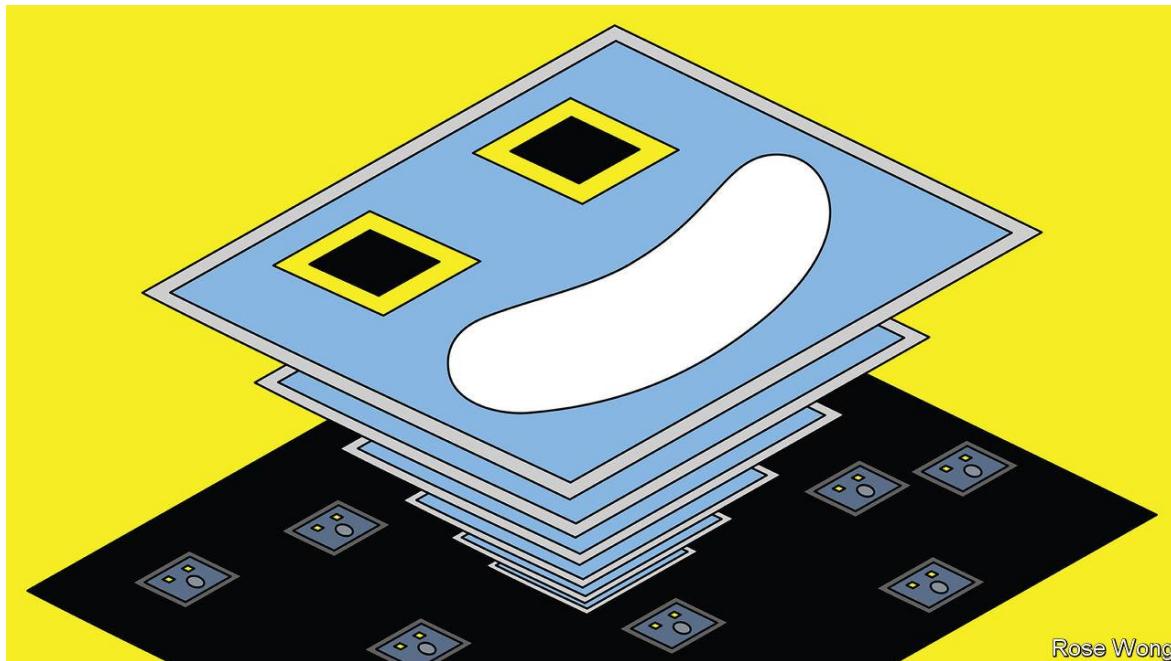
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**Smart money**

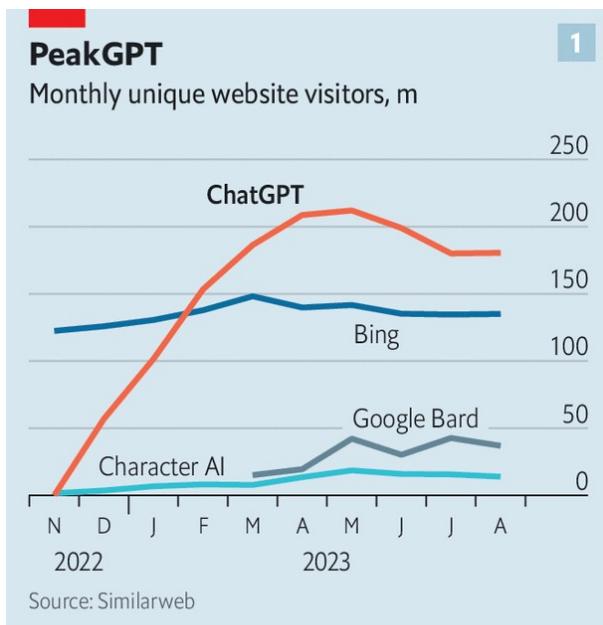
## Could OpenAI be the next tech giant?

*What the business of AI's leading startup says about the technology's future*

Sep 18th 2023 | San Francisco



THE CREATION of a new market is like the start of a long race. Competitors jockey for position as spectators excitedly clamour. Then, like races, markets enter a calmer second phase. The field orders itself into leaders and laggards. The crowds thin.



The Economist

In the contest to dominate the future of artificial intelligence, OpenAI, a company backed by Microsoft, established an early lead by launching ChatGPT last November. The app reached 100m users faster than any before it. Rivals scrambled. Google and its corporate parent, Alphabet, rushed the release of their chatbot, Bard. So did startups like Anthropic. Venture capitalists poured over \$40bn into AI firms in the first half of 2023, nearly a quarter of all venture dollars this year. Then the frenzy died down. Public interest in AI peaked a couple of months ago, according to data from Google searches. The number of visitors to ChatGPT's website fell from 210m in May to 180m now (see chart 1).

The emerging order still sees OpenAI ahead technologically. Its latest AI model, GPT-4, is beating others on a variety of benchmarks (such as an ability to answer reading and maths questions). In head-to-head comparisons, it ranks roughly as far ahead of the current runner-up, Anthropic's Claude 2, as the world's top chess player does against his closest rival—a decent lead, even if not insurmountable. More important, OpenAI is beginning to make real money. According to the *Information*, an online technology publication, it is earning revenues at an annualised rate of \$1bn, compared with a trifling \$28m in the year before ChatGPT's launch.

Can OpenAI translate its early edge into an enduring advantage, and join the ranks of big tech? To do so it must avoid the fate of erstwhile tech pioneers, from Netscape to Myspace, which were overtaken by rivals that learnt from their early successes and stumbles. And as it is a first mover, the decisions it takes will also say much about the broader direction of a nascent industry.

OpenAI is a curious firm. It was founded in 2015 by a clutch of entrepreneurs including Sam Altman, its current boss, and Elon Musk, Tesla's technophilic chief executive, as a non-profit venture. Its aim was to build artificial general intelligence (AGI), which would equal or surpass human capacity in all types of intellectual tasks. An intermediate goal was an AI that could master a video game called "Dota". In working on that problem, OpenAI's boffins alighted on a simple approach that involved harnessing oodles of computing power, says an early employee who has since left. When in 2017 researchers at Google published a paper describing a revolutionary machine-learning technique they christened the "transformer", OpenAI's engineers realised they could scale it up by combining untold quantities of data scraped from the internet with processing oomph. The result was the generative pre-trained transformer, or GPT for short.

Obtaining the necessary resources required OpenAI to employ some engineering of the financial variety. In 2019 it created a "capped-profit company" within its non-profit structure. To begin with, investors in this business could make 100 times their initial investment—but no more. Rather than distribute equity, the firm distributes claims on a share of future profits that come without ownership rights ("profit-participation units"). What is more, OpenAI says it may reinvest all profits until the board decides that OpenAI's goal of achieving AGI has been reached. OpenAI stresses that it is a "high-risk investment" and should be viewed as more akin to a "donation". "We're not for everybody," says Brad Lightcap, OpenAI's chief operating officer and its financial guru.

Maybe not. Mr Musk pulled out in 2018. Some potential investors were scared away from OpenAI's most recent funding round by its complex structure. But Mr Altman and Mr Lightcap were able to win over others. To become more attractive the company has loosened its profit cap to one based on an annual rate of return (though it will not confirm what the maximum

rate is). And academic debates about the meaning of AGI aside, the profit units themselves can be sold on the market just like standard equities. The firm has already offered several opportunities for early employees to sell their units. Investors who chose to buy in appear confident that they can achieve venture-scale returns if the firm keeps growing.

SoftBank, a risk-addled tech-investment house from Japan, is thought to be the latest investor keen to place a big bet on OpenAI. The startup has so far raised a total of around \$14bn. Most of it, perhaps \$13bn, has come from Microsoft, whose Azure cloud division is also furnishing OpenAI with the computing power it needs. In exchange, the software titan will receive the lion's share of OpenAI's profits—if these are ever handed over. In the short term, it gets to license OpenAI's technology and offer this to its own clients, which include most of the world's largest companies.

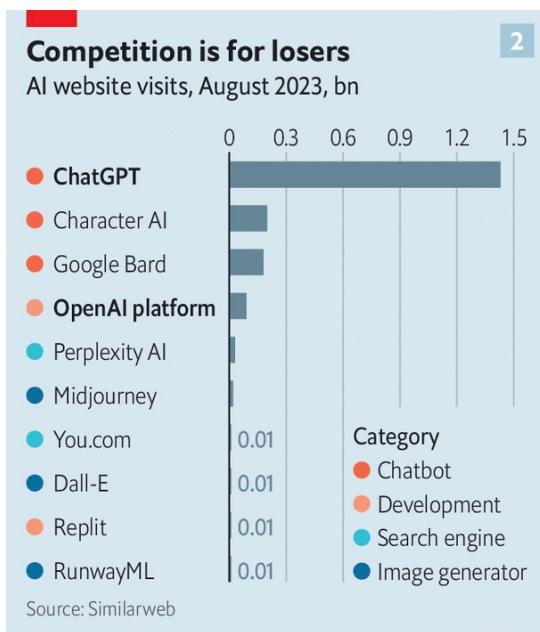
It is just as well that OpenAI is attracting deep-pocketed backers. For the firm needs an awful lot of capital to procure the data and computing power necessary to keep creating ever more intelligent models. Mr Altman has said that OpenAI could well end up being “the most capital-intensive startup in Silicon Valley history”. OpenAI's most recent model, GPT-4, is estimated to have cost around \$100m to train, several times more than GPT-3.

For the time being, investors appear happy to pour more money into the business. But they eventually expect a return. And for its part OpenAI has realised that, if it is to achieve its mission, it must become like any other fledgling business and think hard about its costs and its revenues.

GPT-4 already exhibits a degree of cost-consciousness. For example, notes Dylan Patel of SemiAnalysis, a research firm, it was divided into 16 parts that specialise in different types of tasks. That makes it trickier to design than a monolithic model. But it is then cheaper to actually use the model once it has been trained, because not all the specialists are required to answer questions. Cost is also a big reason why OpenAI is not training its next big model, GPT-5. Instead, say sources familiar with the firm, it is building GPT-4.5, which would have “similar quality” to GPT-4 but cost “a lot less to run”.

## A model salesman

But it is on the revenue-generating side of business that OpenAI is most transformed, and where it has been most energetic of late. AI can create a lot of value long before AGI brains are as versatile as human ones, says Mr Lightcap. OpenAI's models are generalist, trained on a vast amount of data and capable of doing a variety of tasks. The ChatGPT craze has made OpenAI the default option for consumers, developers and businesses keen to embrace the technology. Despite the recent dip, ChatGPT still receives 60% of traffic to the top 50 generative-AI websites, according to a study by Andreessen Horowitz, a venture-capital (VC) firm which has invested in OpenAI (see chart 2).



The Economist

Yet OpenAI is no longer only—or even primarily—about ChatGPT. It is increasingly becoming a business-to-business platform. It is creating bespoke products of its own for big corporate customers, which include Morgan Stanley, an investment bank. It also offers tools for developers to build products using its models; on November 6th it is expected to unveil new ones at its first developer conference.

In addition, the firm has a \$175m pot to invest in smaller AI startups building applications on top of its platform, which at once promotes its models and allows it to capture value if the application-builders strike gold. To spread its technology further, it is handing out perks to AI firms at Y

Combinator, a Silicon Valley startup nursery that Mr Altman used to lead. John Luttig of Founders Fund, a VC firm which also has a stake in OpenAI, thinks that this vast and diverse distribution may be even more important than any technical advantage.

Being the first mover certainly plays in OpenAI's favour. GPT-like models' high fixed costs erect big barriers to entry for competitors. That in turn may make it easier for OpenAI to lock in corporate customers. If they are to share internal company data in order to fine-tune the model to their needs, many clients may prefer not to do so more than once—for cyber-security reasons, or simply because it is costly to move data from one AI provider to another, as it already is between computing clouds. Teaching big models to think also requires lots of tacit engineering know-how, from recognising high-quality data to knowing the tricks to quickly debug the source code. Mr Altman has speculated that fewer than 50 people in the world are at the true model-training frontier. A lot work for OpenAI.

These are all real advantages. But they do not guarantee OpenAI's dominance. For one thing, the sort of network effects where scale begets more scale, which have helped turn Alphabet, Amazon and Meta into quasi-monopolists in search, e-commerce and social networking respectively, have yet to show up. Despite its vast number of users, GPT-4 is hardly better today than six months ago. Although further tuning with user data has made it less likely to go off the rails, its overall performance has changed in unpredictable ways, in some cases for the worse.

Being a first mover in model-building may also bring some disadvantages. The biggest cost for modellers is not training but experimentation. Plenty of ideas went nowhere before the one that worked got to the training stage. That is why OpenAI is estimated to have lost some \$500m last year, even though GPT-4 cost one-fifth as much to train. News of ideas that do not pay off tends to spread quickly throughout AI world. This helps OpenAI's competitors avoid going down costly blind alleys.

As for customers, many want to reduce their dependence on OpenAI, fearful of being locked into its products and thus at its mercy. Anthropic, which was founded by defectors from OpenAI, has already become a popular second choice for many AI startups. Soon they may have more cutting-edge

alternatives. Google is building Gemini, a model believed to be more powerful than GPT-4. Despite its partnership with OpenAI, even Microsoft is something of a rival. It has access to GPT-4's black box, as well as a vast sales force with deep ties to the world's biggest corporate IT departments. This array of choices diminishes OpenAI's pricing power. It is also forcing Mr Altman's firm to keep training better models if it wants to stay ahead.

The fact that OpenAI's models are a black box also reduces its appeal to some potential users, including large businesses concerned about data privacy. They may prefer more transparent "open-source" models like Meta's LLaMA 2. Sophisticated software firms, meanwhile, may want to build their own model, in order to exercise full control over its behaviour.

Others are moving away from generality—the ability to do many things rather than just one thing—by building cheaper models that are trained on narrower sets of data, or to do a specific task. A startup called Replit has trained one just to write computer programs. It sits atop Databricks, an AI cloud platform which counts Nvidia, a \$1trn maker of specialist AI semiconductors, among its investors. Character AI has designed a model that lets people create virtual personalities based on real or imagined characters that can then converse with other users. It is the second-most popular AI app behind ChatGPT.

The core question, notes Kevin Kwok, a venture capitalist (who is not a backer of OpenAI), in a forthcoming essay, is how much value is derived from a model's generality. If not much, then the industry may be dominated by many specialist firms, like Replit or Character AI. If a lot, then big models such as those of OpenAI or Google may come out on top. Mr Altman still believes in size. "We will keep scaling for sure," he says, even if many of the gains "will hopefully come from other things".

Mike Speiser of Sutter Hill Ventures (another non-OpenAI backer) suspects that the market will end up containing a handful of large generalist models, with a long tail of task-specific models. Such an oligopoly might limit the chance of an astronomical Google-like outcome, but could still earn OpenAI a pretty penny. And if the company really does achieve its mission of creating a thinking machine that surpasses humans? Then all bets are off. ■

**Correction (19th September 2023):** In an earlier version of this article we made an error in expanding the abbreviation GPT. Apologies for the hallucination.

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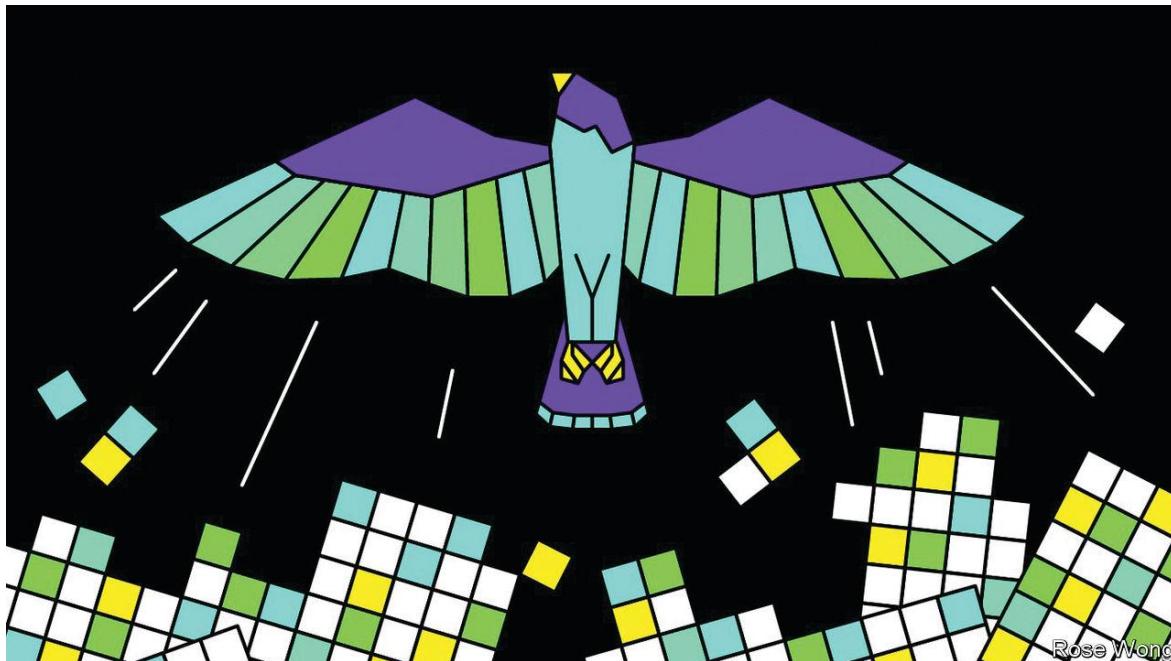
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**Can Falcon soar?**

## Abu Dhabi throws a surprise challenger into the AI race

*It has released the world's most powerful open-source model, and will soon launch an AI company*

Sep 21st 2023



OVER RECENT decades the oil-rich economies of the Gulf have shown a taste for flashy government projects with dubious payoffs. In the early 2000s Dubai spent an estimated \$12bn building an artificial archipelago shaped like a palm. Last year Qatar splurged around \$220bn hosting the football World Cup. Saudi Arabia, the region's gorilla, is building a pair of 120km-long skyscrapers in the desert—for roughly \$1trn.

Amid the vanity projects, some serious efforts at economic diversification are also being pursued. One such endeavour is under way in Abu Dhabi, where earlier this month a government research institute released Falcon 180B, its latest massive artificial-intelligence (AI) model, which is impressing technologists around the world with its performance.

Abu Dhabi has even bigger AI ambitions. “We are entering the game to disrupt the core players,” says Faisal al-Bannai, secretary-general of the Advanced Technology Research Council (ATRC), the government agency which houses the institute that created Falcon. He says that later this year the ATRC will announce the launch of a state-backed AI company to go head to head with the field’s leading lights, such as [OpenAI](#), creator of ChatGPT. Though it will face an uphill battle, the Emirati outfit could yet emerge as a credible competitor. Its success will be closely watched both by rivals and by other governments seeking to carve out a role in an AI economy currently dominated by America and China.

The Technology Innovation Institute (TII), the applied-research arm of the ATRC, employs around 800 staff of 74 nationalities, working on subjects from biotechnology and robotics to quantum computing. Launched in 2020, it has been experimenting with ChatGPT-like “generative” AI for some time. It released Noor, an Arabic-based AI model, in April last year, and then Falcon 40B, the first iteration of its flagship open-source model, in May this year.

Falcon 180B, as its name hints, is a beefed-up version of its predecessor. Comparing the performance of AI models is notoriously tricky, but going by a selection of commonly used benchmarks compiled by Hugging Face, a library of models, TII’s latest release bests the previous open-source champion, Meta’s LLaMA 2. A blog post by Hugging Face staff suggests the model is “on par” with Google’s PaLM 2.

Why make such a powerful model freely available? Mr Bannai talks of “democratising” access to a transformational new technology, and warns against power falling into the hands of a small clique of companies, as has happened in the internet economy. But opening up access to Falcon 180B also allows software engineers to play around with a model that is not quite at the technological frontier, and suggest improvements. According to TII, some 12m developers experimented with the first generation of Falcon.

Giving away the model also opens up other opportunities for monetisation. Consider Stability AI, a startup whose open-source Stable Diffusion model was behind 13bn of the 15bn images generated by AI in the year to August, according to Everypixel, a software firm. Emad Mostaque, Stability AI’s

founder, says that its open-source strategy makes “commercial sense” for the firm “because the models are adopted far more quickly and widely than proprietary models”. Although the company generates revenue directly through its DreamStudio text-to-image generator, that tool accounts for a small fraction of the pictures produced using Stable Diffusion. It also makes money from developers opting to build applications based around the model (or others created by the company) on top of its computing platform, and by building tailored solutions for customers.

