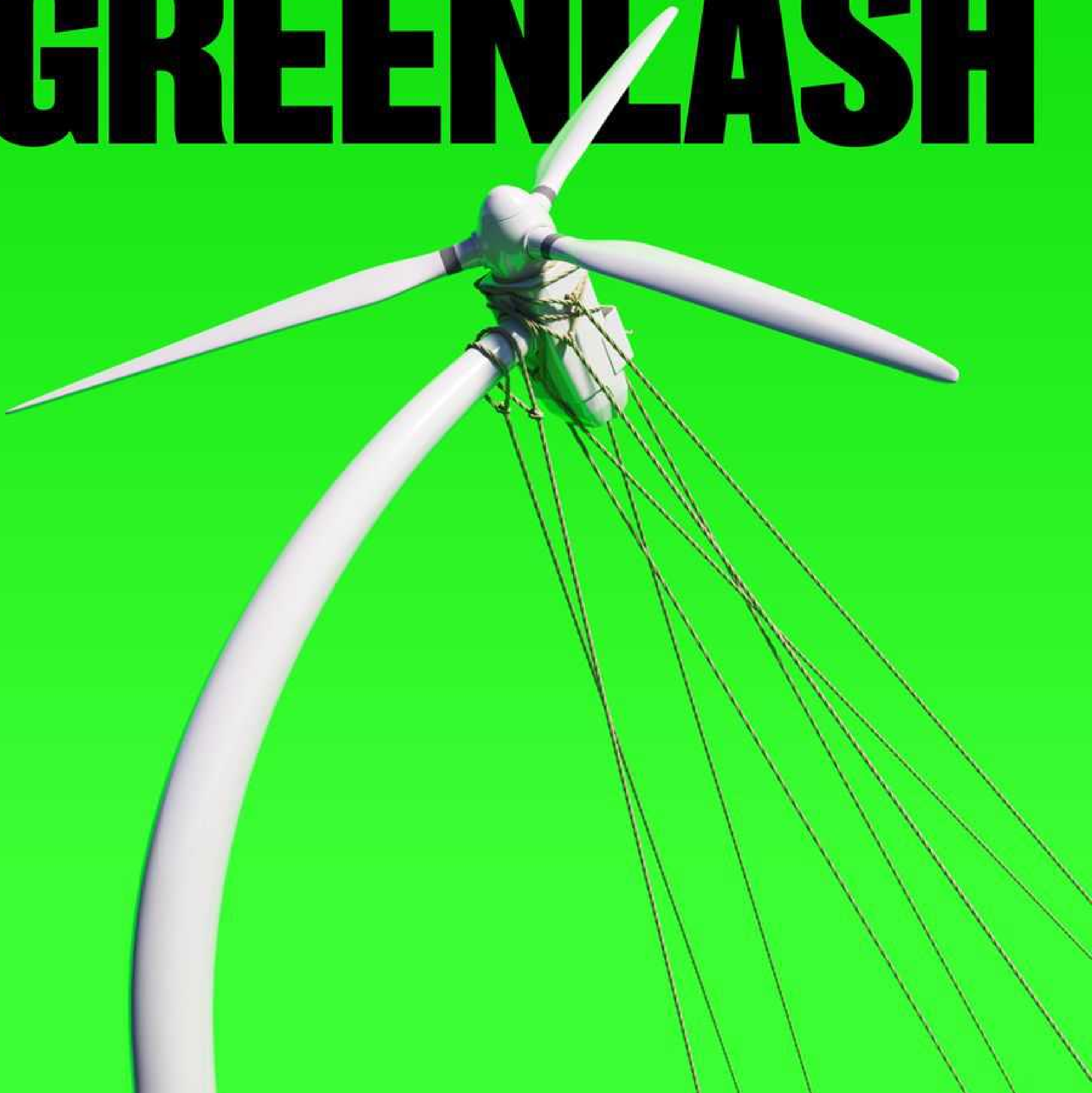
The Economist

AUGUST 2ND–8TH 2025

GREENLASH



August 2nd 2025

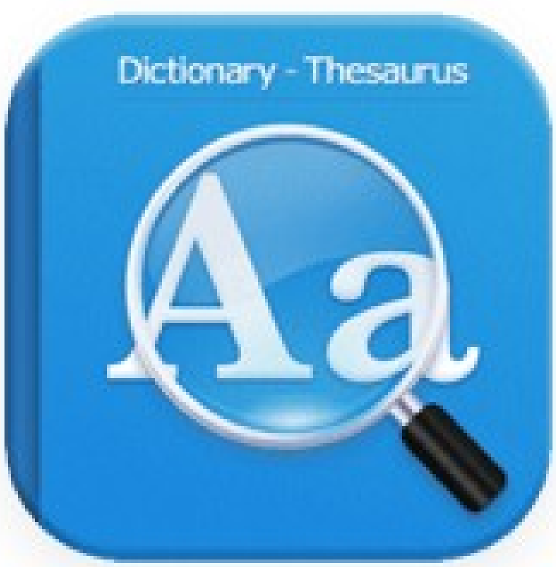
优质App推荐

Duolingo - 快乐、高效学外语，带你玩转听说读写！点击下载

英阅阅读器 - 让您高效阅读英语书，点击查词、句子翻译、背单词、AI大模型等一应俱全！点击下

载

Notability - 高效、便捷的PDF笔记App, 随时记录你的想法! 点击下载



欧路词典 - 英语学习者的必备词典App! Android、iOS、电脑端全平台可用。点击下载

The world this week

The world this week

Politics

July 31st 2025

The world this week

Business

July 31st 2025

The European Union reached a preliminary trade deal with America, which gave Donald Trump most of what he wanted. EU exports to America will be subject to a 15% tariff. Mr Trump had threatened 30%. The 15% duty applies to cars made in the EU, a lower rate than Mr Trump's sectoral levy. Meanwhile, the bloc will eliminate tariffs on American-made vehicles and a range of other goods, including aircraft and chipmaking equipment. The EU also committed to buying more American energy and investing more in the United States. Ursula von der Leyen, the president of the European Commission, insisted the deal was "the best we could get".

Other countries scrambled to reach trade deals with America before an August 1st deadline. An agreement with South Korea leaves it with a 15% tariff on its goods. It had faced a 25% duty.

More companies reported the impacts from tariffs. Mercedes-Benz blamed the duties for a decline in sales in North America and Asia in the first half of 2025, year on year. Taking the EU trade deal into account, it now expects sales for the full year to be "significantly below" last year's. Ford ran up $800m in tariff costs in the second quarter and swung to a net loss. And Procter & Gamble said trade levies would cost it $1bn, and that it would have to raise prices across a range of consumer goods.

The Federal Reserve kept its benchmark interest rate on hold, at a range of between 4.25% and 4.5%. The central bank said that inflation remained "somewhat elevated", but recognised that growth had "moderated", possibly signalling a future rate cut. For the first time since 1993, two governors dissented from their colleagues and voted for a cut.

The Bank of Japan left its key interest rate unchanged, at 0.5%, but raised its forecast for inflation.

Microsoft's net profit soared by 24% in the second quarter, year on year, to $27.2bn, as revenue from its data centres surged. The company announced even more investments in AI. And Meta's stock shot up after it reported solid earnings. "Superintelligence" is going to improve every aspect of the business, said Mark Zuckerberg.

Tesla signed a $16.5bn deal with Samsung for the South Korean company to supply it with chips from its factory in Texas. Samsung will make Tesla's next-generation A16 chips for use in autonomous cars and robots, though production is still years away.

