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Business

Apr 2nd 2022 | 573 words >

Covid-19 and business

Shanghai stops

Lockdowns strike at the heart of China Inc



“Snatch groceries first, then get a covid test” has quickly become an anthem for the lockdown that started suddenly in Shanghai in the early hours of March 28th. Local hip-hop artists CATI2, P.J. and Keyso describe scenes of panic buying—*qiang cai*, or snatching groceries—and the threat of being locked out of one’s home amid a frenzied bid to control an outbreak of covid-19 in China’s main business and finance hub. One lyric hints that residents can grow vegetables in the small patches of land outside their apartments or scavenge for edible plants.

The song attracted hundreds of thousands of views online in less than a day, bringing cheer

to an otherwise grim situation. China is currently facing its worst outbreak since the pandemic started in the city of Wuhan in 2020. Thousands of new cases of the highly transmissible Omicron variant are being discovered each day. The large cities of Shenzhen and Shenyang, as well as the entire province of Jilin, have been locked down in recent weeks.

Now it is Shanghai's turn. The two-phase lockdown of the city, whose 25m inhabitants have been mostly spared harsh containment efforts in the past two years, was announced hours before it began at 5am. The local government had gone to great lengths to avoid shutting down the metropolis, especially its wealthy central districts. In coming weeks it will find it difficult to project an image of business as usual—because business is anything but.

The lockdown's first phase covers areas east of Huangpu river, home to the main financial centre. Many white-collar workers have packed up toiletry bags and moved into their offices until April 1st, when the lockdown is supposed to be lifted in the east and imposed instead in western neighbourhoods. In order to keep the stock exchange running, employees are said to be sleeping on the floor of the bourse. Countless companies listed in Shanghai have put out statements in recent days to notify investors that they are shutting down their factories in the region and, in some cases, elsewhere in the country. Tesla is suspending production at its electric-car factory in the city, according to Reuters.

The pain will be felt abroad, too, just as it was amid the lockdowns in Shenzhen, another city deeply entangled in global supply chains. Although seaborne traffic can be diverted from Shanghai to other ports, such as Ningbo around 100km to the south, the cross-border flow of people is being disrupted. International flights have been rerouted to airports in other cities. Shanghai's tourism businesses are bracing for a year that will even worse than 2020.

The measures may stretch beyond eight days; parts of the city could remain closed once more cases are identified, as is likely given Omicron's transmissibility. One team of economists estimates that a one-month lockdown of Shanghai and its spillover effects would knock a staggering 4% off China's GDP in that period. Whatever the eventual cost, in