Mr Bannai has a similar vision. He pictures an “end-to-end platform for AI developers”, pointing to Shopify, an e-commerce platform used by merchants to build online shops, as his inspiration. He says the company will also build new proprietary models and applications tailored for specific fields, such as medicine and law, while keeping access to its core model open. It will experiment, too, with “multimodal” AI systems that incorporate many types of data (from text and images to audio) and “edge” models that can run on smaller devices such as phones.

Abu Dhabi may not seem like an obvious hub for AI talent, but big (and tax-free) salaries have already started luring tech whizzes from abroad. The emirate has also been training local brainboxes, including at the Mohamed bin Zayed University of Artificial Intelligence, founded in 2019. And although it will be a late entrant to an already crowded race, the Emirati firm will have some advantages, too.

One is a tight-knit business milieu. Many bosses are still grappling with how best to harness generative AI. By teaming up with local businesses and using them as test cases, Mr Bannai reckons his agency’s AI company will quickly be able to learn what works and what doesn’t.

Another advantage is the emirate’s deep pockets. Abu Dhabi’s various sovereign-wealth funds hold around \$1.5trn in assets, which makes even OpenAI’s \$40bn valuation look like chump change. With frontier AI models becoming more computationally intensive and data-guzzling, access to cash could become decisive, especially in a world of higher interest rates.

If the endeavour succeeds, it will be a favourable omen for the long-term prospects of the Gulf as the demand for oil declines. Countries that harbour

similar hopes of becoming an AI superpower, including Britain, will be watching along with interest—and, perhaps, envy. ■

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**Emissionary zeal**

## California cracks down on carbon

*It is not just attacking big oil. Big everything is in the line of fire*

Sep 21st 2023 | LOS ANGELES



Getty Images

CLIMATE WEEK NYC got off to an early start in California. In the days running up to the launch of the annual jamboree in New York City, America's most populous and economically powerful state seized the initiative by hurling two thunderbolts at carbon-intensive businesses.

The most eye-catching was a lawsuit filed on September 15th by the Democrat-led state government accusing five big oil companies—BP, Chevron, ConocoPhillips, ExxonMobil and Shell—of lying about the dangers of climate change. Two bills passed days earlier by the state legislature may have a bigger impact. They could, for the first time in America, force big business to make climate-related disclosures. Governor Gavin Newsom vowed to sign both, after a few tweaks.

The two approaches—legal and legislative—were hailed by climate campaigners as tipping points in American law. The lawsuit against “big oil” aims to make the defendants pay for the alleged environmental damage suffered in California as a result of the use of their products. The firms

reasserted their commitment to decarbonisation and said that the courts were not the right place to tackle such a momentous problem. It is the latest and most significant of dozens of court cases filed by states and cities against fossil-fuel producers in recent years. Those lawsuits proceed slowly and, as yet, no firm has lost. But in April the Supreme Court dealt a blow to oil producers by rejecting their efforts to move such cases from state to federal courts.

The two laws are likely to have bigger, and more immediate, consequences. They require large firms that do business in California to disclose their greenhouse-gas emissions and climate-related vulnerabilities. They are the first of a kind in America—and will, like the state's vehicle-emissions standards, probably have implications far beyond California's borders.

One applies to more than 5,000 companies with global annual revenues of over \$1bn, and obliges them to disclose direct and indirect emissions, known as scope 1 and scope 2, beginning in 2026. A year later, they must also reveal their scope 3 emissions, which include those generated by their suppliers and end users. For example, carmakers will have to account for the emissions of those who provide them with parts and those who drive their cars. Scope 3 emissions are hard to calculate and can be many times the direct emissions, making some firms loth to calculate them.

The second measure applies to 10,000 or so companies with revenues above \$500m. Starting in 2026 they must file reports every other year on the financial impact of climate change on their business. Some companies, such as Microsoft, a tech giant, and Patagonia, a clothing brand, threw their support behind the measures. The California Chamber of Commerce, a lobby group, opposed them, arguing that they would push up compliance costs for firms without curbing emissions. Even so, companies will find it hard to resist the lure of California's giant market.

The climate-disclosure requirements come shortly before America's Securities and Exchange Commission (SEC), a regulator, is expected to launch something similar at a federal level. Michael Gerrard of the Sabin Centre for Climate Change Law at Columbia University points out that the SEC's rule is narrower in scope than California's, only affects publicly traded companies above a certain size, and may be more legally vulnerable.

Internationally, California is not alone. Many American multinationals will soon have to comply with even further-reaching climate-disclosure requirements by the European Union. America's Republican states may growl about extraterritoriality. But when it comes to standard-setting, businesses know they must take California and the EU seriously. ■

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**Strike while the engine is hot**

## America's big car firms face lengthy strikes

*Detroit's "big three" v the United Auto Workers*

Sep 20th 2023



THE CAR industry faces unprecedented upheaval as the importance of the internal-combustion engine, which has defined it for more than a century, declines and that of battery power, which will define its future, rises. The latest reverberation of this historic shock is now rippling through the four-yearly contract negotiations between Detroit's "big three" carmakers and its biggest trade union. On September 15th, for the first time ever, members of the United Auto Workers (UAW) began simultaneous industrial action against Chrysler, General Motors (GM) and Ford. (Chrysler is part of Stellantis, whose biggest shareholder part-owns *The Economist*'s parent company.) The union's tactical change foreshadows a protracted stand-off, the stakes of which are high for union and carmakers alike.

In the past the UAW renegotiated its contract with one of the big three, with the other two usually falling into line with any agreements. In 2019 the renegotiation happened at GM, which reached a deal with the union only after a six-week strike by 48,000 workers had cut production by 300,000

vehicles, costing the company \$3.6bn in net profit. Even though this time the industrial action is affecting all three companies, it is more targeted. The three factories affected so far together employ only 13,000 of the UAW's 146,000 members who work at the Detroit trio. As a result, reckons Evercore ISI, a bank, only up to 20,000 vehicles might be lost in the first week of the strike.

That could change if the talks do not move fast enough. The UAW has threatened to tighten the screw considerably if no progress is made by September 22nd. In particular, extending the strikes to factories making engines could result in 150,000 unmade vehicles a week, because other plants that depend on powertrains are also forced to stop production. Hitting the manufacture of lucrative pickups would inflict even more duress on the companies. The union thinks it can afford to dig in, thanks to an \$825m strike fund that could pay \$500 a week to all the UAW's big-three members for 11 weeks. It also has the public on its side; two in three Americans tell pollsters they support unions, almost an all-time high.

The UAW argues that American carmakers' recent good fortune should be shared out more evenly, pointing to record profits and ballooning bosses' pay. The self-styled "audacious and ambitious" set of demands from Shawn Fain, the UAW's newish leader, includes a cumulative pay rise of 36% over the next four years. Also on the wish list are a return of more generous pension provisions and a rapid end to a scheme introduced in 2007 after bail-outs induced by the financial crisis, whereby new workers are paid less than existing employees.

The car giants have countered by offering a pay increase of around 20% and some other concessions. They contend that meeting all the union's demands would frustrate their costly efforts to turn themselves from manufacturers of gas-guzzlers into software-powered makers of electric vehicles (EVs). Ford says that doing so would more than double its labour costs. These, the firm adds, are already much higher than at Tesla, a non-unionised EV pioneer, or at foreign-owned factories with similarly unorganised workforces. And far from paying the "poverty wages" as Mr Fain claims, Ford says that its offer would boost average annual pay and benefits from \$112,000 to \$133,000.

The carmakers are right to worry about rising costs. The UAW, for its part, may well see the current moment as its last chance to stay relevant before more of the industry switches to EVs, which are less mechanically complicated and so less labour-intensive to make. This is signalled by another of its demands—the right to strike over factory closures. Its insistence on that suggests that in four years' time the negotiations will not be so much about money. Instead, they could be more like a rerun of 2019, when one of the main points of contention was GM's decision to close four plants—but on a much larger scale. ■

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## Missile stockpiles

# Big pharma can't get enough of one class of cancer drugs

*A spate of dealmaking suggests high expectations for antibody-drug conjugates*

Sep 21st 2023 | New York



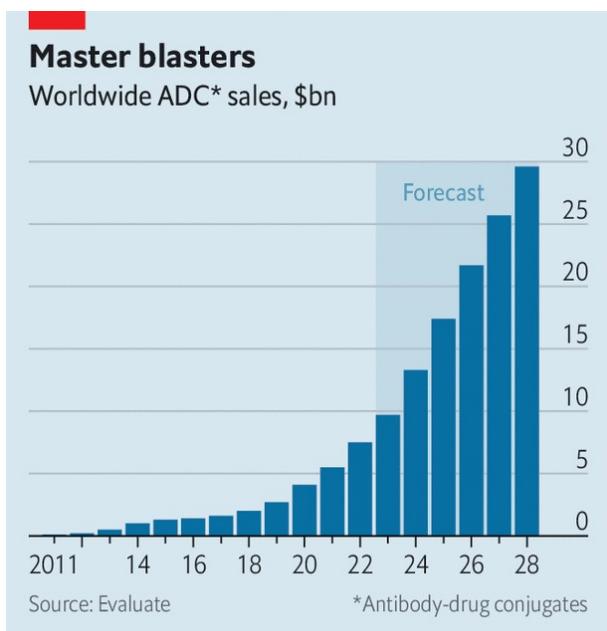
AROUND THE world, dealmaking is in a rut. A combination of higher interest rates, geopolitical tensions and economic uncertainty has put a hold on joint ventures, mergers and acquisitions. One exception is targets with AI in their name. Another, less obvious one, involves a less catchy initialism: ADCs.

Makers of these antibody-drug conjugates, to give them their full name, are all the rage among the world's biggest drugmakers. Pfizer is paying \$43bn for Seagen, which in turn has just teamed up with Nurix Therapeutics, a smaller biotechnology firm, to work on this class of drugs. Amgen, AstraZeneca and Merck have also placed billion-dollar bets on ADCs. In the past five years licensing deals worth \$60bn have been signed for such therapies. The number of such deals tripled in that period, to 26. So far this

year 18 have been signed, outpacing similar deals involving other emerging cancer drugs.

ADCs aren't new. The first was approved in 2000 for types of leukaemia. They act like guided biological missiles: a payload of toxic chemotherapy is carried by antibodies able to seek out cancer cells directly. Because they bypass normal tissue and go straight for their targets, they let patients receive higher doses that would otherwise cause too much collateral damage.

Two developments explain the frenzied stockpiling of these anti-cancer weapons of late. One is increased clinical confidence. Enhertu, an ADC developed by AstraZeneca and Daiichi Sankyo, a Japanese biotechnology company, was first approved in America in 2019. But after another set of trials in 2022 showed that it allowed breast-cancer patients to live almost twice as long without relapse as those treated with standard chemotherapy, its approval was extended to different types of breast and lung cancer. Regulators have cleared a dozen other ADCs, which are now routinely used to treat some of the deadliest cancers, including leukaemia, lymphoma and breast cancer.



The Economist

More than 140 new ADCs are currently in clinical trials. Bristol Myers Squibb and Sanofi all have therapies in late-stage tests. AstraZeneca and Merck have each formed a joint-venture with biotech firms in China, to take advantage of Chinese regulators' more relaxed rules for early-stage trials, which helps accelerate the drugs' development. Susan Galbraith, who oversees oncology research and development at AstraZeneca, says that the timeline for drug testing in China has been significantly reduced in the past decade.

Clinical success has, in turn, boosted commercial confidence. Sales of Enhertu exceeded \$1.2bn in 2022. Revenue from Trodelvy, a similar drug approved for advanced breast cancer and sold by Gilead Sciences, rose by 79% last year, to \$680m. Kadcyla brought in \$1.1bn for its Swiss developer, Roche, in the first half of this year. Evaluate, a provider of health-care data, forecasts that ADC sales could reach nearly \$30bn by 2028, up from around \$7.5bn last year (see chart).

Some of these wagers could misfire. It is unclear just how well the drugs will work in combination with others, such as immunotherapies. They are also complex to make. Any deals involving Chinese partners could unravel if Sino-Western tensions increase. For now, though, ADCs are a global arms race worth cheering. ■

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**Bartleby**

## Friendships in the office

*Friends make employees more engaged. That's no reason for companies to get involved*

Sep 21st 2023



Paul Blow

SCHOLARS OF HAPPINESS have found that close relationships are one of the critical ingredients of a contented life. What is true in general is also true of the workplace, according to research by Gallup. The pollster finds that having a “best friend at work” is closely associated with all manner of good things, from greater employee engagement to higher retention and better safety records.

At some level, that is unremarkable. Spending time with people you like makes most things more appealing, including work. If a job is sufficiently humdrum, camaraderie among colleagues can be the main draw. The support of friends can also encourage people to try new things. A study from 2015 by Erica Field of Duke University, and her co-authors, looked at the impact of business training given to Indian women. Women who attended the course with a friend were more likely to end up taking out loans than those who came alone.

The reverse also applies. Antagonistic relationships with co-workers are always likely to make working life miserable. A study conducted by Valerie Good of Grand Valley State University found that loneliness has an adverse effect on the performance of salespeople. Among other things, they start spending more on wining and dining their customers. The only thing worse than a salesperson who sees you as a way to make money is one who wants your company.

So friends matter. The problems come when managers see the words “higher employee engagement” and leap to the conclusion that they should try to engineer work friendships. In a report published last year Gallup gave the example of an unnamed organisation which has a weekly companywide meeting that spotlights one employee’s best friend at work. It’s not known if, in the Q&A, others pop up to sob: “But I thought *we* were best friends at work.”

Startups also offer services to encourage work friendships. One monitors the depth of connections between people in different teams. It identifies shared interests (gluten-free baking, say, or workplace surveillance) between employees who don’t know each other and arranges meetings between them. You thought life was bad? At least you are not making crumpets with a stranger in finance.

It is a mistake for managers to wade into the business of friend-making, and not just because it royally misses the point. The defining characteristic of friendship is that it is voluntary. Employees are adults; they don’t need their managers to arrange play-dates. And the workplace throws people together, often under testing conditions: friendships will naturally follow.

The bigger problem is that workplace friendships are more double-edged than their advocates allow. They can quickly become messy when power dynamics change. The transition from friend to boss, or from friend to underling, is an inherently awkward one (“This is your final warning. Fancy a pint?”).

And friendships have the potential to look a lot like cronyism. A clever study by Zoe Cullen of Harvard Business School and Ricardo Perez-Truglia of University of California, Berkeley, found that employees’ social

interactions with their managers could give their career prospects a boost relative to others.

The researchers looked at promotions of smokers and non-smokers who worked for a large bank in South-East Asia, hypothesising that sharing smoking breaks with managers who also indulged might give workers a leg up. And so it did. Smokers who moved from a non-smoking boss to a puffer were promoted more quickly than those who moved to another non-smoker. The authors found that social interactions did not just help smokers; socialising between male managers and male employees played a large role in perpetuating gender pay gaps. If firms are going to make friendship their business, they should worry about its downsides, too.

Companies should facilitate interactions between employees, particularly in a world of hybrid and remote working. Social gatherings and buddy systems are reasonable ways to encourage colleagues to meet each other and to foster a culture. But a high-quality work relationship does not require friendship. It requires respect for each other's competence, a level of trust and a desire to reach the same goal; it doesn't need birthday cards and a shared interest in quiltmaking. Firms should do what they can to encourage these kinds of relationships. If individuals want to take it further, it's entirely up to them. ■

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*Also: How the Bartleby column got its name*

**Schumpeter**

# What Arm and Instacart say about the coming IPO wave

*The old-school stockmarket debut is back. About time*

Sep 21st 2023



TECH BOSSES have long sought to disrupt the initial public offering (IPO). They bristle at the thought of the high fees collected by spreadsheet-savvy investment bankers for flogging their vision, at the alchemical process of divvying up shares to new investors and at the money left on the table when the price of a company's shares soars as soon as they begin trading on an exchange. Many plans have been hatched to improve the process, with varying degrees of success. When going public in 2004 Google botched a "Dutch" auction for its shares, which started with the highest bid and worked downwards, rather than upwards, to a price that matches the supply of shares to investors' demand. As a final insult to the formalities of the normal IPO process, an interview with the search giant's founders was published, of all places, in *Playboy* magazine, and of all times, during the supposedly "quiet period" in the run-up to their company's stockmarket debut.

Little of this bravado was on display on September 19th, when Instacart was welcomed on New York's Nasdaq exchange. The grocery-delivery firm is one of the latest to ring the bell after an almost two-year drought in IPO activity. Instacart sold its shares for \$30 a pop, the top of a price range that had been revised higher in the days before its listing. Their price closed a further 12% above that after the first day of trading, giving the firm a market value of \$11bn. That was the second strong debut in as many weeks. On September 14th Arm's share price climbed by 25% after its Japanese owner, SoftBank, floated around 10% of the chip designer's stock on the Nasdaq.

On the surface, Arm and Instacart look rather different. Instacart's market capitalisation is less than a quarter that of Arm. Its business of connecting shoppers with people who buy and ferry their groceries looks less exciting than chipmaking, an industry at the heart of the artificial-intelligence (AI) revolution. Yet both firms are, in various ways, indicative of what to expect from the gathering wave of public listings. This is likely to be less audacious than the last bonanza in 2021. And that may be for the better.

Although Instacart's first-day pop was mostly undone the next day, the fact that the share price did not sink below the offer price may inspire confidence in other startups. Plenty are looking for inspiration. According to data from PitchBook, around half of the 83 unlisted American firms that were first valued at more than \$1bn in 2019 have either gone public, gone bankrupt or gone on sale. For the significantly larger class of 2021, composed of nearly 360 such "unicorns", the share drops to 6%. Having missed out on the listing boom of 2020-21, many may now be ready to trade in the relative quietude of private-company life for the drudgery of quarterly earnings calls, not least to provide liquidity for their shareholders, including stock-option-holding employees.

Many investors are ready to back them but, in contrast to the go-go years, not unconditionally. For a start, hand-on-heart promises of future growth count for less in an era of high interest rates than profits in the here and now. According to Goldman Sachs, a bank, nearly half of the class of 2020-21 failed to post even one profitable quarter within two years of listing. Emphasis on profitability in turn favours more mature companies. Data collected by Jay Ritter of the University of Florida show that the share of firms that were lossmaking before listing fell from 81% in 2000 to less than

half in the subsequent three years, after the dotcom bubble burst. In that period the median age of a listing firm rose from six years to more than ten. Few fresh listers are quite as mature as Birkenstock, a nearly 250-year-old German sandal-maker about to list in New York. But many are at least adolescent. Klaviyo, which helps clients automate marketing and listed on September 20th, was founded in 2012. So was Instacart. Arm turns 33 in November.

Startups that barely manage to edge into the black, as Instacart did for the first time in 2022, should prepare to go public at a steep discount to their peak private-market valuations. Jefferies, an investment bank, estimates that in the first half of this year stakes in venture-capital funds changed hands at an average of 69% of their reported asset values. This is already translating into compressed valuations on public stock exchanges. Instacart's market capitalisation is around a quarter of the \$39bn implied by its last private funding round in February 2021, when Silicon Valley venture investors including Andreessen Horowitz and Sequoia pumped \$265m into the firm.

The way companies are listing their shares is also looking less exuberant. Bosses considering a listing in 2021 had two novel paths to the market, in addition to the old-school IPO. One was to merge with one of the more than 800 special-purpose acquisition companies (SPACs), which raised \$220bn in 2020 and 2021, and allowed startups to escape some of the scrutiny of conventional IPOs. The other, a direct listing, involved floating shares without the usual IPO roadshow to drum up investors' interest and line up buyers, for which investment bankers charge companies through the roof. But SPACs often attracted firms which had less sensible business models, or less scrupulous ones. After a series of scandals and disappointments, SPACs look dead in the water.

## **Whatever floats your basket**

Today's nervy investors may balk even at the less controversial direct listings, which can be more volatile since they do away with some of the pre-flotation price discovery. Indeed, what little IPO innovation there is aims to smooth the listing process in a jittery environment. Notably, both Arm and Instacart lined up big-name investors to buy slugs of shares in their offerings. These included, among others, Alphabet, Apple and Nvidia for

Arm, and, for Instacart, Norway's sovereign-wealth fund and PepsiCo. The practice has historically been more prevalent in cautiously capitalist Asia. America's turbocharged capitalism may need to get used to it, too, at least temporarily. ■

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*Also: If you want to write directly to Schumpeter, email him at [schumpeter@economist.com](mailto:schumpeter@economist.com). And here is [an explanation](#) of how the Schumpeter column got its name.*

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**A new era**

# How Asia is reinventing its economic model

*The continent's future will involve less Western influence*

Sep 19th 2023 | Singapore



Alberto Miranda

SEVEN HUNDRED years ago, maritime trade routes that stretched from the coast of Japan to the Red Sea were peppered with Arab dhows, Chinese junks and Javanese djongs, ferrying ceramics, precious metals and textiles across the region. At its centre, a trading post known as Singapura flourished. The enormous intra-Asian commercial network was disrupted only by the arrival of sailors from rising European empires and the emergence of farther-flung markets for Asian goods.



