The war in Ukraine

# Send in the jets

### Ukraine's request for F-16s should no longer be ignored

As UKRAINE prepares its forces for a crucial counter-offensive, the argument among its Western allies about what equipment to provide chunters on. Having finally received the tanks it had been pleading for since last year, Ukraine has increased the intensity of its demands for fighter jets. Yet its pleas are falling on largely deaf ears. About 30 former Warsaw Pact MiG-29s are on their way from Poland and Slovakia. But what Ukraine says it needs are the American F-16s that have been the backbone of NATO air forces for much of the past 40 years.

Ukraine is right. The arguments for denying it F-16s are becoming threadbare (see Europe section). At the start of the war, Ukraine had about 125 elderly combat-capable aircraft, of which a little over half were air-superiority fighters. At least 40% of them have since been lost. Russia can still field roughly five times as many fighters as Ukraine started the war with. Nearly all are newer, with longer-range radars and air-to-air missiles.

Even so, Russia has not been able to establish air dominance over Ukraine. That could change. As well as losing planes, Ukraine is running low on the Soviet-era surface-to-air missiles (SAMs) on which its ground-based air defence has mainly depended. It is getting more Western systems, but integration takes time. If flying in Ukraine's airspace becomes less dangerous, Russia could establish air superiority—first over Donbas and then other areas. The chances of Ukrainian land forces retaking territory could evaporate.

Nevertheless, Ukraine's Western backers say that beefing up its ground-based air-defence system is the priority, and that fighter jets would be an expensive distraction. Even if approval were given to supply F-16s, they say, it would be a year before they became mission-capable because of the time required to train Ukrainian pilots and maintenance crews. F-16s need smooth runways that Ukraine lacks. Finally, they argue, Russia would regard the supply of F-16s as a major escalation.

Getting new SAMs into Ukraine is indeed vital. But almost everything else about this excuse for inaction is just that: an excuse. Ukraine has more pilots than planes, so training on F-16s could begin right away, and they could be flying before the end of this year. And much of the servicing of F-16s could initially be carried out in Poland and Romania, both of which use the plane.

Runways are more of a problem. Some aircraft could be damaged by debris. Sweden's Gripen, which requires less maintenance and can take off from short runways and even roads, would be ideal. However, there are relatively few Gripens in Europe—perhaps 126, of which Sweden has about three-quarters (Ukraine reckons Sweden might be able to spare 12 of them, an offer well worth taking if made). That compares with the 4,600 F-16s that have been built since the 1970s.

As to the self-deterring fear of escalation, fighter jets for Ukraine would send a message to Vladimir Putin about the West's long-term commitment. He might respond with possibly deniable physical sabotage or cyber-attacks, but few observers think that deploying F-16s would prompt the Kremlin to start World War III. And Ukraine's air force will have to be recapitalised with new aircraft sooner or later, so why wait? President Volodymyr Zelensky is asking for F-16s because his advisers believe that, without them, Ukraine's skies may fill with Russian bombers. So far they have been better judges of the war than most Western experts. It is past time to listen to them. ■

Reserve currencies

# Heavy lies the crown

### The dollar's dominance is not under threat today. But there are limits to the greenback's power

EVERY SO OFTEN an appetite surges for an alternative reserve currency to the dollar—and a market booms in predictions of the greenback's imminent demise. For nearly three-quarters of a century the dollar has at a global scale dominated trade, finance and the rainy-day reserve portfolios of central banks. Yet high inflation, fractious geopolitics and the sanctions imposed by America and its allies on countries such as Russia have lately caused dollar-doubters to become vocal once again.

Often these episodes are fuelled by a world leader's spasm of anger towards the dollar. In 1965 Valéry Giscard d'Estaing, then France's finance minister, raged against the "exorbitant privilege" the greenback conferred on America. This time it was Luiz Inácio Lula da Silva, Brazil's president, who on a recent visit to China called for emerging markets to trade using their own currencies. At the same time, a surging gold price and a fall in the dollar's share of global reserves has roused other doubters, who can also point to this month's admission by Janet Yellen, America's treasury secretary, that over time using sanctions "could undermine the hegemony" of the currency. It does not help that America could soon face a fiscal crisis if Congress fails to raise the ceiling that limits how much the government can borrow.

Yet the doubters' excitement has become detached from reality. The greenback exerts an almighty gravitational pull on the world economy that has not materially weakened—even if America has recently found that there are real obstacles to exploiting its currency's pre-eminence.