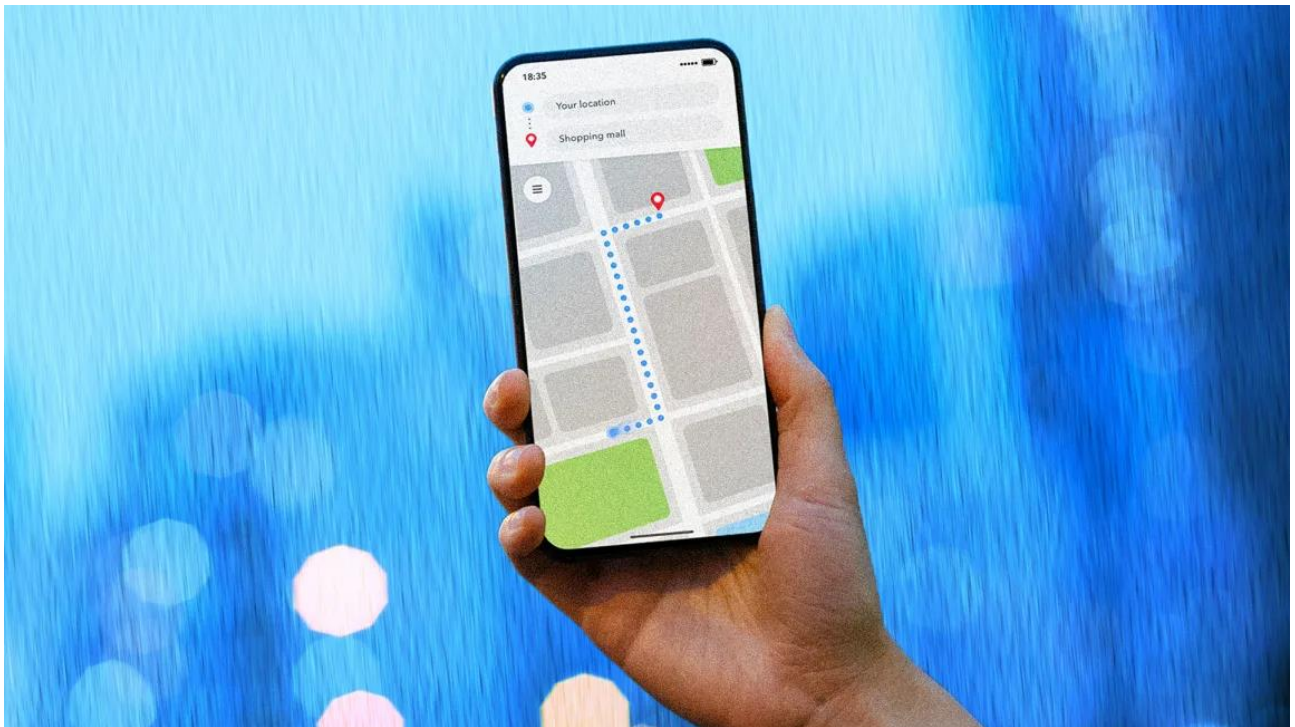
the short run the Shanghai experiment is the biggest test yet of China's "zero-covid" approach to snuffing out the virus. Officials hope that "production bubbles", instituted in Shenzhen and other places to bus workers to and from factories in a covid-controlled manner, will work in Shanghai, too. If they do, China may be able to cling to its draconian strategy for longer. If they fail—as they might in the face of Omicron—the authorities will be under pressure to relent. ■

News

Mar, 30, 2022 | 567 words >

Do you have a poor sense of direction? Your hometown could be to blame

People who grow up around street grids, like the kind you'll find in Manhattan, may have a harder time finding their way around, new research suggests.



Some people are like human compasses, magically navigating city streets to arrive at front doors tucked away in back alleys and crammed into elaborate, obscured folds of architecture. They can step out of an underground subway station and immediately know which way to walk. They can leave a campsite for an hour-long hike through dense forest, zig-zag between identical trees, and return unfazed and on time.

Others are doomed without maps. When the power goes out, these people stumble blindly,

stopping to ask for directions left and right—or worse, are forced to fend for themselves in a desperate race to seek camp before nightfall. If you can't find your way from the parking garage to the restaurant without Google, that's embarrassing—but maybe, not your fault.

Blame your hometown, says a recent publication in *Nature* from a trio of European universities. According to them, people whose childhood environments necessitated more astute spatial navigation, unsurprisingly, are better at it as adults. Specifically, those who grew up in cities with grid-like patterns (where streets are numbered 1st, 2nd, and 3rd in succession, perhaps) are less apt than those those who grew up in the country, and had to find their house by driving past the first three forks in the road, turning right at the hay bale, and then left at the second big rock.

Researchers came to this conclusion by studying players of the mobile game *Sea Hero Quest*. Developed by British game company Glitchers, in partnership with Alzheimer's Research UK and T-Mobile parent Deutsche Telekom, *Sea Hero Quest*—which has been played by more than 4 million people—was designed as a data feeder for understanding dementia (which attacks 3-D navigation skills). The game's plot requires players to voyage across virtual seas to locate hidden destinations, putting wayfinding to the test along the way.