The Economist

Today another reconfiguration is under way. The “Factory Asia” model of the late 20th century, in which the continent produced products for American and European consumers, provided an astonishing boost to the prosperity of China, Japan, South Korea and Taiwan. In 1990 just 46% of Asian trade took place within the continent, as vast quantities of goods flowed to the West. Yet by 2021 that figure had reached 58%, closer to European levels of 69% (see chart 1). More regional trade has led to an increase in capital flows, too, binding countries tighter still. A new era of Asian commerce has begun—one that will reshape the continent’s economic and political future.

Its emergence began with the growth of sophisticated supply chains centred first on Japan in the 1990s, and later on China as well. Intermediate goods—components that will eventually become part of finished products—soon started to move across borders in greater numbers. They were followed by foreign direct investment (FDI). Asian investors now own 59% of the stock of FDI in their own region, excluding the financial hubs of Hong Kong and Singapore, up from 48% in 2010. In India, Indonesia, Japan, Malaysia and South Korea the share of direct investment from Asia rose by more than ten percentage points, to between 26% and 61%.

After the global financial crisis of 2007-09, cross-border banking also became more Asian. Before the crisis hit, local banks accounted for around a

third of the region's overseas lending. They now account for more than half, having taken advantage of the retreat of Western financiers. China's huge state banks led the way. Overseas loans by the Industrial and Commercial Bank of China more than doubled from 2012 to last year, rising to \$203bn. Japan's megabanks have also spread, in order to escape narrow margins at home, as have Singapore's United Overseas Bank and Oversea-Chinese Banking Corporation.

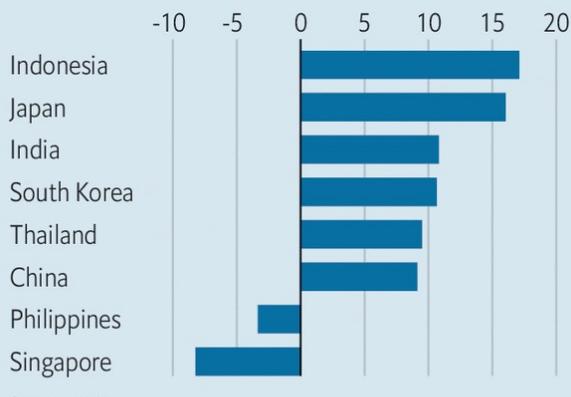
The presence of Western governments has also diminished. In a recent survey of South-East Asian researchers, businessfolk and policymakers by the ISEAS-Yusof Ishak Institute in Singapore, some 32% of respondents said they thought America was the most influential political power in the region. Yet just 11% of respondents called it the most influential economic power. State-led investment from China to the rest of the continent under the Belt and Road Initiative has captured attention, but official assistance and government-facilitated investment from Japan and South Korea are also growing.

These trends are likely to accelerate. In the face of deteriorating relations between America and China, companies in the region that rely on Chinese factories are considering alternatives in India and South-East Asia. At the same time, few bosses expect to desert China entirely, meaning two Asian supply chains will be required, along with some doubling-up of investment. Trade deals will speed this along. A study published last year suggested that the Regional Comprehensive Economic Partnership, a broad but shallow pact signed in 2020, will increase investment in the region. By contrast, as a result of America's abandonment of the Trans-Pacific Partnership trade deal in 2017, there is little chance of Asian exporters gaining greater access to the American market.

## Winners in the new world

2

Share of foreign direct investment coming from other Asian countries, percentage-point change  
2011-21



Source: IMF

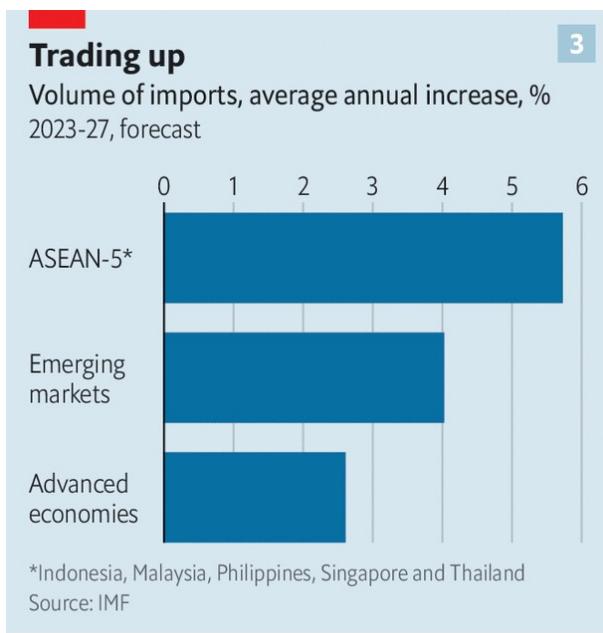
The Economist

The need to establish new supply chains means that transport and logistics are another area where intra-Asian investment will probably increase, notes Sabita Prakash of ADM Capital, a private-credit firm. Matching investors searching for reliable income with projects looking for finance—the mission of such private-credit companies—has been a lucrative pastime in Asia, and is likely to become a more popular one. The size of the private-credit market in South-East Asia and India rose by around 50% between 2020 and mid-2022, to almost \$80bn. Other big investors are turning to infrastructure, too. GIC, Singapore's sovereign wealth fund, which manages a portion of the country's foreign reserves, is spending big on the building required for new supply chains.

Changes to Asian savings and demography will also speed up economic integration. China, Hong Kong, Japan, Singapore, South Korea and Taiwan have climbed the ranks of overseas investors, becoming some of the world's largest. These richer and older parts of the continent have exported striking volumes of capital into the rest of the region, with cash following recently established trade links. In 2011 richer and older countries in Asia had about \$329bn, in today's money, invested in the younger and poorer economies of Bangladesh, Cambodia, India, Indonesia, Malaysia, the Philippines and Thailand. A decade later that figure had climbed to \$698bn.

## Silk flows

In India and South-East Asia, “you’ve still got urbanisation happening, and capital follows those trends,” says Raghu Narain of Natixis, an investment bank. Bigger cities require not only more infrastructure investment, but also new companies better suited to urban life. Asian cross-border merger-and-acquisitions (M&A) activity is changing, according to Mr Narain, becoming more like that found in Europe and North America. Even as deals into and out of China have slowed considerably, M&A activity has become more common elsewhere. Japanese banks, facing low interest rates and a slow-growing economy at home, are ravenous for deals. Over the past year Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group have snapped up Indonesian, Philippine and Vietnamese financial firms.



The Economist

Meanwhile, rising Asian consumption makes local economies more attractive as markets. Whereas in Europe 70% or so of consumption goods are imported from the local region, just 44% are in Asia. This is likely to change. Of the 113m people expected next year to enter the global consumer class (spending over \$12 a day in 2017 dollars, adjusted for purchasing power), some 91m will be in Asia, according to World Data Lab, a research firm. Even as Chinese income growth slows after decades of expansion, other countries will pick up the pace. The five largest economies in ASEAN,

a regional bloc—namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand—are expected to see imports grow by 5.7% a year between 2023 and 2028, the most rapid pace of any region (see chart 3).

These regional trading patterns would represent a return to a more normal state of affairs. The globe-spanning export model that delivered first-world living standards to large parts of Asia, and encouraged investment from far afield, was a product of unique historical circumstances. The amount of goods that travel from the continent's industrial cities to America is far higher than would be predicted by the relative size of their respective export and import markets, and the distance between them. Indeed, a paper by the Economic Research Institute for ASEAN and East Asia suggests that machinery exports from North-East and South-East Asia to North America in 2019 were more than twice as high as such factors would suggest.

Closer commercial links will bind the business cycles of Asian economies even more tightly together. Despite the enduring use of the dollar in cross-border transactions and Asian investors' continuing penchant for Western-listed markets, a study by the Asian Development Bank in 2021 concluded that Asian economies are now more exposed to spillovers from economic shocks in China than in America. This has been on display in recent months, as China's faltering trade has hit exporters in South Korea and Taiwan. More trade, not just in intermediate parts but in finished goods for consumption, means the continent's currencies and monetary-policy decisions will increasingly move together.

This will have political ramifications. America will retain influence over Asian security, but its economic importance will decline. Local businessfolk and policymakers will be more interested in and receptive to their neighbours, rather than customers and countries farther afield. With local factories still being built, consumption growing and a deep pool of savings from Asia's increasingly elderly savers desperate for projects to finance, the high point for regional integration has yet to be reached. The new era of Asian commerce will be more locally focused and less Western-facing. So will the continent itself. ■

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## The price battle

# Why aren't more people being sacked?

*How inflation has fallen without mass casualties*

Sep 17th 2023 | San Francisco



IF CENTRAL BANKERS are to defeat inflation, they must cool the labour market. For the past couple of years growth in rich-world wages has added to corporate costs, sending prices relentlessly upwards. But as they began [raising interest rates](#) to slow the economy, monetary policymakers hoped for an even rosier outcome. They wanted to achieve a “soft landing”, which involves both bringing down inflation and doing so without mass job losses. It is a lot to ask of a tool as blunt as monetary policy.

So far, and unexpectedly, labour markets from San Francisco to Sydney are co-operating. Central bankers started to raise rates at a time when demand for labour had almost never been so strong (see chart 1). Last year the unemployment rate across the OECD club of rich countries, measuring the share of people in the labour force who would like a job, was a shade under 5%, which was close to an all-time low. Excess demand for labour showed up in an unprecedented surge in unfilled vacancies, which reached an all-

time high. Workers bargained for higher wages, knowing that they had plenty of options elsewhere.

The scale of the task central bankers set themselves was illustrated by the historical record. Research by Alex Domash and Larry Summers, both of Harvard University, found that there had never been an instance in which the American vacancy rate had fallen substantially without unemployment rising significantly. Last year Michael Feroli of JPMorgan Chase, a bank, studied past episodes and noted that “whenever the vacancy rate goes down a little it goes down a lot, and the economy lands in recession”.



To assess progress in rich-world labour markets, we have assembled data from the OECD and Indeed, a listings website, covering 16 countries. In this group, employers have reduced open vacancies by more than 20% on average from their peak—a historically rapid decline. Some countries, such as France, have seen relatively modest falls of 10% or so. In others, such as Canada, Japan and Switzerland, unfilled job postings are down by a quarter or more.

Declining vacancies are helping to trim wage growth. In America the annual rate of pay rises has slipped from 6% in late 2022 to below 5% today (see chart 2). Canadian wage growth is also falling fast. The story is less clear

elsewhere, not least because the quality of the earnings data is worse. In Germany and Italy wage growth has probably stopped rising, though there remain pockets of concern, including in Britain, where year-on-year pay growth is edging up towards 8%. Yet even here forward-looking surveys, which quiz firms and consumers on expectations for wage growth, point to sharp future reductions.

For policymakers, this would feel a bit soiled if it came with a sharp rise in joblessness. According to the rules of thumb for America discussed by Messrs Domash and Summers, in normal times you would expect a 20%-plus fall in vacancies to come alongside a rise in unemployment of three or so percentage points within a year.

In reality, a year or so after vacancies started heading down, something else appears to be happening. Recently the [unemployment rate](#) in the OECD has held steady. Job growth, at 500,000 a month across the rich world, is about as fast as it was in the second half of last year. The working-age employment rate—the share of people aged 16-64 who are actually in a job—has risen to an all-time high in around half of OECD countries. Even places known for high unemployment, such as Italy and Portugal, have found jobs for an unprecedented share of their working-age population.

Why are labour markets breaking the historical rule? One possibility relates to “the great resignation” during the covid-19 pandemic. In 2021, spooked by stories of employees quitting to start crypto firms and write novels, some employers may have put up job vacancies as an insurance policy. Now, as fewer folk leave their jobs, they are taking them down again.

A second possibility relates to “labour hoarding”. During lockdowns in 2020 many companies laid off workers, only to struggle to rehire them when the economy opened up. Bosses do not want to make the same mistake twice. So today, even as the economy slows and firms cut job ads, they are trying to hang on to existing workers. According to recent research published by the Federal Reserve’s San Francisco branch, unemployment in America is “notably lower” than expected given the current rate of economic growth. We find similar trends across the rich world.

Central bankers still have a difficult task on their hands, as inflation in many places remains uncomfortably elevated. Even in America and Canada, demand for labour is high relative to supply. Across the rich world, wage growth exceeds productivity growth, adding to the inflationary pressure. And Messrs Domash and Summers could still be proved right if unemployment jumps in the coming months. But after two years of bad inflation data, and warning after warning that their strategy was sure to fail, policymakers nevertheless have reason to be hopeful. ■

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All at once

## Does China's fear of floating exceed its fear of deflation?

*The central bank is constrained by its own limits on the yuan*

Sep 21st 2023



IMAGO

WHEN ECONOMISTS pass judgment on exchange-rate regimes, they like to invoke the monetary-policy “trilemma”. A country might want a stable currency, free capital flows and an independent monetary policy, which can respond to the needs of the domestic economy, regardless of what central banks elsewhere are doing. There are, however, intrinsic tensions between these objectives. And so, sad to say, a country can choose only two of the three.

The trilemma is a canonical bit of theory. In practice, however, the choice is not so stark. No country can have all three blessings in full. But some countries, such as China, like a little of each.

This year, for example, China has tried to go its own way in monetary policy. A property slump, low consumer morale and falling exports have marred the economy’s reopening from covid-19, contributing to dangerously

low inflation. In response, China's central bank has eased its monetary stance, even as interest rates have risen dramatically in America and elsewhere. It lowered reserve requirements for banks on September 15th for the second time this year. It has also twice cut interest rates.

China's slowdown and its monetary response have, predictably, weighed on the yuan. From mid-January, when euphoria about China's reopening peaked, to September 8th, the yuan fell by 9% against the dollar. On the face of it, this is a good thing. A weaker currency should boost exports and ward off deflation. According to Goldman Sachs, a bank, a sustained 10% drop in the yuan against China's trade partners could add 0.75 percentage points to China's growth, which is struggling to reach 5% this year. It could also increase consumer-price inflation, which is near zero, by one percentage point in the long term.

China, however, would also like a little currency stability to go with its monetary independence. It fears that sharp declines in the yuan can lead investors to expect further falls. It still bears the scars of 2015, when a devaluation triggered heavy capital outflows. The central bank thus feels inhibited in its exercise of monetary autonomy. Its rate cuts have been small —only 0.1 percentage points each time for the short-term rate. They have also been discreet. In June it cut this seven-day rate two days earlier than such moves are normally made, notes Becky Liu of Standard Chartered, another bank, perhaps to avoid too conspicuous a clash with the monetary-policy meeting of America's Federal Reserve.

China's central bank has also tried to prop up the yuan. Officials have told speculators not to take one-sided bets. They have cut foreign-exchange reserve requirements for banks, releasing dollars into the system. The central bank has tightened yuan liquidity offshore, making it harder for speculators to borrow yuan in order to sell it. The central bank's own foreign-exchange reserves fell by \$44bn in August, not all of which can be easily accounted for by changes in the valuation of assets it holds. This raises the possibility that the bank intervened modestly itself.

China's distinctive exchange-rate system also gives the central bank a chance to intervene in another way. The yuan is not allowed to float by more than 2% above or below a "fix", which the bank calculates each morning.

The fix is supposed to reflect the previous day's market forces. But the bank sometimes introduces what it calls a "countercyclical factor" (ie, a fudge factor) into its calculations. This has allowed it to set the fix at a rate that is stronger than the previous day's close. Indeed, in recent days there has been more fudge in the fix than ever before.



The Economist

These interventions have enjoyed some success. The yuan has stopped falling against the trade-weighted basket of currencies that the authorities use as a benchmark for managing its value (see chart). The currency is also a little stronger against the dollar than it was early in the month.

All this intervention comes at a cost. It tightens financial conditions, undoing some of the monetary easing the central bank is pursuing. Although a slightly more stable yuan can be engineered, it produces a somewhat less powerful monetary stimulus. China can have a little of everything. But not too much of anything. ■

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## Financial innovation

# Macau offers a new way to get rich

*Forget gambling. Invest in small Chinese firms instead*

Sep 21st 2023



Reuters

MACAU IS BEST known as the casino capital of Asia. But the former Portuguese colony, on China's south coast, is hoping to gain a reputation for more reputable ways to make money. In August trading began on the MCEX, an over-the-counter market that is the first of its kind. Investors are not exchanging currencies, debt or equity. Instead, they are buying the future revenues of businesses in mainland China.

If successful, the exchange may help solve a problem that plagues smaller firms both in China and elsewhere: the difficulty of finding finance. Charles Li, a former boss of Hong Kong's stock exchange and the creator of the new market, has said that investors tend to eschew lending to such businesses simply because the risks and rewards are poorly matched, with borrowers burdened if a venture flops and financiers short-changed if it goes well. For bigger companies, the solution is listing on a public market—something beyond the means of their smaller peers.

Mr Li believes he may have solved this mismatch. MCEX allows investors to buy and sell a new type of financial instrument called a Daily Revenue Obligation (DRO). Contract owners gain a fraction of a business's revenue for a fixed period of time, in effect buying the right to future income. Issuance has been strong. DROs worth almost 2.2bn yuan (\$300m) were offered on the exchange in the first month of trading.

Selling future revenues is a good deal for small firms. Owners get access to capital without diluting their stake and without repayment obligations. For investors, the advantage is less clear (indeed, no information is available about their appetite so far). Micro Connect, which owns the exchange, claims they can enjoy "equity-like returns". Their exposure is, however, rather large. Small firms often fail. Whereas a loan secured against assets has limited downside for its financier, the risk for a DRO holder is limited only by the size of the investment. They have no claims on the assets of the business if it goes bankrupt.

But Micro Connect does have a couple of selling points. If financial instruments designed to fund firms that banks won't lend to and investors won't buy sounds unpalatable, allocators can diversify their risk by buying up pools of DROs, known as a "Daily Revenue Portfolio". The underlying DROs are unrated, but the pools are given a risk indicator under a framework developed by a Chinese rating agency, which relies on predictions of cash flows.

Mr Li's financial innovation also offers foreign investors something valuable: access to China. After decades of trying, overseas investors still have few good options. Cross-border private-equity deals have collapsed; "keepwell agreements", between parent firms and subsidiaries, have been the subject of years-long court disputes. MCEX promises to be different. DROs are Macau-issued copies of contracts agreed on the mainland. Micro Connect takes on the enforcement risk in mainland China and offers investors the assurance of a contract enforceable under Macanese law.

The company that issues a DRO will have its revenues verified and disbursed by local banks each day, and recorded on a blockchain, providing investors with real-time insight into the performance of the business in which they have an interest. Although technology cannot eliminate

accounting trickery, such as changing when invoices are issued, it can prevent fraud. It is almost impossible for a business to earn and not disclose cash revenues in China's entirely digitised economy.

China's entrepreneurs may be especially eager to make use of the scheme now. Banks are scrutinising lending more closely owing to the economy's struggles, so firms are looking elsewhere for capital. Many are turning to outfits beyond the banking system, known as "shadow lenders", from which China Beige Book, a data firm, says borrowing is at near-record highs as a share of total lending. This helps explain why China's smaller firms are keen. Whether these are the sorts of businesses in which foreign investors want to invest is another question entirely. ■

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**Buttonwood**

## How to avoid a common investment mistake

*Think less about what to buy, and more about how much*

Sep 21st 2023



Satoshi Kambayashi

IF YOU EVER hear a professional investor talk about a trade that taught them a lot, prick up your ears. Usually, this is code for “a time I lost an absolutely colossal amount of money”, and you are in for one of the better stories about how finance works at the coalface.

On this front, Victor Haghani is a man to whom it is worth listening. He spent the mid-1990s as a partner and superstar bond trader at the hottest hedge fund on Wall Street. In its first four years, Long-Term Capital Management (LTCM) made its initial backers average returns of more than 30% a year and never lost money two months in a row. Moreover, its partners had been trading the capital of Salomon Brothers, an investment bank, for the preceding 20 years, with similar results. But in 1998 the wheels came off in spectacular fashion. LTCM lost 90% of its capital at a stroke. Despite a \$3.6bn bail-out from a group of its trading counterparties, the fund was liquidated and its partners’ personal investments wiped out. Mr Haghani writes that he took “a nine-figure hit”.

Now, along with his present-day colleague James White, he has written a book that aims to spare other investors his mistakes. Fortunately, “The Missing Billionaires” is not a discussion of the minutiae of LTCM’s bond-arbitrage trades. Instead, it examines what its authors argue is a much more important—and neglected—question than picking the right investments to buy or sell: not “what” but “how much”.