The starting advantage of the dollar is immense. Between a third and a half of global trade is invoiced in dollars, a share that has been relatively stable over the long term. It is involved in nearly 90% of foreign-exchange transactions; such is the liquid- ▸▸

ity of the greenback that if you want to swap euros for Swiss francs, it can be cheaper to trade via dollars than to do so directly. About half of cross-border debt is dollar-denominated. And although the dollar's share of central-bank reserves has fallen over the long term, it still accounts for about 60% of them. There is no sign of a dramatic recent change, save that which has been caused mechanically by central banks revaluing their portfolios to take account of exchange-rate movements and higher interest rates in America.

No other currency is close to matching this ecosystem's size, or its fundamental appeal: the supply of safe assets available to dollar investors. The euro zone is fragile and its sovereign-debt market is mostly fragmented between its member states. China cannot possibly satisfy global demand for safe assets so long as it both tightly controls flows of capital and runs current-account surpluses (meaning it is, on net, accumulating financial claims on the rest of the world rather than vice versa). And the dollar, as the dominant currency, benefits from network effects. People want to use the currency everyone else is using.

What is increasingly clear, though, is that individual countries can circumvent the dominant system if they really want to. Though Russia's war economy has been wounded by sanctions, it has not been crippled, in part because 16% of its exports are now paid for in yuan, up from almost none before it invaded Ukraine (see Briefing).

China's alternative to the SWIFT interbank-messaging system has been growing rapidly. It has also been switching more of its bilateral trade towards settlement in renminbi—an easier task than replacing the dollar in trade flows between other countries. Even many firms in the West now use renminbi for trade with China. New digital-payments technologies and central-bank digital currencies could yet make it easier to move money around the world without involving America.

**Balance of power**

Moreover, Ms Yellen is right that using the dollar to push countries around is no way to make or keep friends. America has not placed secondary sanctions on countries like India which still trade with Russia, because it fears the backlash that would result. Although a shift to a multipolar system of currencies is not imminent, it could occur later this century as America's share of the world economy shrinks. Such a system would be inherently less stable than one centred on the dollar—so it would be in the interests of neither America nor the world to hasten the shift. ■

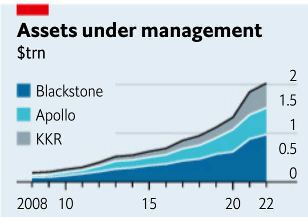
Financial markets

# Private's progress

**Why private markets remain attractive, even in a higher-rate world**

A DECADE OF low interest rates turbocharged a spectacular boom in private markets. As pension funds and other institutional investors hunted for yield after the global financial crisis of 2007-09, they ploughed money into private-markets firms, which in turn invested it across private equity, credit, property and infrastructure. The three biggest listed such firms—Apollo, Blackstone and KKR—manage more than $2trn in assets between them, up from $187bn in 2008.

Now, however, the Federal Reserve has raised rates at its fastest pace in four decades. The reversal has already caused turmoil in the banking industry; as we published this, the share price of First Republic, a lender based in California, had been bludgeoned. What does the new world hold for private markets?




Higher rates, together with a cloudy economic outlook, may well humble private equity (see Finance & economics section). The business of buying, managing and selling heavily indebted firms is more difficult today than at any point during the past decade. Returns look far less attractive now that yields have jumped on fixed-income investments. Private-equity managers could once rely on rising valuations and cheap debt to fuel returns. Now they will have to wring efficiency improvements from the firms they own.

Yet for the private-markets giants, private equity is becoming less of a focus. When Blackstone reported its first-quarter results on April 20th, for instance, the company's credit funds stole the limelight. During the quarter they received a big chunk of inflows from investors, and assets under management in the firm's credit-and-insurance arm now exceed those in private equity. In recent years both Apollo and KKR have acquired big insurers, which in turn are big investors in debt.

As banks shy away from some riskier lending activities, private debt markets are helping fill the gap. When credit markets tightened in 2022 and banks pulled back from financing buy-out deals, private credit stepped in. In time it is likely to pop up in more corners of the credit markets, including property and infrastructure. Last year Apollo struck a deal to buy Credit Suisse's securitised-products business, which lends to other lenders.

For investors, the allure of private markets remains. Those repositioning their portfolios are likely to do so within private markets rather than move away from them. According to a recent survey of institutional investors conducted by BlackRock, an asset manager, 43% were planning to substantially increase their allocations to private equity. This next phase of growth is likely to favour the biggest private funds; they are better placed to attract cash, including from flush sovereign-wealth funds, which are expected to increase their investments in private assets over the next decade.

Private markets are notorious for their opacity. As the private managers grow in size and complexity, and their insurance businesses expand, regulators must be watchful. A significant rise in corporate defaults could also test how judicious a lender private credit has really been.

Nonetheless, regulators have historically welcomed the transfer of risky lending activities from deposit-taking banks to non-bank institutions, with good reason. The process of maturity transformation at banks exposes them to runs, and ordinary depositors to losses. A shift towards private credit, where sophisticated investors bear the risks instead, is preferable. ■