As it turns out, for the nearly 400,000 players across 38 countries surveyed, performance appeared to be influenced by their hometown, even after researchers controlled for confounding factors of age, education, and gender. Hometowns were ranked by entropy of street networks, where rural villages with random, disordered layouts have higher entropy and cities with orderly grid layouts have lower. People hailing from grid-layout cities—think New York or Chicago—were worse at the wayfinding task, while people from cities with organic and less orderly layouts—like Prague, where streets wind naturally at times and cut straight at others—performed almost as well as those from crickets-rural areas. (Their current places of residence did not matter.)

“Growing up somewhere with a more complex layout of roads or paths might help with navigational skills as it requires keeping track of direction when you're more likely to be making multiple turns at different angles, while you might also need to remember more

streets and landmarks for each journey,” says Antoine Coutrot, of the University of Lyon in France, and a co-lead author of the study. Meanwhile, other unfortunate kids are crippled by the “lack of complexity of many street networks in cities,” according to lead researcher and University College London professor Hugo Spiers.

But if you’re, say, a New Yorker from birth, all isn’t lost (pun intended)—you can still be a “city hero.” According to the research team, when they developed a metropolitan version of *Sea Hero Quest* called *City Hero Quest*, players in their element performed just slightly better than the rest. ■



Leaders

Apr 2nd 2022 | 636 words >

Brands and marketing

This leader is amazing!! #ad

Social influencers are becoming a serious business



It is a sure sign that a hot trend has reached the mainstream when the tax authorities catch up. This week China promised a tax-evasion crackdown on social-media influencers, who are paid by brands to promote products online to armies of followers. One of the big stars, Viya, a 30-something fashionista known as the live-streaming queen, has already been fined \$210m for not declaring her income. The size of that levy shows the sheer scale of the industry, which accounts for 12% of online sales in China. Outside China, influencers are also likely to have an enduring role in e-commerce. For all firms with brands—and together those brands are worth over \$7trn—it is time to realise that influencing is more than just a

hobby.

The use of personal endorsements used to be about harnessing existing celebrity power. Elizabeth Taylor touted Colgate-Palmolive's shampoo in the 1950s, and Michael Jordan's deal in 1984 with Nike revolutionised both basketball and branding. Influencers turn the logic on its head: selling things helps make them more famous. Through curated feeds of clipped videos and filtered photos they offer recommendations to consumers, mingled with glimpses into their daily lives that give their artifice an aura of authenticity. Sometimes they disclose how they are paid. Often they do not.

Initially dismissed as credulous Gen-Z folk who had mistaken posting selfies for having a job, these entrepreneurs have become a big business, boosted further by the e-commerce surge from the pandemic. Total spending on influencers by brands could reach \$16bn this year. Whereas the number of wannabe influencers outside China is in the millions, an elite of under 100,000 of them who have over 1m followers each get the bulk of revenues and the front seats at fashion shows.

Their staying power suggests that they add value in several ways. They can save money: Elon Musk is an honorary influencer whose raucous online presence lets Tesla do without any conventional advertising (General Motors blew \$3.3bn on it in 2021). Influencers' networks reach new audiences, particularly younger shoppers. Global brands can localise their appeal by cutting deals with them. In China local shopping festivals and style sensibilities matter, so transplanting marketing campaigns from the West does not work. And influencers are technologically proficient in a way that old-style brand ambassadors never were. They are quick to adapt to newer platforms like TikTok and to the ever-changing algorithms of older ones like Instagram.

Yet one-third of brands do not use influencers. They worry about tarnishing their reputation. Having a swarm of freelance advocates is riskier than the command-and-control campaigns of the "Mad Men" era. And the industry is a Wild West, awash with fraud and manipulation.

Despite this, ignoring influencers is a mistake. Their share of digital advertising budgets is still low at perhaps 3%, but it is rising fast. The boundary between entertainment and e-commerce is blurring. And the most popular marketing strategy of the 2010s—ads targeted through Google and Facebook—is under threat as new privacy standards, including on Apple’s iPhone, make it harder to spy on potential customers.