People tend to answer this question badly. To show this, the book describes an experiment in which 61 youngsters (college students of finance and economics, plus some young professional financiers) were given \$25 and asked to bet on a rigged coin at even odds. Each flip, they were told, had a 60% chance of coming up heads. They had time for about 300 tosses, could choose each bet’s size and would keep their winnings up to a cap of \$250. This was an exceptionally good deal: simply betting 10% of the remaining pot on each toss had a 94% chance of yielding the maximum payout and none of going bust. Yet the players’ average payout was just \$91, only a fifth of them hit the cap and 28% managed to lose everything.

A list of the coin-flippers’ mistakes reads like a parable of how not to invest in the stockmarket. Rather than picking a strategy and sticking to it, subjects bet erratically. Nearly a third wagered their entire pot on a single flip and, amazingly, some did so on the 40% chance of getting tails. Many doubled down on losses, even though doing so is a reliable way of making mild ones catastrophic. Others made small bets fixed in dollar amounts, avoiding ruin but also giving up the lion’s share of their potential returns. Few considered the optimal, lucrative strategy of betting a constant fraction of their wealth on an attractive opportunity.

The rest of the book offers a corrective to these wealth-sapping instincts. Most important is to devise rules for spending, saving and allocating investments, expressed as fractions of your total wealth. Then you must stick to them, avoiding the temptation to chase hot assets or spend too much in the face of losses.

The authors’ great success is in offering a consistent and explicit framework within which to do all this. At its core is the concept of “expected utility”, or the pleasure derived from a given level of wealth. This accounts for the fact that most people are averse to risking large chunks of their capital. A happy

consequence is that sizing investments to maximise expected utility, rather than wealth, can sharply reduce your chances of intolerable losses while keeping enough risk for a shot at decent returns.

In practical terms, the book's crowning achievement is its explanation of the "Merton share". This is a simple rule of thumb for determining asset allocation, which says that allocations should rise in proportion to expected returns, fall in proportion to the investor's risk aversion and fall a lot in proportion to volatility (specifically, to its square).

This is not to suggest the book makes for light reading. The authors prescribe calculations that will appeal to only the most dogged investors, ideally with access to a Bloomberg terminal. Most will conclude that they need a wealth-management firm to help them; conveniently enough, Messrs Haghani and White run one. Yet for those investing in their own business—or, indeed, a hotshot hedge fund—it is worth reading simply for Mr Haghani's reflection on how much he ought to have ploughed into LTCM all those years ago. Spoiler alert: it was rather less than he did. ■

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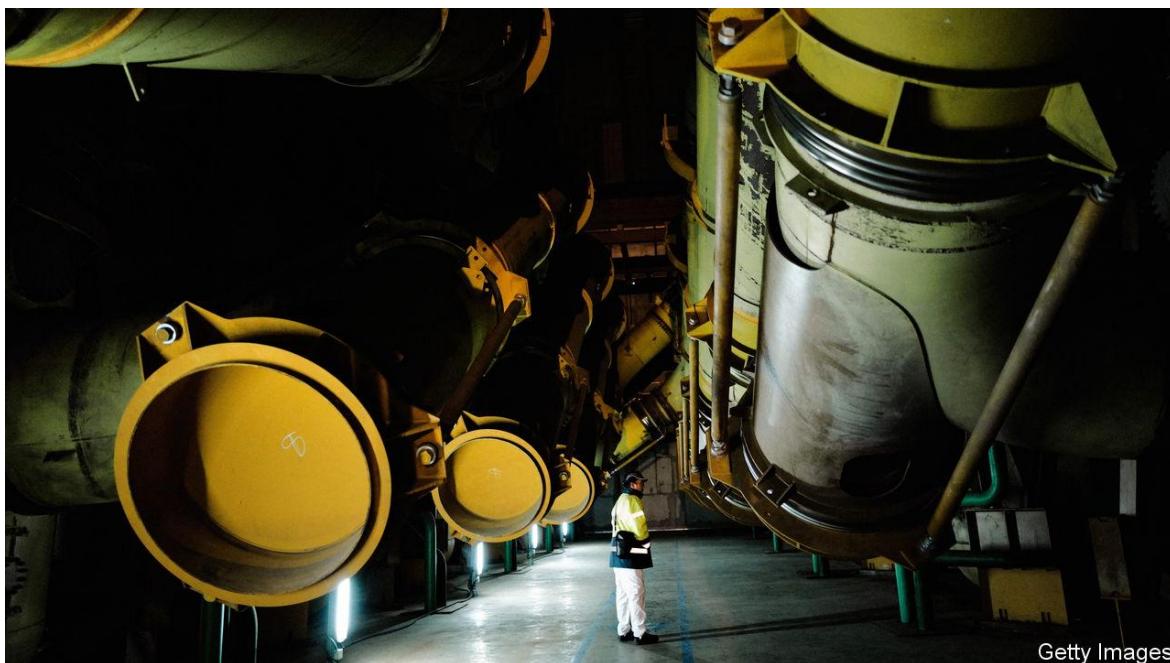
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**Rod stewards**

## Why uranium prices are soaring

*Conflicts and resurgent demand combine to radioactive effect*

Sep 21st 2023

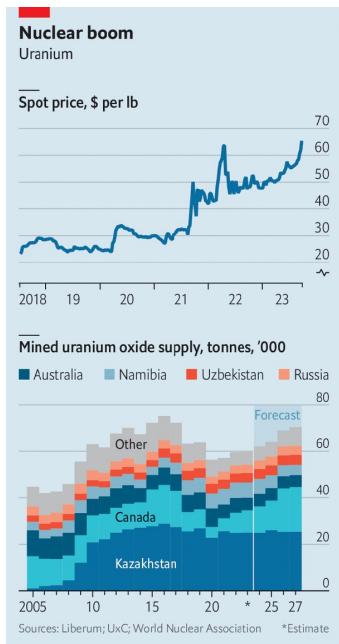


Getty Images

WHEN RUSSIA invaded Ukraine, panic gripped Europe's nuclear experts—the civilian variety, that is. Ukraine, where 15 reactors relied on Russia for their uranium, rushed to sign an unusually long 12-year deal with Canada. European utilities, also reliant on Russia, drew the maximum they could under other contracts. Most exposed were operators in Finland and eastern Europe that owned Russian-made reactors, which only Russian firms knew how to feed. Finding an American rival that could bundle uranium rods into the hexagonal blocks such plants demand took a year. Now they are searching for the metal needed to restart the atomic Tetris.

Such last-minute procurement of uranium is very rare, notes Per Jander of WMC, a trader. Utilities usually take deliveries two to three years after signing a contract. The scramble is just one illustration of the fallout of the war on a once-sedate market already squeezed by rising demand, supply shocks and speculation. In the week to September 18th uranium's spot price hit \$65 a pound, its highest since 2011, reports UxC, a data firm. At the

industry's yearly shindig in London, which drew a record 700 delegates this month, some warned it could reach \$100. The two largest producers are sold out until 2027; some utilities are thought to be short for 2024.



The Economist

Just 85,000 tonnes of uranium are used each year. This compares with 170,000 for niche metals like cobalt and many millions for industrial ones like copper. Unlike coal or gas plants, nuclear reactors cost a lot to build but little to run, so utilities mostly opt to keep them going regardless of, say, the economic cycle, making demand for fuel predictable. It also means that utilities cannot afford to run out, which is why they buy the stuff via long-term contracts.

Most supply comes directly from mines. Canada and Kazakhstan, two reliable exporters, account for 60% of such “primary” supply. A quarter of total global supply arrives from “secondary” sources. Exhausted fuel blocks, replaced every three-to-four years, are re-enriched and re-used. Fuel is also made by diluting weapons-grade uranium, which contains more than 90% fissile elements, to concentrations of just 3-4%. In the two decades following the cold war the dilution of just 30 tonnes a year displaced 10,000 tonnes of annual mine output. More supply is regularly released from stockpiles. America, China, France and Japan hold a combined stash worth years of global use, which can be drawn from when prices are high.

This tranquil trade is now being rocked by two forces. One is resurgent demand. For years after the Fukushima disaster in 2011 the closure of plants in Japan, Germany and elsewhere pushed the market into surplus. But the search for steady sources of low-carbon power, and Russia's war in Ukraine, have led governments back to nuclear energy, which emits about the same as wind power and can operate even if pipelines are shut. Some 60 new reactors are under construction, which should add an additional 15% to the world's nuclear-power-generation capacity over the next decade, reckons Liberum, a bank. Small "modular" reactors—cheap and easy to build—could turbocharge demand for fuel. The World Nuclear Association, an industry body, forecasts that they could make up half of France's nuclear capacity by 2040.

Uranium's glowing prospects are not lost on financiers. In recent years several listed funds have launched. Sprott Physical Uranium Trust and Yellow Cake, the two biggest, have bought 22,000 tonnes in the past two years, equivalent to over a quarter of annual demand. Both are set up for the long run, with no fixed date or target price at which they will liquidate their holdings.

Meanwhile, supply is looking precarious—the second reason why prices are soaring. Early panic aside, Russian ores can still be obtained. But a coup in Niger in July has put 4% of mined supply in jeopardy. Last week Orano, France's state-owned giant, said it had halted its ore processing there owing to a lack of critical chemicals. Logistical headaches are causing Kazatomprom, the leading Kazakh supplier, to ship less uranium than expected (it typically passes through Russia). Cameco, Canada's champion, recently cut its production forecast by 9% after hiccups at two mines.

All this will probably keep the market in deficit next year, as it has been since 2018. Outright shortages remain unlikely, however. Major utilities retain stocks. And the fuel blocks inserted into operating reactors have another one-to-three years of life left, with a year's extension possible at limited costs. Most also have the next block ready to go. Thus the risk of running out lies more than four years ahead.

That leaves time for supply to respond. Cameco and Kazatomprom, which have lots of unused capacity after trimming output during the dreary 2010s,

will not like to see higher-cost producers nab market share. Tom Price of Liberum estimates that they could add another 15-20% to global supply in as little as 12-18 months. If that fails to tame the market, then a sustained rise in price will incentivise the opening of new mines. Jonathan Hinze of UxC reckons a spot price of \$70-80 would be enough to get many projects started. Supply snags are also unlikely to last too long. Niger's junta has a beef with France, but not with China, which runs other mines in the country. If all else fails, Kazatomprom can always decide to export uranium by plane.

So the most likely outcome is high prices for a few years, with a surplus returning by the middle of the decade. No one anticipates a repeat of 2007, when buying by the first uranium fund and floods at big mines combined to push the spot price beyond \$135 a pound. Utilities have ample room for absorbing price shocks anyway. Because uranium is heavily processed, raw materials are worth less than half as much as finished fuel, which itself accounts for just 10% of a plant's operating costs (against 70% for natural gas). The rally matters more to speculators than to the cost of what comes out of your socket. ■

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**Free exchange**

## Renewable energy has hidden costs

*Why it is often more expensive than policymakers expect to go green*

Sep 21st 2023



IT MATTERS WHEN electricity is produced. A barrel of oil may be a barrel of oil whether it is pumped at midday or midnight, but a megawatt hour (MWh) of electricity is worth a great deal less when you are sleeping than during the middle of the day or, indeed, during moments when everyone decides to boil the kettle. The difficulty of bottling electricity makes its economics unusual: it is a question not just of “how much” but also “when”.

At the same time, if there is one thing that everyone knows about renewable energy, it is that it is getting cheaper. Each year, or so the story goes, the costs of wind and solar power fall as the world improves its ability to harness natural resources. In 2014 the levelised cost of offshore wind, a measure for comparing different methods of generating electricity, was around \$200 per MWh, according to America’s Energy Information Administration (EIA), an official agency; by 2023 it had fallen to \$127, excluding subsidies. Yet the industry is struggling. Six state governors recently begged Joe Biden to intervene to keep producers alive, according to

Bloomberg, a news service. In Britain the latest annual offshore wind auction attracted no bids whatsoever.

To understand what is going on, consider the levelised cost of energy in more detail. Do away with sun and wind, too, and return to a world where the choice is gas, coal or nuclear energy. These differ in terms of both their fixed and variable costs. The costs of a nuclear plant are mostly fixed: once built it is inexpensive to produce another unit of electricity. Natural-gas plants are the opposite: most of the costs are the fuel, and are thus variable.

A levelised cost means taking these fixed and variable costs over the lifetime of the plant and weighting them by the expected number of watt-hours the plant will produce. This gives a comparable measure. According to the EIA, the levelised cost of nuclear power is \$91 per MWh. Natural gas comes to \$43. Compare that with expectations for the price of electricity and you should have a good idea of whether or not a new plant is worthwhile.

Yet these costs vary depending on how often a source is producing energy. A nuclear plant will be cheapest if it is running constantly, as the high upfront costs will have produced greater output. Gas, with low fixed costs and high variable costs, has lower economies of scale. Coal sits somewhere between the two. Considered purely on the financial merits, the optimal power mix is to have nuclear cover the “baseload”, or minimal level of demand, coal for the “mid-load” and, finally, natural gas for the “peak load”, when demand is highest. Add a carbon price and the coal will be displaced by natural gas, which is less dirty, as has happened in Europe over the past few decades.

Unfortunately, this dynamic is upset by renewables, which provide power according to the weather and often require the rest of the energy system to accommodate them. Gas, with its low fixed but high variable costs, can do so easily. Nuclear, with high fixed and low variable costs, becomes much more expensive. It is costly to build a nuclear power plant to cover only the windless hours.

As such, solar panels and wind turbines are themselves less beneficial than they might seem. If they cannot reliably produce electricity when it is needed, then their generating capacity is not as valuable as that of a regular power plant. To truly compare the two requires a measure of not just how

much each megawatt hour costs to produce, but the value of that particular hour.

In an idealised market, with prices updating moment-to-moment and geographically from node-to-node on the grid, the relative benefit of any energy source would be easy to calculate: it would depend on the “capture rate”. This is the difference between the market price that a source receives and the average price for electricity over a period. Prices should be higher when people most want electricity, boosting the capture rate of sources that produce at that time. Fortunately for renewables, this is usually during daylight hours, making solar useful, or during the cold windy months. But as more renewables join the grid the capture rate will fall, since an abundance of solar panels means that when it is sunny electricity prices are very low, or even negative.

Consider these costs, as measured by the EIA in America, and most renewables look less competitive: solar’s cost of \$23 per MWh falls below an average capture rate of \$20 for the electricity generated. That is still sufficiently good to beat everything other than onshore wind, geothermal energy and adding more battery storage to the grid. Offshore wind, by contrast, looks downright uncompetitive: the capture rate of its electricity is around \$30 compared with a cost of \$100 per MWh—only nuclear and coal have lower ratios. Add in rising costs, due to higher interest rates and disrupted supply chains, and it is no wonder many offshore-wind providers are struggling.

## Scottish power

Most electricity markets are not ideal. Prices do not reflect the true value of time and place, meaning they are not a perfect guide to how much society wants each MWh of electricity. Look at Britain. Wholesale electricity prices are settled for half-hour blocks, which should mean pricing will give a decent idea if renewables are producing at the wrong times of day. But there is only one price for the whole country. Most onshore wind is in Scotland, since England until recently had a de facto ban on building such wind farms, though more of the demand for electricity is in the south of England. A lack of capacity on the grid to move the electricity south means that the grid

manager pays to turn off Scotland's wind turbines while gas power plants in England are turned on.

Eventually, increasing the grid's capacity to shift and store electricity will solve such problems. But for the moment, comparing costs with the capture rate would not give an accurate idea of the relative benefits of building more Scottish wind power. The true costs of renewable energy are greater than they appear. ■

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## Science & technology

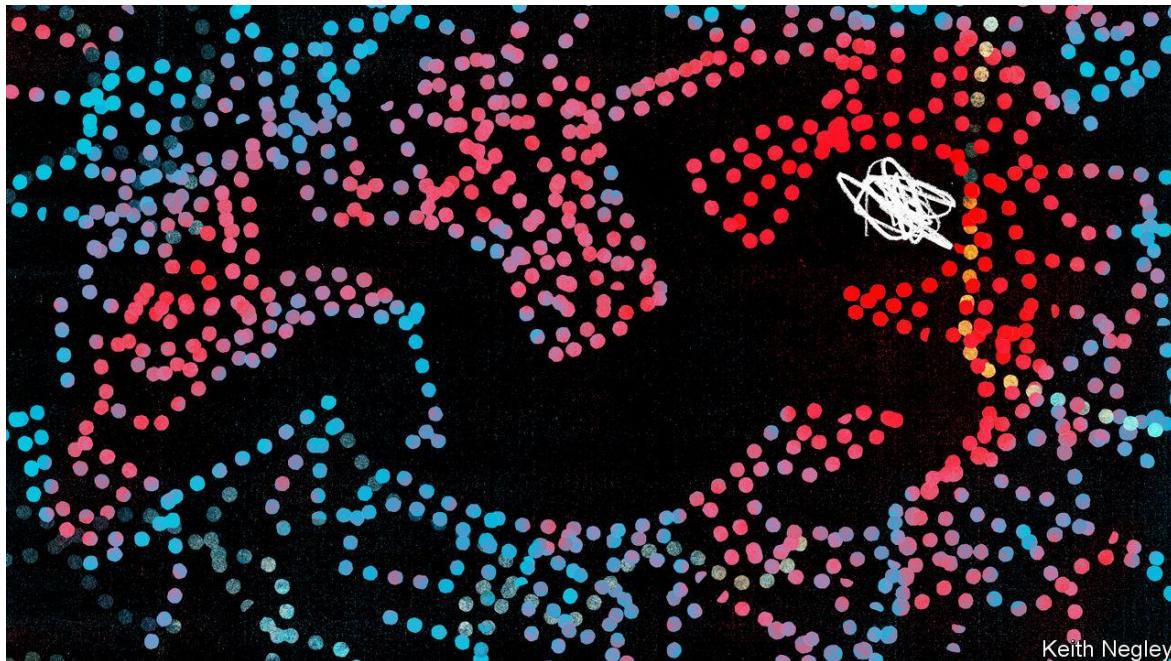
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## PANDA-monium

# How common infections can spark psychiatric illnesses in children

*And why many doctors do not realise it*

Sep 20th 2023



IT WAS A sunny day in September 2007 when Garrett Pohlman, then seven years old, came home from school. Crying, he warned his mother that radiation was coming out of the house's electrical sockets. If they went outside, he said, birds would peck them to death. These pronouncements were accompanied by odd facial movements. The boy would stick his tongue out and jerk his arms and legs. The day before, Garrett had been a normal boy. Both the paranoia and the tics had come out of the blue, but they proved to be the start of a horrifying mental decline.

In the end, Garrett was lucky. A hospital scan three months later revealed a bacterial sinus infection. A course of antibiotics cured the infection and brought about a striking improvement in his psychiatric symptoms. Garrett had been suffering from PANDAS, which stands for Paediatric Autoimmune-Neuropsychiatric Disorders Associated with *Streptococcus*.

Many other children are not so fortunate; some have suffered long-term damage. In plain English, Garrett's unsettling behaviour was the result of an immune system gone haywire following an infection with group A *Streptococcus*, a common bacterium. (A similar illness, triggered by other infections, goes by the acronym PANS, for Paediatric Acute-onset Neuropsychiatric Syndrome.)

Yet many doctors have heard of neither PANDAS nor PANS. Some have dismissed them as fictitious diseases. Very few countries issue guidance on their diagnosis or treatment. Diana Pohlman, Garrett's mother, says she is "exhausted" by years spent campaigning to get doctors to take the illnesses seriously.

That is starting to change. Scientists are beginning to characterise the conditions in detail and determine exactly what is going wrong with the immune systems of sufferers. On September 12th Maria Caulfield, a British health minister, weighed in, telling legislators that PANDAS and PANS exist and are triggered by infections.

Such efforts are starting from a low base. In a 2020 survey for PANS PANDAS UK, a charity, 95% of parents whose children have PANDAS said their family doctors had not offered the diagnosis, suggesting awareness is low. Things were only a little better among specialists. Around half of paediatricians said they had never heard of the disease. Nearly one in five of the parents surveyed said their paediatrician felt that the diagnosis was controversial.

That ignorance carries costs. In many countries children with PANDAS are presented with an alphabet soup of psychiatric misdiagnoses. These can include attention-deficit hyperactivity disorder, autism and sensory-processing disorders. Children can be given inappropriate drugs like antipsychotics, many of which have unpleasant side-effects and which do nothing to treat the cause of their disease.

In some cases parents have been accused of inventing or inducing their children's illness. *The Economist* has spoken to parents who say their children have been committed to mental-health services against their will, or removed from their care altogether. According to testimony provided in

Parliament, one doctor told a child that he would not treat “an American illness”. In 2019 several dozen children with PANDAS and PANS were discharged from a British hospital. Their parents were told they had a “functional neurological disorder”—a diagnosis that has evolved from the old (and discredited) idea of hysteria, and which some doctors joke grimly means “finding no diagnosis”.

Exactly why the diagnosis is controversial remains unclear. After all, the idea that the aftermath of an infection can cause psychiatric symptoms is not new. Sydenham’s chorea, in which patients suffer from jerky movements of the face and body, is likewise the result of a streptococcal infection. *The Economist* contacted a number of psychiatrists and professional bodies for comment. Some did not reply. Others said they were unable to offer any comment. The Royal College of Psychiatrists said it was struggling to find an available spokesperson.

## **The body and the mind**

But as evidence accumulates that PANS and PANDAS are real, attitudes are beginning to shift. Scientists who study the disorder now believe it is caused by an auto-immune reaction, in which the body’s immune system mistakenly attacks brain tissue. After infection with *Streptococcus*, the theory goes, children begin producing antibodies that cause inflammation in their own brains, which in turn causes the psychiatric symptoms.

In 2018 Christopher Pittenger, a psychiatrist at Yale University, and his colleagues extracted antibodies from the blood of children with PANDAS and introduced them into laboratory mice. They found that the antibodies attacked cholinergic interneurons in particular, a group of cells in parts of the brain associated with tic disorders, which are one of the features of PANDAS. Chandra Menendez, a researcher at the University of Oklahoma Health Sciences Centre, says she has found a “correlation between antibodies that target dopamine receptors D1 and D2 and the PANDAS phenotype”. This sort of work could help develop diagnostic tests.

A paper by Dritan Agalliu, a neurologist at Columbia University, currently under review by a scientific journal, suggests that blocking a particular part of the immune system—a type of lymphocyte called T helper 17 cells—with

anti-inflammatory drugs reduces damage to the brain, at least in mice. Other work suggests that damage to the blood-brain barrier, a filter designed to protect the brain from potentially harmful substances in the blood, could also be part of the story.

Such findings may have significance beyond a single obscure, debilitating illness. For they fit an intriguing, and growing, body of evidence that other kinds of psychiatric conditions might also result from infections. Dr Pittenger says it is now clear that covid-19 infections can trigger psychosis, fatigue and other neuro-psychiatric symptoms. A misbehaving immune system is thought to be the culprit. The idea that schizophrenia may, at least sometimes, likewise be an auto-immune disorder is also under investigation. (Intriguingly, people with any kind of auto-immune disorder appear to be about 40% more likely to develop psychotic disorders such as schizophrenia.)

How long it takes doctors to pick up on this change of thinking is another matter. Some of the prodding now comes not from patients, but from governments. Robin Millar, a British MP who chairs a parliamentary group on PANDAS and PANS, says Britain's government is committed to working out how to diagnose and assess the illnesses. It has begun discussions with doctors, and is pondering a research project to work out how prevalent the diseases are. A pan-European patient group called EXPAND, founded in 2018, is also pushing to improve understanding.

Such efforts are sorely needed. As Garrett Pohlman's case shows, if infections are caught early, treatment can be very effective, avoiding long-term damage. Now 23, Mr Pohlman graduated in 2022 with high honours from the University of California, Berkeley, in chemical engineering, and these days runs his own company. Not every patient has been so lucky. ■

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## Creation and destruction

# A chunk of asteroid is coming to Earth

*It could shed light on the origins of life—and how to protect it*

Sep 20th 2023



NASA/Goddard/University of Arizona

ON SEPTEMBER 24TH, if all goes according to plan, scientists will hit Earth with part of an asteroid. That is less alarming than it sounds, for the chunk of rock in question weighs at most a few hundred grams. It will arrive in a small capsule, complete with parachute, that will drift gently to the ground in the Utah desert.

The rock is from an asteroid named Bennu, which was visited in 2018 by an American spacecraft called [OSIRIS-REx](#). The probe will drop its cargo off en route to another asteroid, Apophis, at which it is due to arrive in 2029.

Astronomers take a great interest in [asteroids](#). The solar system was formed around 4.5bn years ago, when a cloud of dust and gas collapsed under its own gravity into a disc, which in turn agglomerated into the sun and its planets. Asteroids are leftover chunks that never accrued enough mass to become planets. Studying them thus offers a window into the ancient astronomical past.

This will not be the first time that bits of asteroids have been brought to Earth. In 2010 *Hayabusa*, a Japanese spacecraft, visited an asteroid called Itokawa but returned with less than a milligram of it. Its successor, *Hayabusa2*, was able to procure five grams of rock from an asteroid named Ryugu in 2020. *OSIRIS-REx*'s dig did not go quite according to plan. Some of the excavated material is thought to have jammed its digger, allowing some of the sample to fall back out. But NASA is confident that the mission has exceeded its minimum target of 60 grams. Compared with previous missions, that will be a bounty.

Researchers are interested in Bennu in particular for two reasons. One is that it appears to be rich in carbon, the element whose complicated chemistry underlies all life on Earth. When scientists analysed Ryugu, the carbon-rich asteroid explored by *Hayabusa2*, they found a smorgasbord of organic compounds (that is, those containing carbon), including several different amino acids, the chemical building blocks of proteins. Examining *OSIRIS-REx*'s cargo should allow scientists to cross-check those results.

Bennu also contains traces of another vital ingredient of life: water. When researchers looked at spectral data collected by *OSIRIS-REx* while it was in orbit around the asteroid, they found molecules with oxygen and hydrogen atoms bonded together in clay. The asteroid also appears to have large stores of carbonate minerals. On Earth these are found, among other places, near deep-sea hydrothermal vents. Such vents, which provide a steady stream of chemical energy, are one candidate for the origins of Earthly life.

Scientists are interested in asteroids for a more immediately relevant reason, too: self-preservation. It was an asteroid colliding with Earth that wiped out the dinosaurs (and plenty of other organisms), around 65m years ago. Bennu is one of around 2,400 asteroids that NASA has deemed a modern-day collision risk (there is thought to be about a 1-in-1,750 chance of it colliding with Earth by 2300). Bennu is roughly spherical, with a diameter of about 500 metres. That makes it much smaller than the asteroid that ended the dinosaurs, which is thought to have been between 11km and 81km across. But a collision would still inflict a great deal of damage.

Scientists are therefore keen to characterise such asteroids in order to work out how a looming impact might be averted. “If we don’t know what they’re

made of or how their materials behave, then it's hard to find an effective method to deflect these asteroids," argues Philipp Heck, senior director of research at the Field Museum of Natural History, in Chicago.

Several more missions are therefore planned. In October another NASA spacecraft will begin a mission to a metal-rich asteroid named Psyche. In 2024 the European Space Agency will launch a probe named *Hera*. It will visit Didymos, a pair of asteroids visited in 2022 by yet another NASA mission named *DART*. That mission involved crashing a spacecraft into one of the asteroids in an attempt to alter its orbit. *Hera* will help analyse the aftermath.

That is also why, after dropping off its cargo, *OSIRIS-REx* is due to visit Apophis. This asteroid's orbit also comes uncomfortably close to Earth's. In April 2029 it is due to whizz by within 20,000 miles of Earth's surface, an altitude below the orbits of some satellites. The vagaries of orbital mechanics mean that *OSIRIS-REx* will not reach its quarry until a few days after that hair-raising astronomical near miss. ■

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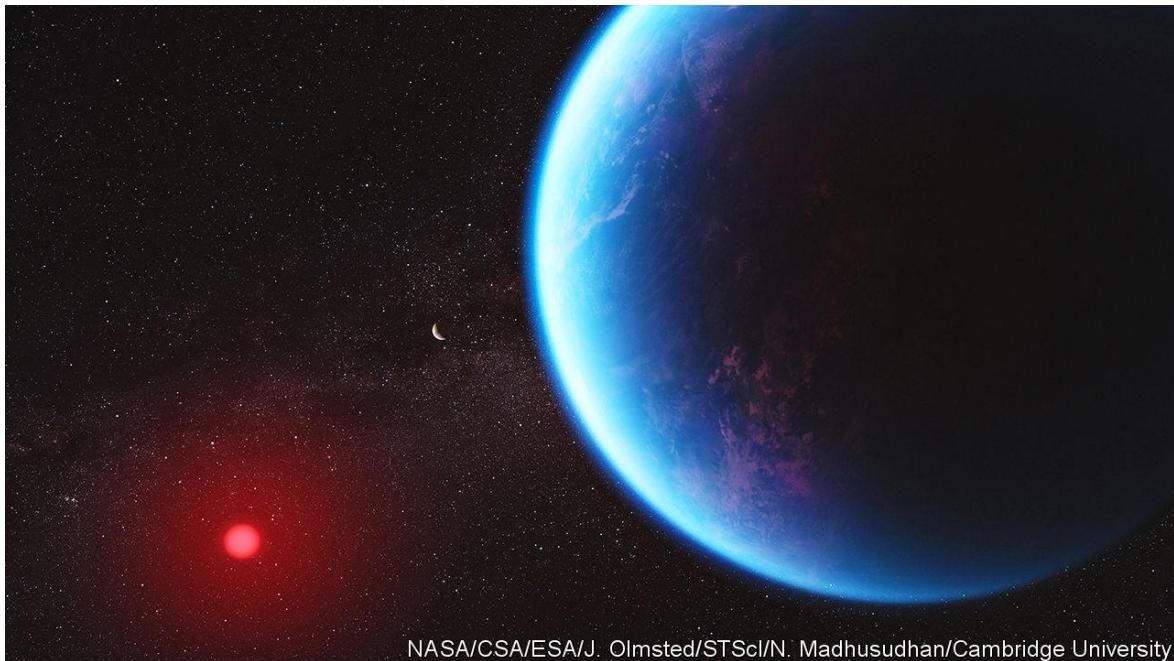
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## Godforsaken rocks

# Finding alien life may require finding new sorts of planets

*For now, telescopes can examine only small, inhospitable kinds of star*

Sep 20th 2023 | CAMBRIDGE, MASSACHUSETTS



NASA/CSA/ESA/J. Olmsted/STScI/N. Madhusudhan/Cambridge University

ON SEPTEMBER 12TH, at a conference on life in the universe hosted by Harvard University, David Charbonneau, an astronomer at that same university, gave a talk titled “The terrestrial planets of the smallest and closest stars”. The unofficial title, as revealed on his second slide, was “Small angry stars and the many godforsaken rocks which orbit them”.

Astronomers have now found more than 5,500 planets around other stars, or exoplanets, most of them detected by means of the small dip in the star’s light that happens when the planet passes across its face, and the planet’s shadow thus passes across the Earth. Hundreds of these sit in their parent star’s “habitable zone”, which means they orbit neither so close that any water on their surfaces would boil away, nor so far that it would be frozen. Since water is vital to every form of life known on Earth, such potential sogginess is much prized by scientists interested in whether some exoplanets might harbour life of their own.

What astrobiologists most want to do when they come across a planet in the “Goldilocks zone” is look at its atmosphere. The Earth’s atmospheric chemistry betrays the presence of life on its surface in a number of ways. The same should hold true for exoplanets that carry life. The launch in 2021 of the James Webb Space Telescope (JWST) brings with it the chance that such signs might be seen in planets around other stars. The prosaically named Extremely Large Telescope (ELT), presently being built in Chile and due to start work in 2028, will also be able to look at the atmospheres of nearby exoplanets.

Unfortunately, there is a catch. Powerful as they are, these instruments cannot look at planets in habitable zones around stars like the Sun, or many other types of potentially interesting star. The only habitable-zone atmospheres into which they can peer belong to exoplanets which orbit “M-class” stars, one of two types of star commonly known as red dwarfs.

Being limited to one type of star is unfortunate. Being limited to M-class stars in particular may be doubly so, for they are the small, angry stars of which Dr Chabonneau spoke. The physical characteristics of M-class stars make their habitable zones look a lot less hospitable than the term implies, especially if the life in question favours smallish rocky planets like the Earth.

But rocky planets are not the only sort on offer. There are a fair few red dwarfs with bigger, less dense companions in their habitable zones, planets ten times the mass of the Earth and two or three times its radius. That makes them a bit smaller than Neptune, the smallest of the outer solar system’s gas giants. Their density makes it certain that these “sub-Neptunes” have atmospheres; were they solid rock they would be more heavy. Their other attributes are mysterious. Some astronomers think that they, rather than their rocky neighbours, may offer the best chance of discovering signs of life elsewhere. The first JWST study of such a planet, one called K2-18 b, which was published on September 11th, did not do that. But the presentation of the data was still one of the highlights of the conference.

Red dwarfs are good targets for study because they are small, dim and very common. Quite how common is only appreciated by astronomers. Being small (between half to a tenth the radius of the Sun) makes them so dim

(0.3%-7% as bright as the Sun) that none of them, not even Proxima Centauri, the nearest star to the Sun, is visible to the naked eye. But there are more M-dwarfs in the nearby sky than stars of all other types put together.

The ubiquity of M-class stars means there are plenty for telescopes to look at. Their small size and dimness, meanwhile, makes it easier to study the planets that orbit them. Studying their atmospheres is done by looking at what happens to light from the star when it passes through the orbiting planet's atmosphere. The smaller the star, the larger the proportion of its light that passes through the atmosphere. The dimmer the star, meanwhile, the less likely the signal from the atmosphere is to be swamped by the light from the rest of the star's disk.

But if the stars' smallness helps with the study of their planets' atmospheres, it also makes the very existence of such atmospheres—at least around rocky planets in the habitable zone—less likely. Young M-class stars have complex internal dynamics which give rise to very powerful magnetic fields. These lead to stellar flares, sometimes very dramatic ones, and to powerful emissions of X-ray and ultraviolet radiation. In the billion years or so it takes a young M-class dwarf to settle down into mature quietude, that radiation could be more than enough to strip the atmospheres from any rocky planets in the Goldilocks zone. This may have been the fate of TRAPPIST-1 c, a planet in the habitable zone of a red dwarf 40 light years away; in June astronomers announced that, having looked at it with the JWST, they could see no clear evidence of any atmosphere at all.

Another problem with M-class stars is that few seem to possess big planets that orbit beyond their habitable zones, as Jupiter does in the solar system. Jupiter's powerful gravity throws icy comets from the outer reaches of the solar system towards the rocky planets closer to the sun. That is thought to have delivered water and other simple molecules, such as nitrogen, to the early Earth. Without such Jupiter analogues, rocky planets around M-class dwarfs could be starved of such bounty.

## **The depths of somewhat less despair**

All this makes rocky Earth-like planets in such habitable zones poor prospects for life. Neither factor is so much of a problem for sub-Neptune

planets. They are known to have atmospheres, and those atmospheres may well contain the sort of molecules Earth had to have delivered from the outer solar system. In 2019 a group of astronomers at University College London used the Hubble Space Telescope to look at the atmosphere of such a planet: K2-18 b, which orbits an M-class star 124 light years away in the constellation of Leo. One of the things they thought they saw was evidence of water vapour.

This inspired Nikku Madhusudhan, an astronomer at the University of Cambridge, to imagine a sort of sub-Neptune that would be truly habitable. He calls the result of his imaginings “Hycean” worlds after their two vital features: hydrogen atmospheres (whence the hy-) and oceans (hence the -cean).

Dr Madhusudhan began with the mass of K2-18 b, its radius and thus its average density. He also knew how the pressure, volume and temperature of various gases and liquids are related to one another, relations called “equations of state”. That allowed him to make a self-consistent model of K2-18 b with a dense rocky core, a watery high-pressure shell around that core and a thinnish atmosphere of hydrogen on top.

That model is not the only one that fits what little data there are. What singles out the Hycean idea is that it allows the upper reaches of the planet’s water layer to be liquid and temperate. It would be an odd ocean, admittedly; one with no continents and no islands, and which instead of having a rocky or muddy sea floor is underlain by ice (high-pressure ices are denser than liquid water). But any ocean looks better, to an astrobiologist, than bare rock.



E. Garcés/ESO/N. Dubost

The ELT, transiting the sun

Dr Madhusudhan asked for and got time on the JWST to see if K2-18 b might match up to his speculations. As he told the conference, in some ways it did. Chemical modelling predicts that, if it were indeed a Hycean planet, its mostly hydrogen atmosphere should contain detectable amounts of carbon dioxide and methane. Both had indeed been found. There were also signs in the starlight compatible with the presence of dimethyl sulphide. On Earth, that molecule is produced only by life. That would make its presence on K2-18 b a possible “biosignature”, the sort of thing which triggers great excitement. As things stand, though, the evidence for its presence is sufficiently weak that no such excitement is warranted. A more conservative scientist might not even have mentioned the possible sighting.

There were also some things which were not seen. One was ammonia. The processes which produce methane in such an atmosphere should also produce ammonia. Dr Madhusudhan interprets its absence as circumstantial evidence for an underlying ocean. Ammonia dissolves in water in a way that methane does not; the ocean may be swallowing it up leaving only the methane for the atmosphere.

The other thing not seen, oddly, was water vapour. Given that it was the supposed detection of water vapour that provided the spur for Dr

Madhusudhan's theorising, its absence might be seen as a problem. But it does not have to be. The error bars on the initial detection were very wide. Some of the water signal might in fact have been methane; it is also possible that the water vapour is there, just at a level low enough that the JWST cannot see it.

Even if the Hubble measurements were simply wrong, and there is no water in the signal after all, that does not necessarily rule out an ocean. After all, Earth is a wet planet. But its upper atmosphere is dry, because above a certain altitude water vapour freezes out of the air. And the observations of K2-18 b looked only at the highest reaches of its atmosphere.

## Now Hycean, now you don't

Dr Madhusudhan was careful to stress that his results were merely compatible with the idea of K2-18 b being a Hycean world, not proof that that it is one. Just as well: many of his peers remain sceptical of the whole idea. Hydrogen is a potent greenhouse gas. So is water vapour. Water vapour from the surface of an ocean warmed by a hydrogen greenhouse will add to the warming, producing more water vapour. Some see this as likely to lead to a "runaway greenhouse effect" which will get rid of all the liquid water, leaving behind only steam and high-pressure, high-temperature, "supercritical" H<sub>2</sub>O. To escape such a fate, a Hycean world would need to start off with just the right amount of hydrogen. That may be a very rare occurrence.

The JWST should help sort all this out. There are already more observations of K2-18 b on its schedule. Other rocky and Neptune-like planets in orbits that bring them across the face of their parent stars will come under scrutiny, too. The ELT, for its part, will take a keen interest in Proxima Centauri b, the closest habitable-zone exoplanet to Earth. As seen from Earth it does not pass across the face of its star. But the huge telescope may be able to study its atmosphere, should it have one, directly.

What is for sure is that, for the time being, the habitable zones around M-dwarfs are the only such game in town. Telescopes that can see planets in such zones around other sorts of star are decades away. But if that sounds like a long time to wait, consider that a generation ago the ability to study

exoplanets of any kind, around any sort of star, seemed almost too much to hope for. Now the field is alight with fresh observations and new ideas, if not yet with signs of life. ■

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# Culture

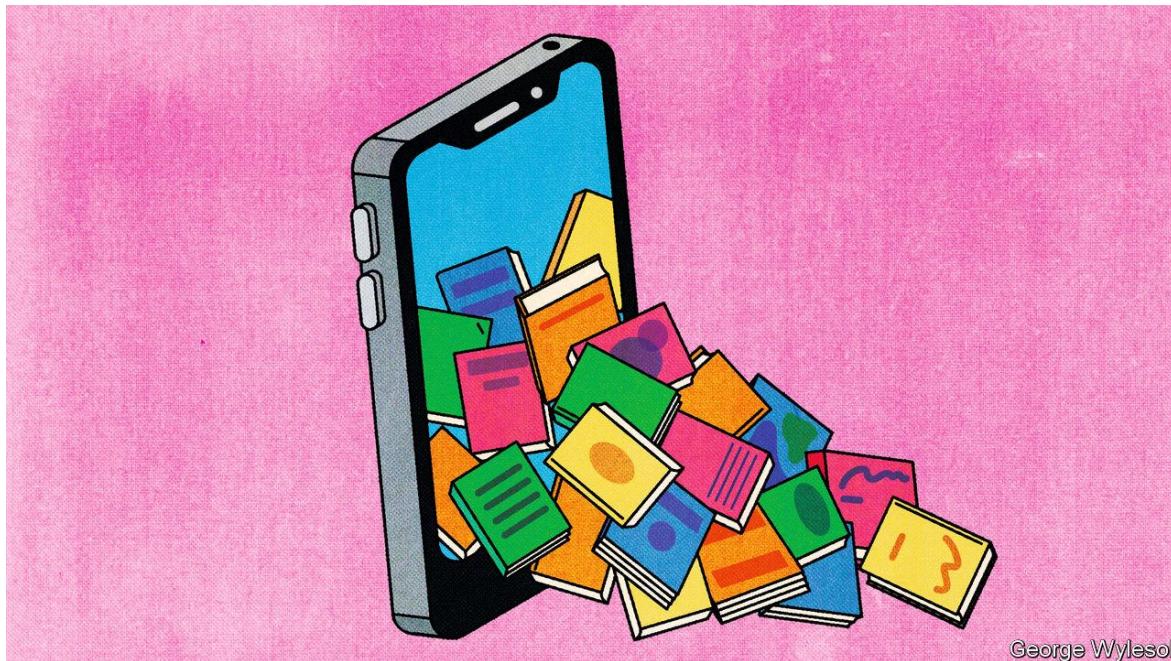
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## Tok of the town

# TikTok is changing the way books are recommended and sold

*This represents a profound shift for readers, authors and publishers*

Sep 21st 2023



FIRST THE camera pans across eight books arrayed with hundreds of sticky tabs, flaunting that they have been closely read and meticulously annotated. Next a description runs across the screen: “Books I would sell my soul to read again for the first time”. The music crescendoes, and a manicured hand reveals the books’ covers in time with the beat, featuring authors including [Simone de Beauvoir](#), [Elena Ferrante](#) and [Sally Rooney](#).