To get the most out of influencers, brands should set a clear strategy. They should expect more regulation on consumer protection: China’s crackdown may also include limits on spending and content rules. The guiding principle should be to use only influencers who disclose to their audiences that their posts are paid. As the Wild West phase ends, brands should also embrace new analytical tools that help them gauge the performance of influencers, sorting the con-artists from the stars. It used to be said that only half of all advertising spending worked, but it was impossible to know which half. Now brands can control only half of what influencers say, but they may be able to calculate 100% of the value they add. ■

Opinion

25 Mar 2022 | 615 words >

Climate crisis

Record-breaking Arctic temperatures: do look up

A heatwave at the north pole and collapsed Antarctic ice shelf are reminders to redouble our efforts, and focus on climate



‘Weather events in the Arctic and Antarctica bring warnings that climate breakdown could be accelerating.’

A heatwave in the Arctic and the collapse of the Conger ice shelf in East Antarctica bring warnings that climate breakdown could be accelerating. There are signs of melting at weather stations near the north pole, with temperatures 30C above normal. In Antarctica, temperatures are 40C up. While the Conger ice shelf is too small to cause significant sea-

level rises, its collapse points to growing instability. These weather events do more than offer proof of the dangers of global heating. They also risk triggering changes that could accelerate the disruption.

When policymakers and the public are focused on war in Ukraine and the rising cost of living, it is hard to be reminded of the existential threat posed by rising temperatures. But the extent to which climate has faded from consciousness in the months since the UN conference in Glasgow is frightening. If we are to avoid the worst effects of global heating, with around half the world's population said by the Intergovernmental Panel on Climate Change (IPCC) to be highly vulnerable, it is imperative to make drastic changes to our global energy system.

Of course, extreme weather at the poles doesn't affect people in the same way as in densely populated areas. But the truth is that even when large populations are harmed, dangerous weather events in poorer countries do not reliably catch and keep international attention. Generally it takes a crisis in a rich, developed nation for western audiences to take notice of what runaway warming could mean: the record-smashing heat dome in the northern US and Canada last summer, for example, or fires and heatwaves in California and Europe.

Even then, we are learning all the time how quickly memories fade, and how hard it is to keep climate at the top of the agenda. The world's political and economic systems were not built to conserve the Earth's atmosphere. Whether our human focus on short-term goals is learned or hardwired, and whether we regard governments, corporations or civilisation itself as responsible for the failure to dismantle our fossil-fuel-powered global system, one fact is known. As long as emissions keep rising, we are failing to prioritise our collective long-term survival.

It's not only at the poles that we see climate disaster unfolding. In the Horn of Africa, conditions are the driest since 1981 and scientists believe the failure of three consecutive rainy seasons has been exacerbated by global heating. Somalia faces the risk of famine, with a million malnourished children. In November, Madagascar's environment minister used

the global stage of Cop26 to link high-carbon western lifestyles with the desperate hardship endured by people in her country due to climate-induced droughts – and the failure of western governments to deliver the climate finance that would pay for a pipeline.

Animals, as well as people, are doing their best to adapt to changing conditions. This week, US scientists revealed research showing that many species of birds are building nests and laying eggs around a month earlier than a century ago. Such adjustments are a vital part of the climate message. Without the hope they offer, that we can find ways to live in changed conditions, the danger is that the prospect becomes too scary, prompting reactions of either avoidance or despair. This was the message of the recent film *Don't Look Up*, with its satirical portrait of a world hellbent on denial as scientists try to warn about an approaching comet.

It's essential to stress that the climate crisis is not a comet that will instantly wipe out civilisation. In April, the IPCC will update its recommendations to governments on how to limit emissions. The shift to green power remains achievable. But time is running out. ■



How to Build a Life

The Happiest People Aren't the Most Successful

If you make happiness your primary goal, you might miss out on the challenges that give life meaning.



In 2007, a group of researchers began testing a concept that seems, at first blush, as if it would never need testing: whether more happiness is always better than less. The researchers asked college students to rate their feelings on a scale from “unhappy” to “very happy” and compared the results with academic (GPA, missed classes) and social (number of close friends, time spent dating) outcomes. Though the “very happy”

participants had the best social lives, they performed worse in school than those who were merely “happy.”

The researchers then examined a data set from another study that rated incoming college freshmen’s “cheerfulness” and tracked their income nearly two decades later. They found that the most cheerful in 1976 were not the highest earners in 1995; that distinction once again went to the second-highest group, which rated their cheerfulness as “above average” but not in the highest 10 percent.

As with everything in life, happiness has its trade-offs. Pursuing happiness to the exclusion of other goals—known as psychological hedonism—is not only an exercise in futility. It may also give you a life that you find you don’t want, one in which you don’t reach your full potential, you’re reluctant to take risks, and you choose fleeting pleasures over challenging experiences that give life meaning.

The way to understand the study above is not to deny that happiness is good; rather, it is to remember that a little bit of unhappiness has benefits. For instance, gloom has been found to aid in problem-solving. The author Emmy Gut argued in 1989 that some depressive symptoms can be a functional response to problems in the environment, leading us to pay appropriate attention and come up with solutions. In other words, when we are sad about something, we may be more likely to fix it. Psychologists call this the “analytical rumination hypothesis,” and it is supported by research.

Obviously, this is not to argue that clinical depression is good—misery can quickly render people incapable of solving problems. Nor am I saying that depression passes a cost-benefit analysis. Rather, the analytical-rumination hypothesis is evidence that getting rid of bad feelings does not necessarily make us more effective in our tasks. And if these emotions can help us assess threats, it stands to reason that too much good feeling can lead us to disregard them. The literature on substance use suggests that this is so: In some people, very high degrees of positive emotion have been connected to dangerous behaviors such as alcohol and drug use and binge eating.

An aversion to unhappiness can lead us to forgo a meaningful life. Indeed, as one group of researchers that surveyed college students in 2018 found, fear of failure is positively correlated with meaning derived from romance, friendship, and (to a lesser extent) family. When I talk with people about their fear of negative outcomes in life, their true source of fear in many cases centers on how they will *feel* about having failed, not about the consequences of the failure itself. This is similar to the way discomfort with uncertainty causes more anxiety than guaranteed bad news. To avoid these bad feelings, people give up all kinds of opportunities that involve the possibility of failure.

But bringing good things into your life, whether love, career success, or something else, usually involves risk. Risk doesn't necessarily make us happy, and a risky life is going to bring disappointment. But it can also bring bigger rewards than a life played safe, as the study of happiness, academic achievement, and income suggests. Those with the highest performance at work and school made decisions that were probably unpleasant at times, and even scary.

None of this is to say that we should shun good feelings, or that we're foolish for wanting to be happy. On the contrary, the desire for happiness is natural and normal. However, making the quest for positive feelings—and the fight to banish negative ones—your highest or only goal is a costly life strategy. Unmitigated happiness is impossible to achieve (in this mortal coil at least), and chasing it can be dangerous and deleterious to our success. But more important, doing so sacrifices many of the elements of a good life. As Paul Bloom, a psychologist and the author of *The Sweet Spot: The Pleasures of Suffering and the Search for Meaning*, has written, "It is the suffering that we choose that affords the most opportunity for pleasure, meaning, and personal growth."

Happiness itself would lose its meaning were it not for the contrast that we inevitably experience with sadness. "Even a happy life cannot be without a measure of darkness," Carl Jung said in an interview in 1960. "The word 'happy' would lose its meaning if it were not balanced by sadness." You can take Jung's words to heart by committing to a regular

practice of gratitude in which you give thanks not only for the things that make you happy but also for the ones that challenge you. It feels unnatural at first, but it will come easier each day.