The user, who is called “buryme.withmybooks”, does not say why she likes them, but that does not matter. On TikTok hyperbole is the name of the social-media game. Around 9.3m people have watched the video and almost 400,000 people have saved it for future reference.

TikTok, which has more than 1bn regular users, is making a mark on the world of publishing. Much of this is done through BookTok, the app’s community of users who comment on books. It is among the largest

communities on the app; videos with this tag have been viewed 179bn times, more than twice as many as BeautyTok (beauty enthusiasts splinter into various groups). Adding #reading, #books and #literature pushes views to more than 240bn. Whoever said books are dead has not spent much time on TikTok, nor in bookstores, which now have whole displays touting titles “as seen on TikTok”.

Last year in Britain one in four book buyers used TikTok. The slice of sales directly attributable to the app is still small. Video platforms like TikTok and YouTube drove only around 3% of sales in 2022 in Britain, according to Nielsen, a research firm. But TikTok’s influence is significant and growing. The largest group of book buyers—women aged 54 and younger—are more likely to use the app than their male peers. TikTok recommendations influence their purchases, creating new literary stars and unearthing unlikely past ones, too.

TikTok is not the first online platform to alter the publishing landscape. Wattpad, a self-publishing firm founded in 2006, helped writers publish stories and reach readers online. For years Facebook, Instagram and Twitter (now X) have allowed authors to connect with readers—and sometimes score a book deal in the first place.

However, TikTok functions slightly differently. One way to think about BookTok is as a book club for the internet age. Just as stars like Oprah Winfrey and Barack Obama can cause copies to fly off bookstore shelves by updating their lists of recommended reads, BookTok does something similar. However, the tastemakers are not usually celebrities but attractive #bookgirlyies doing #readingchallenges, often in artfully lit bedrooms. (Although Ms Winfrey’s book club is now on TikTok, too.)

In many ways BookTok has become a new artistic genre, where emoting about characters and plots is glorified, even required. (Unlike those buttoned-up professional literary critics, who do not tend to write about how books make them cry.)

Some old-fashioned bibliophiles may suspect that BookTok is less about books than about people seeking attention by promoting them. But BookTokers are already swaying bestseller lists. Novels categorised as

“romance” have enjoyed [the biggest boost](#), as happened with previous technological shifts, including the rise of e-books. Colleen Hoover’s “It Ends With Us” went viral on TikTok in early 2022 and has sold over 1m paperback copies in Britain. Six of the ten [bestselling](#) titles in America last year were written by her, too. They pick up similar themes, such as women lusting after hard-to-get men and “trauma bonding”, subjects that fare well on the video-sharing app.

But BookTok favourites are often older releases, with some, including Ms Hoover’s most popular, written before the app was invented. For example, an aesthetic known as “dark academia”, which glamorises gothic-style universities, tweed and classic literature, has brought attention to a 544-page novel published in 1992 called “The Secret History” by Donna Tartt.

The popular Netflix show “Bridgerton”—big on colourful costumes, light on substance—created new fans of period romance and, in turn, inspired young readers to rediscover classic books such as “Pride and Prejudice”. In August [Jane Austen’s novel](#) won “Best BookTok Revival” at TikTok’s inaugural book awards. (How Austen would have felt about this honour is another question.)

Because TikTok is so visual, the app has an outsize impact on sales of physical books in particular. E-books do not make such attractive visual props. According to a survey by Nielsen, 80% of Brits aged 14-25 prefer print. BookTokers show off annotations and flick through pages. Filming themselves finishing a book in a single day against a backdrop of hundreds of them on shelves is all part of the performance, and viewers will be extra impressed if the book looks thick.

Many authors remain puzzled by the app. Ms Hoover does not have a TikTok account, and neither do many of her other bestselling peers. Publishers, happy for new sales, are also a bit perplexed; their official TikTok accounts are unpopular by comparison. The challenge is how to keep up. It is not as simple as commissioning more books that make people cry, squirm or shudder and then hoping that people film themselves doing so. Although some editors are doing that anyway.

Some enterprising publishers keep an eye out for gushing videos about forthcoming books and then snap up the rights in other territories. Others are making the most of momentum on BookTok. When Sarah Benton, a former executive at Orion, heard that “The Silent Patient”, a two-year-old thriller that the firm had published, was unexpectedly gaining traction, Orion tweaked its marketing and told booksellers to emphasise success on BookTok. Such tricks are rapidly becoming the norm.

Publishers may find that TikTok means not only new readers but also more competition. ByteDance, the Chinese company that owns the app, has plans to launch its own book publisher and is said to be in discussions to sign romance writers. The fact that a Chinese company owns one of the most important platforms for young people’s free expression in the West—and a critical route for recommendations of books, paginated symbols of free thinking—is a plot twist fit for fiction. Publishing its own books will bring ByteDance’s relationship with literature (if its books can be called that) to a new level. ■

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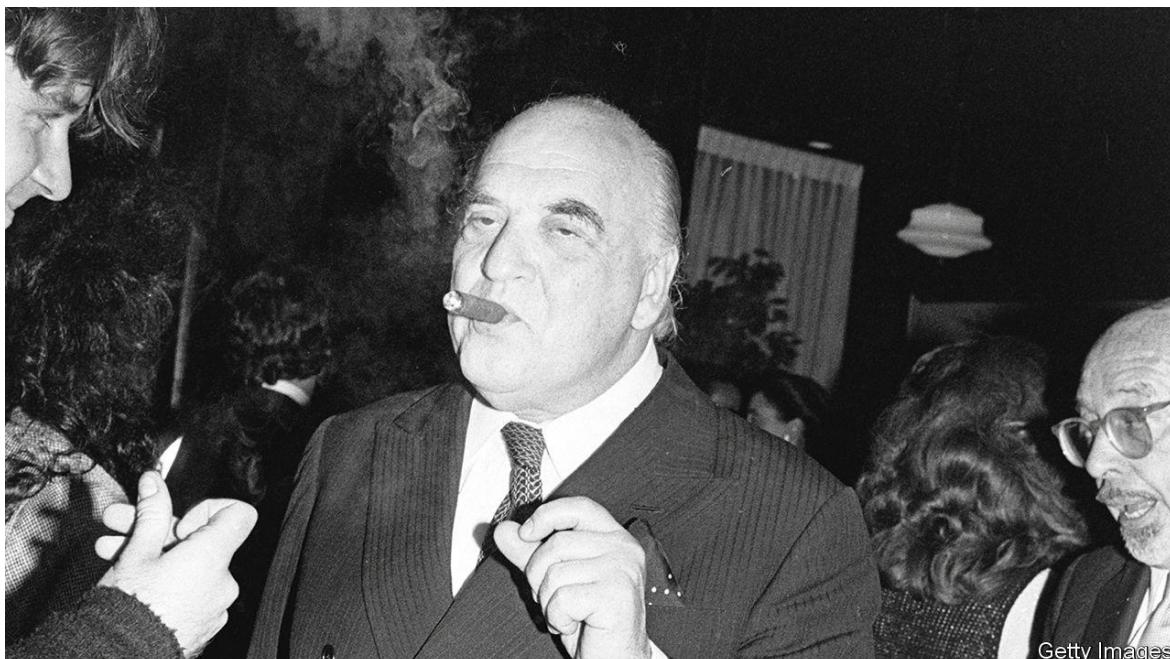
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## Books and bobs

# Publishing used to be packed with parties and punch

*A new biography of George Weidenfeld looks at the heyday of book publishing*

Sep 21st 2023



Getty Images

**The Maverick: George Weidenfeld and the Golden Age of Publishing.**  
By Thomas Harding. Pegasus Books; 336 pages; \$25.95. W&N; £25

GEORGE ORWELL'S wife was a nasty snitch. The launch party for "[Lolita](#)" was nearly a flop when censors threatened to spoil the fun. [Saul Bellow](#) was a needy fusspot. Mick Jagger could not tell a story. The biologist James Watson could, but he expressed such misogyny that readers, even in the 1960s, were alarmed. The anecdotes pile up in a new biography of [George Weidenfeld](#) (pictured), the founder of Weidenfeld & Nicolson, a publisher. Isaiah Berlin was tricky; [Henry Kissinger](#) was a loyal friend; the historian Antonia Fraser was succulently beautiful. The Mitford sisters, naturally, were ghastly.

Most editors fall broadly into two types: those who love the printing press and those who love pressing the flesh. The former are inky-fingered introverts for whom high drama is a fight over fonts. Weidenfeld was firmly in the latter camp. He was an impresario rather than an artisan; writing bored him. He lunched with Orwell, befriended Berlin and advised [Vita Sackville-West](#)'s son, Nigel Nicolson, on how to seduce a woman: foreplay helped, he advised, as did the right amount of booze. Yet, throughout this book, which is less a biography than an anthology of encounters with the famous, Weidenfeld remains something of an enigma.

Today, like Ben & Jerry's or Marks & Spencer, Weidenfeld is better remembered as the name on one side of an ampersand than as a man. This is a pity, as he was fascinating in many ways. He lived in a time when the giants of publishing—Allen Lane, Max Schuster, André Deutsch—were not merely names on spines but people with them. Weidenfeld had more backbone than most, publishing everything from Vladimir Nabokov's "Lolita", to the eccentric "Hitler's Table Talk" (a collection of the Führer's monologues), to Harold Wilson's analysis of the coal industry, "New Deal for Coal" (a brave literary decision if ever there was one).

His life was courageous, too. Weidenfeld, who was Jewish, fled Germany in 1938, arriving in Britain vaguely determined to "be a success". He swiftly became one. After a short spell working for the BBC, he wrote a book about Nazi propaganda. Then, having decided (rightly) that writing books was not much fun, he chose to publish them instead. He teamed up with Nicolson, founded a publishing house and was soon meeting—and, in some cases, making—many of the most famous names of 20th-century literature. Not that they were always grateful. Berlin likened talking to Weidenfeld to going to a brothel (fun but grubby) and wondered if he had a "total absence of a moral centre".

Did he? The reader struggles to know. For all the detail in this book, and there is a lot, Weidenfeld himself remains elusive. Readers learn what he drank (milk); what he wore to bed (pyjamas); the texture of his hands ("podgy"); how many times he was married (four). They also learn about parties where the air was heavy with cigar smoke, tainted with a pungent whiff of sexism and anti-Semitism. What readers do not learn, despite the detail, is the texture of Weidenfeld's mind. Or perhaps it is because of the

detail, for there is too much: the reader does not need to know, for example, that someone called Cyril “was beset by fibroids”.

However, this book has two subjects: Weidenfeld and his world. If, as the biography of a man, it does not quite work, as the biography of an era—the smoky, scurrilous world of post-war publishing—it does. ■

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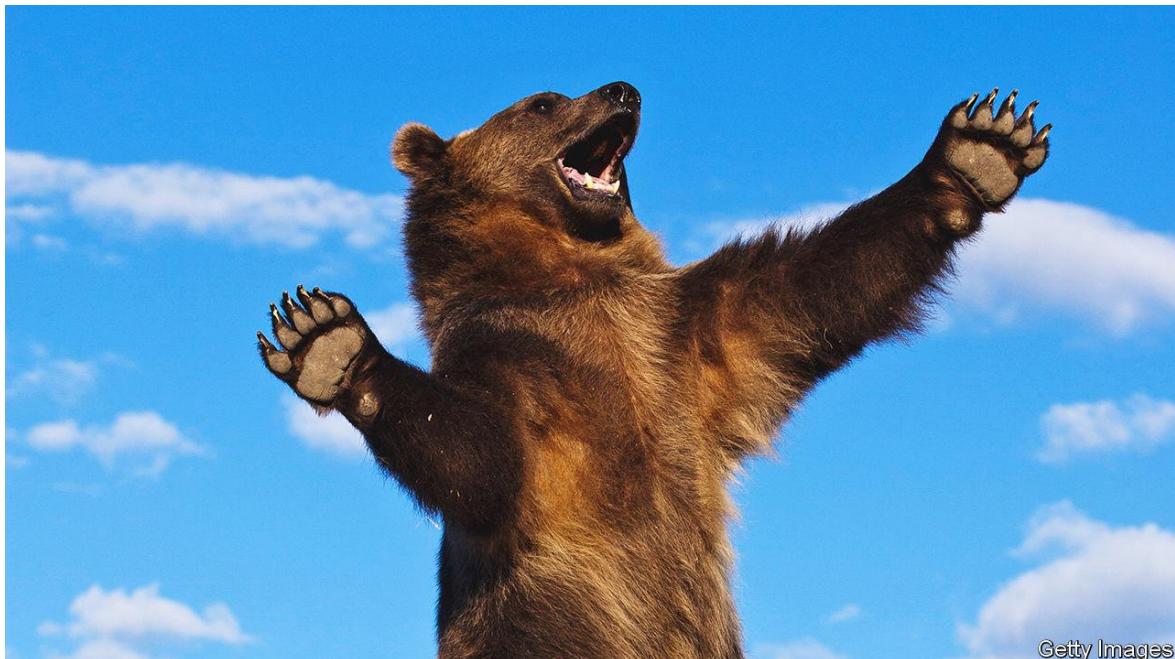
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**Where the wild things are**

# From myth to art, bears have long captivated people

*A new book tells the story of eight bear species and their travails*

Sep 21st 2023



**Eight Bears: Mythic Past and Imperilled Future.** By Gloria Dickie. *W.W. Norton; 272 pages; \$30 and £25*

WHEN MICHAEL BOND wrote his first draft of “A Bear Called Paddington” in the 1950s, he described his hat-clad protagonist as hailing from “darkest Africa”. Bond’s literary agent, Harvey Unna, liked the story but spotted an error: no bears lived in Africa. “Children either know this or should know this,” Unna wrote, adding that, “There are plenty of bears in Asia, Europe and America, and quite a few on the stock exchange.” Bond changed Paddington’s origins to “darkest Peru”, modelling him on the spectacled bear from there.

Bears occupy a special place in myth and mind. Youngsters are read stories about Paddington, [Winnie-the-Pooh](#) and the three bears and are presented with stuffed teddies. Perhaps also because bears can stand erect on two legs,

resembling humans, people have long felt drawn to them. Bears have featured in ancient paintings, constellation names (*ursa major*, otherwise known as the Big Dipper) and diplomatic negotiations. China's [parcelling out of pandas](#) to allies has precedent: in 1252 King Haakon IV of Norway gave Henry III a polar bear, which spent its days swimming and fishing in the River Thames.

"Eight Bears" explores the wonder and friction that characterise the relationship between bruins and people. The author, Gloria Dickie, a journalist for Reuters, travels around the world, bringing readers on a riveting and unique sort of bear hunt. She dresses up like an "imprisoned smurf" to volunteer at a panda-research centre in China, ventures into arctic temperatures to find polar bears in Canada, hikes in Peru in the hope of seeing Paddington's ilk and wanders through villages of India to meet people mauled by sloth bears, whose name belies their aggression.

There are just eight bear species, compared with 41 types of felines and more than 500 primates. This offers pleasant concision, but Ms Dickie's tone is sombre. Polar bears are not the only ones on thin ice; most bear species are threatened by habitat destruction and climate change. Pandas, for example, need to eat about 18kg of bamboo a day, but agricultural expansion imperils their food supply. Deforestation has destroyed the habitat of sloth bears (India's most deadly wild animal). During droughts they roam in search of water, sparking conflict with people, who pursue "revenge kills" after bear attacks.

Ms Dickie concludes that only three bear species are likely to thrive past the end of this century: black bears, American brown bears and pandas. (There are fewer than 2,000 pandas, but China has started to take panda preservation seriously.)

This book is about bears but also about people, revealing two opposing sides of human nature. One is people's cruelty. "Bear-baiting", in which bruins were tied up and forced to fight with dogs, was a popular sport in Britain, made illegal only in 1835. ([Elizabeth I](#) so enjoyed bear-baiting that she overruled Parliament's attempt to ban it in 1585.) Although outlawed in India in 1972, "bear dancing" has persisted. People kill mother sloth bears and kidnap cubs; they then bash out their teeth and sometimes use muzzles

with nails, forcing them into a “dance of fear and desperation” that offers “the illusion of merriment”.

Elsewhere bears are enslaved for [their bile](#). In Vietnam (where bear farming is illegal) and China (where it is not), sun and moon bears are kept in cages. Bile is extracted from their gall bladders in a process akin to torture. The resulting “liquid gold” is sold for its anti-inflammatory properties. Bears’ imprisonment is made all the more disturbing by their intelligence. Researchers have observed that black bears can distinguish between animals and even [gauge numbers](#).

But people also have a more positive side. They are building systems that allow for co-existence, from bear “jails” (where creatures are sent if they come too close to population centres) to [bear-proof garbage bins](#) and lockers. Many people around the world are trying to save and improve bears’ lives, proving there is some beauty in this story of beasts and humans.

■

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## Powering up

# An opera about Steve Jobs is opening in San Francisco

*Can people be lured back to the opera by one of the most famous businessmen?*

Sep 20th 2023



Cory Weaver / San Francisco Opera

STEVE JOBS was heralded as one of history's [greatest tech visionaries](#) but was also a music man. [The iPod](#) (which Apple released in 2001 while Jobs was boss) and the iTunes store (launched in 2003) helped boost the fortunes of the beleaguered music industry by persuading people to pay for songs instead of stealing them. Twenty years later, some are looking to Jobs to help music again—this time, opera.

On September 22nd "The (R)evolution of Steve Jobs" opens at the San Francisco Opera, in the city where Jobs was born—a 45-minute drive from the garage in Los Altos where the first Apple computer was designed. The opera will later travel to the Kennedy Centre in Washington, DC, one of America's most prestigious performance spaces, probably in 2025.

In 20 short scenes that jump back and forth in time, spanning Jobs's youth in the 1960s to his death in 2011, music helps audiences experience the conflicting facets of the tech titan. "There is an element of Jobs being both a protagonist and an antagonist that only an opera can uniquely explore," says Mason Bates, the American composer who wrote "The (R)evolution".

This is not your average opera, however. It begins, for one thing, with a product launch: a reimagining of Jobs [taking the stage in 2007](#) to introduce the iPhone. Yet this is not a story about devices either—it is the story of a man grappling with mortality. Mr Bates insists that "The (R)evolution" has classic operatic themes: "passion, betrayal and, of course, tragedy".

His music is user-friendly; it mixes Californian minimalism with syncopated dance rhythms more often heard at raves and clubs. The opera features Jobs's quote from the Macintosh launch in 1984: "Never trust a computer you can't lift." Mr Bates sets this vocal line to feel both breezy and comic, while his orchestral score chugs along behind it.

First commissioned to debut in Santa Fe in 2017, "The (R)evolution" was a bet that Jobs could attract younger audiences, including tech folk, to a more than 400-year-old art form. That is San Francisco Opera's hope, too.

Culture in California is still reeling from the effects of long-running covid lockdowns. In May a study by CVL Economics, a think-tank, revealed that the state's performing-arts sector lost a decade's worth of jobs in 2020-21. [San Francisco has been hit](#) particularly hard. The city's grants for arts—funded by hotel taxes—have been hollowed out, and the performing-arts district and downtown feel beggared. Two of the state's well-regarded theatres, the California Shakespeare Theatre and Mark Taper Forum, cancelled their 2023-24 seasons due to unexpected budget shortfalls.

San Francisco Opera is betting on Mr Jobs's cool factor, but it has successfully incubated new productions before. It hired an unknown composer to adapt a popular book and film, "Dead Man Walking", about an inmate on death row. The opera had its premiere in 2000 and has since been performed around the world; it will open at the Metropolitan Opera in New York later this month. The Met has also commissioned Mr Bates to write a

new opera, based on “The Amazing Adventures of Kavalier and Clay”, a Pulitzer-prizewinning novel by Michael Chabon.

But betting a new opera will be a success is a bit like rooting for a happy ending in “Madam Butterfly”. It represents hope over experience. Of the hundreds of new operas that premiered in the past two decades, only about 10% get a second performance, and fewer still survive beyond that. Techies are not known for their [arts philanthropy](#). Whether they can be lured to the opera—even by a character as well-known as Jobs—is uncertain.

This is no doubt why San Francisco Opera is offering an online viewing option. In addition to attending in person, viewers can purchase a pass to watch the live-stream for \$27.50, roughly the cost of a rear-balcony seat in the opera house. If techies refuse to show up, perhaps (just perhaps) they will log on and watch at home on their iPhones. ■

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## Back Story

# Donald Trump and the dramatic power of not turning up

*Like Beckett and Chekhov, he knows a character need not be on stage to dominate*

Sep 21st 2023



Allstar

HER HANDWRITING, her furs, her ostrich-feather fan and azalea perfume —along with her beauty, cruelty, secrets and lies: traces of Rebecca are everywhere in “[Rebecca](#)”. At Manderley, her husband’s country pile, her evening dresses seem to rustle eternally in the breeze. “Her footsteps sounded in the corridors,” writes Daphne du Maurier, “her scent lingered on the stairs.” Above all she intrudes in the twisted devotion of the housekeeper, Mrs Danvers. Yet Rebecca herself, dead before the novel opens, never directly appears.

His orange skin and blond quiff, the erratically capitalised social-media posts, demeaning nicknames and *gimme-a-breaks*: in a similar sort of way, although Donald Trump [skipped the Republican presidential debate](#) in August, his image haunted it. He may well pull off the same trick in the second debate on September 27th. Mr Trump seems to intuit something

which du Maurier and other storytellers have grasped—that a character you don't see can make a bigger impression than those you do.

In fiction, as in life, absence can be a power play. The leader, don or spymaster asserts his authority over other characters, and impresses it on you, by relying on minions to do his bidding. The titular boss in "Charlie's Angels" issues orders to his agents while his face stays out of sight. In the British sitcom "Yes, Minister" the prime minister is capricious but invisible. When, in the first debate, Mike Pence referred to Mr Trump as "one that's probably looking on", he made the no-show sound almost celestial.

Absence can cultivate fear, since what you cannot see is often scarier than what is revealed. Stirred by creepy music, each imagination fills the void with its own horrors. Viewers do not see the baddie who stalks the film students in "The Blair Witch Project" (pictured), nor the hunter who shoots Bambi's mother. The driver whose lorry hounds the protagonist of Steven Spielberg's "Duel" is not identified. (Conversely, the shark in "[Jaws](#)" is much less terrifying after it surfaces on screen.)

The unseen are a mystery. Sometimes it is ultimately dispelled, as with the Wizard of Oz, Boo Radley in "To Kill a Mockingbird" and Harry Lime in "The Third Man". Sometimes the mystique endures. So remote is Big Brother that readers of "1984" cannot know if he is, or ever was, a real person. In two James Bond films, 007's arch-enemy Ernst Blofeld appears as a pair of hands stroking a cat. During the first debate, live shots of Fulton County jail, where Mr Trump was due to turn himself in, had the air of a villain's lair, the tenebrous place standing in for the elusive man.

Most subtly, a hidden figure can be a mirror and measure of other people's vices and virtues. Initially Romeo is moping not for Juliet but for Rosaline, in his view the fairest maiden "since first the world begun". Audiences never meet her, but she supplies an early sense of his overheated emotions. [Anton Chekhov](#) was an expert in devising this kind of absentee. In "Three Sisters" the gallantry and philosophising of Vershinin, an army officer, are undercut by his blithe neglect of his suicidal wife—who is always offstage.

Likewise in the first debate Mr Trump provided a spectral yardstick of the other candidates' independence. Chris Christie incurred boos for saying that

some of his actions were “beneath the office of president”. Vivek Ramaswamy praised Mr Trump to the heavens. Ron DeSantis tried to wriggle between condemnation and defence, a spectacle as agonising as watching him try to smile.

The most famous unseen character in literature combines these effects. In Samuel Beckett’s “Waiting for Godot”, Vladimir and Estragon are not sure what Godot looks like, whether he will ever materialise and, if he does, whether salvation or punishment will ensue. Godot gives them a purpose yet is a pretext for inertia. “In this immense confusion”, says Vladimir, “one thing alone is clear. We are waiting for Godot to come.”

Mr Trump is no Godot. Nor is he really offstage, even on debate nights. He holds court online and in friendly interviews, dominating conversations and front pages whether he shows up or not. His absence projects power, and he evokes fear in many Americans, but he is scarcely a riddle. They have seen the Trump movie before.

Still, like Vladimir and Estragon, the rest of the Republican field will again be plagued and paralysed by Mr Trump’s shadow should he miss more debates. The play’s ending captures their limbo-like predicament. “Let’s go,” says Estragon, before the deadening final stage direction: “*They do not move.*” ■

**Read more from Back Story, our column on culture:**

[Lots of people mourn when famous writers and musicians die. Why? \(Sep 3rd\)](#)

[Calls for actors’ identities to match their roles have gone too far \(Aug 18th\)](#)

[An infamous murderer and the truth about true crime \(Aug 8th\)](#)

*Also: How the Back Story column got its name.*

**Here, there and almost everywhere**

## The British Empire peaked 100 years ago this month

*Two new books examine the history and consequences of colonialism*

Sep 16th 2023



Getty Images

**One Fine Day: Britain's Empire on the Brink.** By Matthew Parker. *PublicAffairs; 624 pages; \$35. Abacus; £25*

**Imperial Island: A History of Empire in Modern Britain.** By Charlotte Lydia Riley. *Bodley Head; 384 pages; £25*

THE BRITISH Empire was and is many things to many people: a civilising endeavour, a bringer of peace, an exploitative force or a project based on white supremacy. Arguments exist for each characterisation. But there is one thing that [the British Empire](#) is not: completely over.

It lives on in court cases, including one brought in 2019 by indigenous people of the [Chagos Islands](#), whom the British colonial government forcibly relocated in 1965-73 (with American support). It exists in the loyalties of the 15 commonwealth “realms”, including Australia and Canada,

for which their monarch and head of state is King Charles III (pictured in 1984). And it lives on in the demographic make-up of Britain, where one in five people is Asian, black or mixed race. A similar share of cabinet ministers, including the [prime minister](#), are children of immigrants from the former empire. As the old saying goes, “We are here because you were there.”

Two new books consider the “here” and “there”. “One Fine Day” is a sprawling account of the British Empire by Matthew Parker, a historian. It travels like the never-setting imperial sun across Asia, Africa and outposts of the “new world” in the Caribbean. The book’s organising principle is a day —September 29th 1923—when the British Empire reached its maximum territorial extent. The portrait is achieved with a wide-angle lens, but the choice of a single day also brings focus.

Mr Parker’s approach is to find the most interesting currents in the empire’s various corners in September 1923 and to tell them through little-remembered colonial administrators and prominent locals. For example, in what was then Malaya (modern-day Malaysia and its surrounds) readers meet Hugh Clifford, who learned Malay and fell in love with the country and its people. He was self-aware enough to wonder whether “the boot of the white man” had stamped out the best parts of local culture. Yet Clifford was also responsible, at the age of just 22, for adding 15,000 square miles of territory to the empire and described Malays as “the cattle of mankind”.

In colonies across continents, elites were disillusioned with the obvious hypocrisy of foreign rulers, while foot-soldiers such as [George Orwell](#) found themselves uneasy with the violence of colonial rule. What emerges is a picture of an empire straining under the weight of its own contradictions. The British [thought of their role](#) as an enlightened one: stopping tribal warfare and introducing modern health care and education. Yet they brought forced labour and colonial massacres, racist rules, and substandard health care and education. Rather than simply stating so baldly, Mr Parker points this out through copious examples and meticulous research. He appears to have read the front page of every newspaper published in the empire on that day.

Such thoroughness can go too far. At a chunky 600 pages, crammed full of unfamiliar names and places even for those acquainted with imperial history, “One Fine Day” offers little by way of obvious structure. A closer edit and more hand-holding could have helped make a rewarding and fascinating read an easier one, too.

“Imperial Island” by Charlotte Lydia Riley, a historian at the University of Southampton, is half the length and better organised. Starting with the contributions of the empire’s troops in the second world war and the meagre thanks (or even acknowledgment) given to them afterwards, she runs through headline events of post-war British history.

Yet to call this an imperial history is misleading. The book reads more like a history of race relations in modern Britain, and the links to empire often feel forced. Fundraising for a famine in Ethiopia reveals, in Ms Riley’s telling, a guilt-ridden imperial hangover, as do children’s books about India and cookbooks with dishes from around the world. A map of countries where an overseas volunteer organisation operates is—what else?—a throwback to the British Empire’s pink map.

This is a shame, because a book that lived up to the promise made by Ms Riley’s would have been revealing and important. The legacy of colonialism, like the empire itself, is riddled with contradictions. It is impossible to attempt to understand Britain today without wrestling with ambiguities. Yes, children of immigrants in Britain carried out the Tube bombings in 2005, sparking a national reckoning over homegrown extremism, as Ms Riley describes over several pages; but another child of immigrants, Rishi Sunak, ascended to the highest echelons of government and is not mentioned by her. The [Brexit](#) campaign to leave the European Union was based on the paradoxical promises of keeping foreigners out while opening up to the former foreign empire. It deserves more careful examination than the meagre four pages Ms Riley devotes to it.

A century after it controlled a vaster empire than the world has ever seen, today Britain is less influential than it has been in memory. It has a diminished military force and has separated from its biggest market, Europe (which Mr Parker reminds readers “had almost always been far more important than the empire”). Marking the centenary of Britain’s largest

territorial footprint, many are still asking what the future holds for “little England”. These books, alas, do not hold the answer. ■

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# Economic & financial indicators

- [Economic data, commodities and markets](#)

## Indicators

# Economic data, commodities and markets

Sep 21st 2023

### Economic data 1 of 2

	Gross domestic product		Consumer prices		Unemployment rate	
	Change on year ago, % quarter* 2023†	Interest rates	Change on year ago, % 2023‡	Interest rates	Change on year ago, % 2023‡	Interest rates
United States	2.5 Q2	2.1 1.8	3.7 Aug 3.9	3.8 Aug	4.4	4.4
China	6.3 Q2	3.2 5.2	0.1 Aug 0.8	5.2 Aug	4.9	4.9
Japan	1.6 Q2	4.8 2.0	3.3 Jul 2.9	2.7 Jul	3.0	3.0
Britain	0.4 Q2	0.8 0.3	6.7 Aug 6.7	4.3 Jun	4.1	4.1
Canada	1.1 Q2	-0.2 1.1	4.0 Aug 3.8	5.5 Aug	4.4	4.4
Euro area	0.5 Q2	0.5 0.8	5.2 Aug 5.5	6.4 Jul	6.4	6.4
Austria	-1.1 Q2	2.7‡ 0.2	7.5 Aug 7.9	5.6 Jul	5.6	5.6
Belgium	0.6 Q2	3.5 1.0	2.0 Aug 3.2	5.1 Aug	5.1	5.1
France	1.6 Q2	3.1 0.8	5.9 Aug 5.7	7.4 Jul	7.4	7.4
Germany	-0.1 Q2	0.1 0.3	6.4 Aug 6.0	2.9 Jul	2.9	2.9
Greece	2.9 Q2	5.1 2.4	3.5 Aug 3.8	10.8 Jul	10.8	10.8
Italy	0.4 Q2	-1.6 1.0	5.5 Aug 6.3	7.6 Jul	7.6	7.6
Netherlands	-0.3 Q2	-1.3 0.2	3.4 Aug 4.7	3.6 Jul	3.6	3.6
Spain	1.8 Q2	1.7 2.2	2.4 Aug 3.5	11.6 Jul	11.6	11.6
Czech Republic	-1.0 Q2	0.6 0.2	8.5 Aug 10.5	7.8 Jul	7.8	7.8
Denmark	1.2 Q2	1.3 2.0	2.4 Aug 4.0	2.8 Jul	2.8	2.8
Norway	0.7 Q2	1.4 1.3	4.8 Aug 5.8	3.4 Jul	3.4	3.4
Poland	0.6 Q2	-8.3 1.3	10.0 Aug 11.0	5.0 Aug	5.0	5.0
Russia	4.9 Q2	69 0.5	5.1 Aug 6.5	3.0 Jul	3.0	3.0
Sweden	-0.8 Q2	-3.3 -0.6	7.5 Aug 7.0	7.7 Aug	7.7	7.7
Switzerland	0.5 Q2	0.1 1.1	1.6 Aug 2.2	2.1 Aug	2.1	2.1
Turkey	3.8 Q2	14.6 3.2	58.9 Aug 46.3	9.7 Jul	9.7	9.7
Australia	2.1 Q2	1.4 1.6	6.0 Q2 5.6	3.7 Aug	3.7	3.7
Hong Kong	1.5 Q2	-5.2 2.9	1.8 Jul 1.9	2.8 Aug	2.8	2.8
India	7.8 Q2	11.0 6.5	6.8 Aug 5.7	8.1 Aug	8.1	8.1
Indonesia	5.2 Q2	na 5.0	3.3 Aug 3.8	5.5 Q2	5.5	5.5
Malaysia	2.6 Q2	-4.0 4.0	2.0 Jul 2.5	3.4 Jul	3.4	3.4
Pakistan	10.7 Q2***	na 1.7	27.9 Aug 32.2	6.3 Jun	6.3	6.3
Philippines	4.3 Q2	-3.6 4.2	5.2 Aug 5.5	4.8 Q2	4.8	4.8
Singapore	0.5 Q2	0.3 1.0	4.1 Jul 4.3	1.9 Q2	1.9	1.9
South Korea	0.9 Q2	2.5 1.3	3.4 Aug 3.0	2.0 Aug	2.0	2.0
Taiwan	1.4 Q2	5.6 0.8	2.5 Aug 2.2	3.4 Jul	3.4	3.4
Thailand	1.8 Q2	0.7 2.8	0.9 Aug 1.5	1.2 Jul	1.2	1.2
Argentina	-4.9 Q2	-10.9 -2.8	124 Aug 130	6.2 Q2	6.2	6.2
Brazil	3.4 Q2	3.7 2.4	4.6 Aug 4.5	7.9 Jul	7.9	7.9
Chile	-1.1 Q2	-1.2 0.2	5.3 Aug 7.5	8.8 Jul	8.8	8.8
Colombia	0.8 Q2	-1.0 0.5	17.6 Aug 15.2	9.6 Jul	9.6	9.6
Mexico	3.6 Q2	3.4 2.4	4.6 Aug 5.3	2.9 Jul	2.9	2.9
Peru	-0.5 Q2	1.5 1.3	5.9 Aug 6.5	7.3 Aug	7.3	7.3
Egypt	3.9 Q2	na 3.8	37.4 Aug 36.2	7.0 Q2	7.0	7.0
Israel	3.4 Q2	3.1 3.0	4.1 Aug 4.1	3.1 Aug	3.1	3.1
Saudi Arabia	8.7 2022	na 0.5	2.0 Aug 2.2	5.1 Q1	5.1	5.1
South Africa	1.6 Q2	2.4 0.5	4.8 Aug 5.7	32.6 Q2	32.6	32.6

Source: Haver Analytics. \*% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. \*\*\*New series. \*\*Year ending June. ††Lates: 3 months. ‡‡3-month moving average. Note: Euro area consumer prices are harmonised.

### The Economist

### Economic data 2 of 2

	Current-account balance		Budget balance		Interest rates		Currency units	
	% of GDP 2023†	Interest rates	% of GDP 2023†	Interest rates	10-yr govt bonds, %	change on latest, %	per \$ 20m	% change Sep 20m on year ago
United States	-2.9	-5.9	4.3	4.3	78.0	-	-	-
China	1.8	-3.2	2.5 4%	9.0	7.30	-4.0	-	-
Japan	2.9	-5.2	0.7	46.0	148	-2.7	-	-
Britain	-3.3	-4.3	4.4	117	0.81	8.6	-	-
Colombia	-0.1	-1.2	3.8	9.0	1.34	-0.0	-	-
Euro area	3.3	-3.3	2.7	70.0	0.93	7.5	-	-
Austria	2.4	-2.4	3.3	75.0	0.93	7.5	-	-
Belgium	-1.9	-4.8	3.4	85.0	0.93	7.5	-	-
France	-1.1	-5.0	3.3	96.0	0.93	7.5	-	-
Germany	5.8	-2.2	2.7	79.0	0.93	7.5	-	-
Greece	-5.9	-1.8	4.1	-33.0	0.93	7.5	-	-
Italy	0.9	-4.8	4.5	30.0	0.93	7.5	-	-
Netherlands	7.5	-2.3	3.0	81.0	0.93	7.5	-	-
Spain	1.8	-1.1	3.7	31.0	0.93	7.5	-	-
Croatia	-1.2	-4.5	4.5	-17.0	32.8	3.3	-	-
Denmark	10.5	1.5	30	57.0	6.95	7.0	-	-
Norway	17.1	10.8	1.4	76.0	10.7	-3.6	-	-
Poland	-0.2	-4.8	5.7	-52.0	4.31	9.7	-	-
Russia	1.8	-3.8	11.7	168	95.9	35.6	-	-
Sweden	4.1	-0.3	2.9	96.0	11.1	-1.6	-	-
Switzerland	6.6	-0.7	1.1	-7.0	0.89	7.9	-	-
Turkey	-5.0	-4.9	24.7	1,337	27.0	32.3	-	-
Australia	1.7	0.3	4.2	57.0	1.54	-3.2	-	-
Hong Kong	8.4	-1.7	4.1	74.0	7.82	0.4	-	-
India	-1.3	-5.9	7.2	14.0	0.81	1.0	-	-
Indonesia	0.7	-2.6	6.7	-0.0	15,380	-2.6	-	-
Malaysia	-1.7	-5.0	4.0	-25.0	4.69	-2.8	-	-
Pakistan	-1.7	-2.7	16.3 ††	355	294	19.0	-	-
Philippines	-5.7	-7.0	6.4	-36.0	56.8	1.2	-	-
Singapore	18.8	-0.7	3.4	15.0	1.36	3.7	-	-
South Korea	1.6	-2.7	4.0	16.0	1,330	4.5	-	-
Taiwan	13.0	-0.4	1.2	-18.0	32.0	-2.0	-	-
Thailand	1.1	-2.7	2.8	-16.0	36.0	2.7	-	-
Argentina	2.8	-4.2	na	na	32.0	58.7	-	-
Brazil	-1.3	-7.6	11.3	-55.8	44.8	3.6	-	-
Chile	-4.3	-3.0	5.8	62.0	98.1	5.1	-	-
Colombia	-4.0	-4.2	10.9	-150	3,911	13.1	-	-
Mexico	-1.8	-3.4	9.7	43.0	17.0	17.2	-	-
Peru	-1.3	-2.0	6.8	-140	3,711	4.6	-	-
Egypt	-1.5	-6.9	na	na	30.9	-37.1	-	-
Israel	4.8	-2.0	4.0	82.0	3.81	-9.4	-	-
Saudi Arabia	3.2	0.2	na	na	3.75	0.3	-	-
South Africa	-1.8	-5.7	10.5	-8.0	18.8	5.6	-	-

Source: Haver Analytics. †5-year yield. ††Dollar-denominated bonds.