Some of the most meaningful parts of our lives are a direct result of negative feelings that slipped through, despite our best efforts to block them out. For example, I am the father of three young adults; it was not long ago that my wife and I were going mano a mano with three teenagers. We lost a lot of sleep then, but I wouldn't trade away a moment of those experiences (now that they are safely behind us).

Some people take these lessons to lengths that might seem unimaginable. One is Andrew Solomon, the author of *The Noonday Demon: An Atlas of Depression*. "If one imagines a soul of iron that weathers with grief and rusts with mild depression, then major depression is the startling collapse of a whole structure," he wrote. But as he told an interviewer several years ago, he eventually found a way to love his depression. "I love it because it has forced me to find and cling to joy," he said.

This, in a nutshell, is the paradox of being fully alive. To strive for relentless positivity is to aim for the dimensionality of a Hollywood movie or children's book. So though suffering should never be anyone's goal, each of us can strive for a rich life in which we not only seek the sunshine but fully experience the rain that inevitably falls as well. ■

Finance & economics

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Taxing the wealthy

Before death do us part

The White House wants to close a tax loophole used by the ultra-rich



Most Americans want the government to impose higher taxes on the ultra-rich. Every few months or so Democratic lawmakers unveil plans for doing just that, only to stumble well before enacting them. It is not just that the wealthy can afford powerful lobbyists. The nature of their fortunes also makes them an elusive target for tax authorities. A new proposal by the Biden administration may offer a partial solution, provided it can overcome political and legal hurdles.

The idea, contained in President Joe Biden's new budget proposal on March 28th, is that

Americans worth more than \$100m would pay a minimum tax of 20% on all their income, including, controversially, the appreciation of their investments. If an ultra-rich American makes a paper gain of, say, \$10m on his stock portfolio in a year, he would face a liability of \$2m.

The goal is to close a gaping loophole. Wealthy Americans must pay capital-gains taxes of at least 20% when they sell assets. But when assets are inherited, the price at the time of the transfer forms the new basis for calculating capital gains. In this way the ultra-rich can shrink their tax bills: they owe nothing on unsold assets while alive and their heirs then benefit from the “stepped-up basis” for capital gains. Economists in the Biden administration have calculated that the 400 wealthiest American families pay an average federal income-tax rate of just 8%, far below the rates paid by most in the middle class.

A simple way to close this loophole would be to recognise all capital gains upon inheritance. Indeed that was Mr Biden’s preference in legislation last year. But opponents tarred it as a “death tax” that would bankrupt family farms. Although that charge was unfair—almost all farms would have been below the tax threshold—the Democrats dropped the idea.

The Biden administration dubs the new proposal a “billionaire minimum income tax”. Steve Rosenthal of the Tax Policy Centre, a think-tank, calls this an ingenious rebranding of the stepped-up basis idea. “It would operate like a pre-payment,” he says. Taxes owed at death would be reduced by those paid previously.

The White House reckons the new tax would bring in \$360bn over the next decade, impressive for a levy that hits the wealthiest 0.01% of households. That, however, reflects a windfall for the state when it collects on decades of gains for the likes of Jeff Bezos and Elon Musk. To pay the tax, they may need to sell down stakes in their firms, potentially remaking their ownership structures. The government would cushion the blow by breaking payments into instalments (spread over nine years at first and, later, five years). Once established, the revenues would be slimmer. “The \$360bn estimate makes it look more promising than it really is in the long run,” says Kyle Pomerleau of the American Enterprise

Institute, a think-tank.

There are two immediate obstacles. As with every idea from the Biden White House, the political question is whether Joe Manchin and Kyrsten Sinema, two moderate Democratic senators, support it. They have, for different reasons, opposed previous tax increases. Then there are the courts. The constitution limits the federal government to taxing incomes, not wealth. The White House would argue that accrued capital gains are a form of income, but its proposal would face legal challenges.