The Economist

## Markets

	Index	Sep 20th	% change on one week	Dec 30th
United States S&P 500	4,069.4	1.2	14.7	
United States Nasdaq	12,489.1	-2.3	-0.7	
China Shanghai Comp.	3,109.6	-0.5	0.6	
China Shenzhen Comp.	1,893.4	-1.9	-4.2	
Japan Nikkei 225	33,023.8	1.0	26.6	
Japan Toxx	2,406.0	1.2	27.2	
Britain FTSE 100	7,731.7	2.7	3.8	
Canada S&P TSX	20,214.7	-0.3	4.3	
Euro area EURO STOXX 50	4,276.0	1.2	12.7	
France CAC 40	7,330.8	1.5	13.2	
Germany DAX	15,781.6	0.8	13.3	
Italy FTSE MIB	23,232.3	2.6	23.3	
Netherlands AEX	738.3	0.5	7.2	
Spain IBEX 35	9,545.8	2.4	17.2	
Poland WIG	67,293.0	0.9	17.1	
Russia RTS, 5 terms	1,022.5	2.7	3.3	
Switzerland SMI	11,154.1	1.6	4.0	
Turkey BIST	7,719.8	-3.7	40.1	
Australia All Ord.	7,361.9	0.2	1.9	
Hong Kong Hang Seng	17,856.4	-0.7	-9.6	
India BSE	65,630.8	-1.0	9.8	
Indonesia IDX	7,011.7	1.1	24	
Malaysia KLC	1,451.6	-0.3	-2.9	
Pakistan KSE	45,932.5	0.7	13.6	
Singapore STI	3,242.0	0.7	-0.3	
South Korea KOSPI	2,539.7	1.0	14.5	
Taiwan TWI	16,534.8	-0.3	17.0	
Thailand SET	1,507.9	-1.8	-9.6	
Argentina MERV	562,932.6	1.6	178.1	
Argentina IIP	118,603	-0.4	8.2	
Mexico IPC	52,567.2	1.9	13	
Egypt EGX 30	19,972	2.3	33.6	
Israel TA-125	1,882.9	1.4	4.5	
Saudi Arabia Tadawul	11,061.5	-0.5	-4.9	
South Africa JSE AS	7,924.1	2.1	2.4	
World, dev'd MSCI	2,936.4	-0.7	12.8	
Emerging markets MSCI	970.9	-0.4	1.5	

	Index	Sep 20th	% change on one week	Dec 30th
US corporate bonds, spread over Treasuries				
Basis points	basispt	basispt	Dic 29th 2022	
Investment grade	132	154		
High-yield	423	502		

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. \*Total return index.

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## Commodities

### The Economist commodity-price index

2015=100	Sep 12th	Sep 19th*	month	% change on year
<b>Dollar Index</b>				
All Items	147.4	148.2	3.6	-0.5
Food	132.2	132.0	0.4	-8.0
<b>Industrials</b>				
All	161.6	163.5	6.0	6.1
Non-food agriculturals	114.1	113.3	1.8	-21.8
Metals	175.6	178.3	6.9	13.8
<b>Sterling Index</b>				
All items	180.4	182.4	6.3	-8.4
<b>Euro Index</b>				
All items	152.6	153.8	5.1	-6.9
<b>Gold</b>				
\$ per oz	1,913.0	1,933.7	1.9	16.0
<b>Brent</b>				
\$ per barrel	92.1	94.6	12.5	4.3

Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. \*Provisional.

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## **Graphic detail**

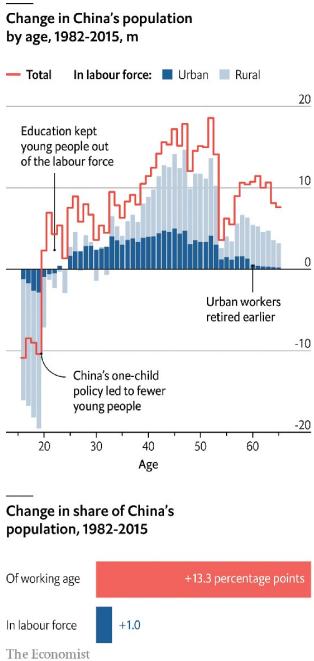
- [China's “demographic dividend” appears to be a myth](#)

## China's demography

# China's "demographic dividend" appears to be a myth

*If youth didn't drive past growth, is ageing bound to be disastrous?*

Sep 19th 2023



SINCE STARTING to open up to market forces in the 1980s China's economy has grown at a formidable rate. Adjusting for the cost of living, GDP per person has risen ten-fold. But now China faces headwinds. Consumer confidence is low, youth unemployment is high and the economy is on the verge of deflation. On top of this, demography, a factor once credited for the country's growth, is becoming a handicap.

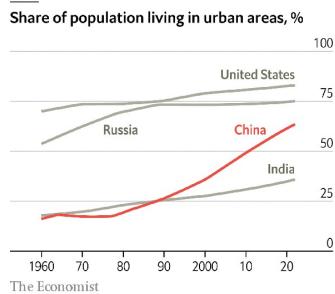
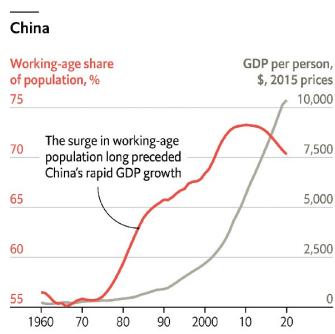
During the past four decades China's working-age population grew far faster than the number of young and elderly dependants did. This, in theory, increased the average citizen's contribution to GDP, a feature often described as the country's "demographic dividend". However, a new working paper by Xin Meng of the Australian National University, appears to refute this widely accepted explanation for China's economic success. Although the share of the country's population that were of working age surged during this period, the share of people available to work did not.

Dr Meng gathered data from China's decennial censuses and its between-census surveys between 1982 and 2015. The country does not make up-to-date detailed demographic figures openly available, but it has granted some researchers, of whom Dr Meng is one, access to a subset of the data. These audits contain information on the age, work status, education and *hukou* (household registration) of a representative sample of the population.

Her analysis showed that between 1982 and 2015 China's working-age population, defined as those aged between 16 and 65, grew from 600m to 1bn. As a share of the population, it rose from 60% to 73%.

During this same period, however, labour-force participation dropped from 85% to just over 70%. Much of the decline came from those with an urban *hukou*. Unlike holders of rural *hukou*, urbanites were subjected to mandatory retirement at the age of 55 for women and 65 for men. Compulsory education and greater university enrolment kept under-25s out of the workforce. Labour-force participation for women of childbearing age also fell, probably owing to the increasing cost of child care.

As a result, China's labour force as a share of the total population was roughly stable, hovering at around 50%, from 1982 to 2015. The demographic dividend, Dr Meng argues, may never have existed.



The Economist

The quality, rather than quantity, of the workforce seems a better explanation for the country's extraordinary growth in GDP per person. From 1982 to 2010, the share of people going to university increased tenfold to 38% for those with an urban *hukou*. In rural areas, the proportion who attained a basic level of education more than doubled to nearly 60%. By moving rural workers into more productive jobs in the cities, urbanisation probably also helped.

Last year China's population started shrinking for the first time since the 1960s. Its working-age population has been declining for almost a decade. There is growing concern that the country may have "grown old before it has grown rich".

But if demographic changes were not a critical driver of gains in GDP per person the past, they may not be disastrous for the future. These results suggest that the country has other levers to pull to offset a dwindling workforce. It could increase the retirement age. Its urbanisation rate, at 64%, is still below that of advanced economies and has room to rise. Immigration, if China were to ever consider it, could bolster the labour force too. Whether all that would be enough to save the country from economic slowdown remains an open question. ■

*Sources: "China's 40 years of demographic dividend and labour supply: the quantity myth", by Xin Meng, 2023; World Bank*

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## The Economist explains

- [Why Poland is halting its supply of weapons to Ukraine](#)
- [What is Khalistan, the independent homeland some Sikhs yearn for?](#)

**The Economist explains**

# Why Poland is halting its supply of weapons to Ukraine

*A row over duty-free grain has escalated rapidly—but Poland's government is also posturing*

Sep 21st 2023



AP

POLAND HAS been among the [stauncest supporters](#) of Ukraine since Russia's invasion in February 2022. But on September 20th its prime minister, Mateusz Morawiecki, said that his country was no longer [supplying weapons](#) to its neighbour, and would focus on rearming itself with modern kit. It is unclear whether Mr Morawiecki's comments amounted to a change in policy: Poland has already sent Ukraine much of its stock of Soviet-era weaponry, including tanks and jets, and the transit of Western aid and arms to Ukraine, of which around 90% goes through Poland, will continue unobstructed. But Poland's government has certainly left observers with that impression. On September 21st the government spokesman, Piotr Müller, said that his country would only complete previously agreed deliveries of arms and ammunition to Ukraine, and mentioned its neighbour's "unacceptable" statements and actions. He was referring to an escalating quarrel with Ukraine over grain exports.

European Union member states that border Ukraine have long argued that the duty-free import of Ukrainian produce to the bloc has caused havoc in their markets. On May 2nd, to allay their fears, the European Commission agreed to ban the sale or storage of certain Ukrainian produce in Bulgaria, Hungary, Poland, Romania and Slovakia (though transit through these countries was still allowed). These measures expired on September 15th. But Hungary, Poland and Slovakia defied Brussels by unilaterally extending them. On September 18th Ukraine filed a complaint against these countries at the World Trade Organisation. On September 19th Volodymyr Zelensky, Ukraine's president, accused the trio of making "political theatre"—specifically a "thriller from grain". Why has this row escalated?

The problem has been over a year in the making. In June 2022, to help Ukraine's economy and avert a [global food crisis](#) caused by a Russian blockade of its Black Sea ports, the EU lifted tariffs on a range of Ukrainian exports, including many agricultural products, and negotiated transit corridors through Bulgaria, Poland and Romania. The idea was to ship the goods to the Middle East and Africa. An agreement between Russia and Ukraine to let some produce travel via the Black Sea [collapsed](#) in July 2023, leaving river, road and rail routes as crucial corridors for Ukrainian produce.

But a shortage of trains and lorries slowed shipments to markets beyond eastern Europe, and much of the produce ended up in local ones. Plummeting prices hurt the incomes of farmers, sparking weeks of protests. On April 15th Poland's government banned the import and transit from Ukraine of dozens of goods, including grains, milk, honey, fruits, vegetables and some meats. Robert Telus, the agriculture minister, said that Poland's embargo was necessary to "open the eyes of the EU". Hungary and Slovakia quickly followed suit. The European Commission, which runs the EU's trade policy, agreed to a compromise: impose temporary import bans, but allow transit to the west. That compromise has now expired, and the EU refuses to extend it, claiming that the "market distortions in the five frontline countries have disappeared".

Not everyone agrees. Hours after the embargo ended, Hungary, Poland and Slovakia said they would introduce their own restrictions on grain imports (transit through their territories is still exempt). But Ukraine's economy minister, Yulia Svyrydenko, said their actions chipped away at the EU's

solidarity with Ukraine, and deepened the distress of Ukrainian farmers. “Ukraine sees this as a violation of international obligations,” she said. Her deputy, Taras Kachka, said that Ukraine was considering retaliatory measures on Polish products, such as onions and apples, as well as on Hungarian cars if the bans had not been lifted by September 22nd.

The unilateral moves also put Hungary, Poland and Slovakia on a collision course with the European Commission, which can launch infringement procedures against countries that do not implement the EU’s trade policy. The EU is normally responsible for representing its members in disputes with the WTO, meaning it could be drawn into Ukraine’s complaint. Germany’s agriculture minister, Cem Özdemir, accused the three countries of “part-time solidarity”. His French counterpart, Marc Fesneau, said that the unilateral actions threatened “collective efforts to preserve global food security”.

On September 21st the Slovakian government struck a deal with Ukraine that will see the resumption of grain imports. But Poland seems less likely to relent. Mr Morawiecki even said that further Ukrainian products could be added to the import ban if Ukraine “escalates”. The motivation is political. Poland’s ruling Law and Justice (PIS) party, which depends on the rural vote, faces a difficult general election on October 15th. But even if the posturing is chiefly aimed at a domestic audience, it will undermine the EU’s attempts to maintain a united front against Russia. And it could set a dangerous precedent for other countries that want to reduce their support for Ukraine. ■

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**The Economist explains**

# What is Khalistan, the independent homeland some Sikhs yearn for?

*The separatist movement is now largely propagated from abroad*

Sep 19th 2023



WHEN INDIA gained independence from Britain in 1947, few outside the country believed that a union of such diverse states could hold together. India has survived—but not without threats to its unity. One of the most enduring has been the Khalistan movement, which seeks to establish an independent homeland for Sikhs. On September 18th Canada's prime minister, Justin Trudeau, alleged that Indian government agents were behind the killing, in June, of Hardeep Singh Nijjar, a Canadian Sikh leader who supported independence for Khalistan. India's government, which denies any involvement, has accused Canada of harbouring “terrorists and separatists”. How serious is the Khalistan movement?

The origins of Khalistan lie in Sikhism, a religion practised by 23m people in India and 3m more around the world. The faith emerged in the 15th century in Punjab, a region in northern India, then ruled by the Mughals. In 1699, frustrated by life under Muslim rule and corruption among Sikh

priests, Guru Gobind Singh, the faith's leader, reformed the religion. The *khalsa* (or pure) tradition he initiated radically changed the way Sikhism was practised and organised. It also came with a political vision: to ensure Sikh rule in Punjab.

At independence, some Sikhs tried to realise that vision by carving out a separate country. But the group was small (in the 1941 census, Sikhs accounted for 15% of the Punjab province in British India). The British partitioned Punjab between India and Pakistan. Most Sikhs living on the Pakistani side chose to move to India.

The dream of Khalistan survived. In the late 1970s and early 1980s the movement re-emerged, fuelled by growing Sikh diasporas in places like Britain and Canada. In 1980 Jagjit Singh Chauhan, a doctor in London, declared himself president of the "Republic of Khalistan".

That did not much bother India's government, for which Punjab's politics were of greater concern. Throughout the 1970s, there was a clamour within the state for greater autonomy and policies favouring Sikhs. Congress, then India's ruling party, believed such requests amounted to secession. In the 1980s the movement for autonomy turned violent.

Part of that was down to the growing popularity of Jarnail Singh Bhindranwale, a radical preacher who claimed Sikhs were "slaves in independent India" and wanted them to return to the fundamentals of the faith. Bhindranwale said he did not want independence for Khalistan, but were it to be offered he would not refuse. His rhetoric helped fuel widespread communal violence.

The biggest flashpoint came in 1984. By then, Bhindranwale and a group of supporters had set up a base in the Golden Temple, Sikhism's holiest site, in the Punjabi city of Amritsar, from where they sought to lead the insurgency. As violence spread across the state, the Indian government decided to enter the temple to evict the terrorists.

Operation Blue Star, as it was called, proved momentous for the Khalistan movement. By some estimates more than 3,500 people were killed, including hundreds of government troops, pilgrims and Bhindranwale

himself. The bloodshed left a “collective wound in the psyche of the Sikhs”, writes Ramachandra Guha in “India After Gandhi”, a history. Weeks later Indira Gandhi, the prime minister, who had ordered the attack, was killed by her Sikh bodyguards. That provoked more violence. Across India, Sikhs were attacked; thousands were killed.

That in turn boosted the Khalistan movement. Sikhs in India and abroad signed up for the cause. Violence by Khalistani militants surged. In 1985 Khalistani terrorists planted a bomb on an Air India flight between Montreal and London, killing 329 people, most of them Canadians.

Eventually, though, the movement lost steam in India—partly owing to a government crackdown and economic growth. Many Sikhs still consider Bhindranwale a martyr, but few try to emulate him and those who do are quickly stopped. The only remaining party that advocates Khalistani independence secured less than 3% of the vote in the latest state election.

Outside India the movement persists. Groups in America, Australia, Britain and Canada continue to support separatism. India’s relations with Canada were strained even before Mr Nijjar’s killing and Mr Trudeau’s accusation. Similar tensions could emerge with other countries. Khalistan may no longer be a threat to India’s unity, but it will affect its foreign policy. ■

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# **Obituary**

- [Mangosuthu Buthelezi had his own vision for a democratic South Africa](#)

**On a spear's edge**

## Mangosuthu Buthelezi had his own vision for a democratic South Africa

*The Zulu chief, a rival to Nelson Mandela, died on September 9th, aged 95*

Sep 21st 2023



AP

AT THE AGE of 14 Mangosuthu Buthelezi was presented with an assegai and plunged it into the ground. His father had just died; with the spear, and a loud shout, he was claiming his inheritance. That inheritance, he insisted later, was royal, because he was the son of a princess. Other members of the family, of similar standing, did not take the title “prince”. He made the most of it. When he became chief minister of KwaZulu—a poor rump of the old Zulu nation granted nominal self-rule under apartheid—he said that job was hereditary, like the traditional prime-minister role his grandfather had played for the royal family. Again, people murmured. What was not in doubt was that, in the chaotic and often bloody years of South Africa’s transition to democracy, he was the most powerful man in the Zulu nation. Any belittlers or critics could expect a long, furious riposte punched out on his ancient typewriter, if not a lawsuit.

Assegais stayed, and became a symbol of the Inkatha Freedom Party (IFP) that he founded in 1975. He flourished that short, stabbing weapon in honour of King Shaka, who had built up the Zulu nation as a military power. The greatest moment in Zulu history was the rout of British forces, with assegais, in 1879 at the battle of Isandlwana. Within hours, the British made a stand at Rorke's Drift; and in "Zulu", a blockbuster film about that, Mr Buthelezi played his ancestor King Cetshwayo, with assegai, cowhide shield and royal leopard-skin cape. He loved the part. When in 1992, at the height of violent clashes between the IFP and its rivals in the townships, the authorities banned the carrying of assegais at rallies, he ignored it. They were part of what Zulus were; they were what the power in their arms was for. He also told his followers to crack the skulls of any "riff-raff" in the party, and to squeeze them as they would wring the necks of scrawny cockerels crowing on dunghills; but then denied that those were dangerous words.

His creed, he insisted, was non-violence. He did not believe, like many of his rivals in the left-wing African National Congress (ANC), that Marxist revolution was needed in South Africa. On the contrary, it meant disaster, dragging the country into the Soviet orbit. Instead he preferred long-drawn-out negotiations between the various factions, leading to a federal state. Philosophically he followed Edmund Burke, who had opposed the French revolution: a conservative who found friends at the Heritage Foundation and backers in Ronald Reagan and Margaret Thatcher. He liked to think of KwaZulu as a constitutional monarchy on the British model, rather than one in which King Goodwill Zwelithini was firmly under his thumb; he wanted free markets and lower taxes. Thatcher was impressed with him, when they met.

Personally, too, he seemed mild enough. He was a practising Anglican, even attending synod, and therefore had only one wife. In childhood he would sleep and wake to the sound of his mother, a poet and composer, singing Zulu songs. His shelves groaned with books, especially biographies; the life of Gandhi was a favourite, and he read the Bible daily. He felt this side of him was as important as his political life. But that eclipsed everything, dividing opinion for the whole of his career.

In brief, KwaZulu was too small a stage for him; so he worked with whichever national power bloc could best advance his ambitions. At times,

much as he loathed apartheid, this meant the white regime. At university he had studied “Bantu administration”, the running of the ten nominally independent homelands set up under apartheid, and his first job was as a clerk in the KwaZulu office of Bantu affairs. He played along with the system. He refused, however, to see his Zulu homeland as a separate place, cut off from the rest of South Africa. Zulus were the largest ethnic group in the country, and a strong South Africa would be one in which all the groups united—preferably under him.

For that to happen, he had to reckon with the ANC. Until 1979 they had a fragile alliance, before the Marxist element made him back away. He argued that Nelson Mandela, as a relative moderate, should be freed from jail, and later tried to take the whole credit for that. Yet he also asked the white regime to train black special forces to deal with communist “terrorists”, otherwise the ANC and their allies, in the townships. Those troops, the Caprivi 200, did the job with gruesome thoroughness. In all, between 1986 and 1996, around 20,000 people were killed by one side or the other. Assegais featured, as well as knives and bullets. The Truth and Reconciliation Commission blamed militants aligned to the IFP for the worst of it; but Mr Buthelezi absolutely rejected that, even getting the commission to tone down its report. The ANC, he always said, stirred up most of the trouble.

After the transition to democracy, rapprochement was rocky. For a long, long time he resisted taking part in the 1994 elections, eventually agreeing so close to polling day that his photo had to be stuck to the voting slips. The ANC won two-thirds of the vote; Mandela became South Africa’s first black president; he himself got the ministry of home affairs, a job he did not care much about in an office that grew famous for corruption.

At times, when Mandela went abroad, he became the acting ruler of South Africa. In truth, though, his power was fading. After the 2004 election he left the coalition and went into opposition, his more natural place; in the 2014 election the IFP won only around 10% of the vote in KwaZulu-Natal and a mere 2.4% nationwide. Back home he remained traditional prime minister to the royal family, since that role was for life; but the king had now largely wriggled free of his influence. Mr Buthelezi spent much of his time

curating his reputation, relying heavily on the IFP-owned *Ilanga lase Natal*, the oldest Zulu newspaper, to pay him due respect.

At his Anglican funeral in Ulundi, the former Zulu capital, the roads were lined with mourners in warrior headbands, carrying cowhide shields. They also carried ceremonial canes and knobkerries; but there were few assegais in sight. ■

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