Even if Mr Biden were to succeed in shepherding the tax into law, another concern would emerge. The levy would be complex, especially for assets that do not trade in public markets. Lawyers would devise new structures to shelter wealth. “Their pencils are being sharpened even as we speak,” says Joel Slemrod, an economist at the University of Michigan. ■

Business

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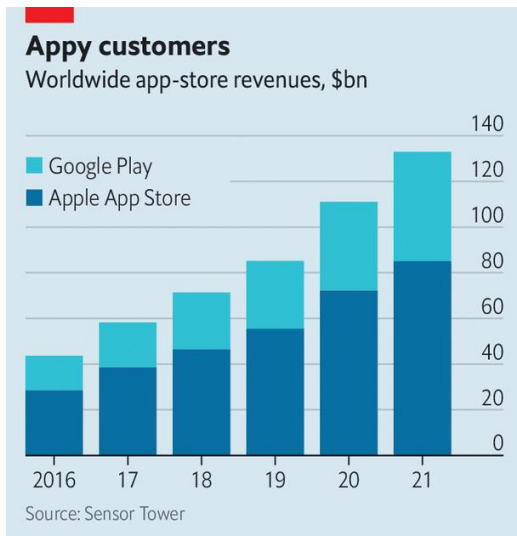
App store fees

Store wars

Laws and litigation threaten a big source of Apple's and Google's profits



What does it take to rein in two of the biggest companies on the planet? A coalition of Swedish music-streamers, South Korean politicians and Dutch dating apps, apparently. They seem to be succeeding where America's federal government has failed: to force changes to the way Apple and Google run their app stores.



The Economist

The app stores are big businesses, with combined sales last year of \$133bn, three times the total five years earlier (see chart). Apple and Google take a cut of up to 30%, which is thought to contribute a fifth of the operating profits at Apple and Alphabet, Google's parent company. The 30% levy began in Apple's iTunes music store and was copied to its iPhone app store, launched in 2008. As people came to use their phones for gaming, streaming and much else, it evolved into a tax on digital activity. Sign up to a

service like Disney+ on your phone and Apple or Google get a cut of your subscription for ever. Apps have had to use the tech duo's payment systems, and could not tell users about other ways to sign up. Gripes from app developers have forced only minor concessions: last year Apple said it would let them link to external payment pages and Google reduced its fees for subscriptions. Now, though, the dam is bursting.

Last summer South Korea banned app stores from forcing developers to use a particular payment system. In December Dutch regulators made a similar ruling against Apple, after a complaint by developers of dating apps. On March 23rd the trend went global. Google announced a deal with Spotify, a vocal critic of app-store fees, to let the music-streamer handle its own billing. Google will lower its commission rate, probably in line with the four-percentage-point cut agreed in South Korea. It says more deals are on the way.

Google's magnanimity anticipates laws that may require bigger concessions. A bill before America's Congress would force app stores to allow payment alternatives and let apps advertise other ways to sign up. A bigger threat comes from the EU's Digital Markets Act (DMA), approved in draft form on March 24th. The colossal bill covers various aspects of digital markets, including app stores. The DMA, which is on track to come into force next year, would force mobile platforms to allow third-party app stores and "sideloading" of apps directly from the web—something Google permits but Apple does not. Offenders face fines of up to 20% of worldwide revenue and bans on acquisitions. Breaking open walled

gardens, the DMA's proponents say, will strengthen competition.

Apple's boss, Tim Cook, has warned that sideloading would "destroy the security of the iPhone". That is a bit much: Apple allows sideloading on its desktop computers without calamity. But Apple's much bigger share of the mobile market could make the iPhone a juicier target for malware. And the company trades heavily on privacy and security. Despite what the authors of the DMA seem to believe, writes Benedict Evans, a tech analyst, you cannot "pass laws against trade-offs". ■