America's economy grew by 3% in annualised terms during the second quarter, a better showing than most economists had expected. A drop in investment was offset by an increase in consumer spending, among other things, said the Bureau of Economic Analysis. Separate data showed the trade deficit in goods narrowing to its lowest level in two years in June, as imports fell sharply.

The IMF raised its forecast of GDP growth for the world economy this year to 3%, from the 2.8% it projected in April. That is partly because America's tariff increases have not been as big as threatened on Mr Trump's "Liberation Day". A weaker dollar has also cushioned the blow for many countries. America's economy is now forecast to grow by 1.9%, up slightly from April's estimate, and China's by 4.8%, up from 4% in April.

America could get its first-ever rail operator to transport goods seamlessly from coast to coast. Union Pacific, which carries freight in the west of the US, agreed to buy Norfolk Southern, which operates in the east, creating a transcontinental company worth $250bn. The deal will attract intense scrutiny from regulators, and could be blown off track by objections from unions and other interested parties.

Novo Nordisk, which makes the Ozempic and Wegovy weight-loss treatments, issued a profit warning for the year amid increasing competition in the American market from compounded versions of the drugs and from Eli Lilly's rival remedies. Its share price sank by almost 30%. The company appointed a new chief executive, Maziar Mike Doustdar, though that did little to allay investors' concerns about its growth prospects. Parvus Asset Management, an activist hedge fund, is reported to be building a stake in the Danish firm.

Renault also got a new chief executive. François Provost was the surprise choice to succeed Luca de Meo, who has left to run Kering, a luxury-goods company.

There was some evidence that the efforts by Boeing's chief executive, Kelly Ortberg, to turn round the business were gaining traction. The company's cash burn, the rate at which it spends cash reserves or capital to fund operations, slowed to almost nothing in the second quarter and it recorded a smaller net loss than Wall Street had expected. Boeing's delivery of 280 aircraft in the first six months of 2025 was the most in a first half since 2018.

America's Federal Communications Commission approved Skydance Media's acquisition of Paramount Global, ending the takeover's lengthy legal saga. The transaction is expected to close within weeks.

The world this week

The weekly cartoon

July 31st 2025

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

[What opponents of the EU-US trade deal get wrong]

[The trade deal with America shows the limits of the EU's power]

[Who's feeling the pain of Trump's tariffs?]

The editorial cartoon appears weekly in The Economist. You can see last week's here.

Leaders

Leaders | Greenlash

The climate needs a politics of the possible

To win voters' consent, policymakers must offer pragmatism and hope

July 31st 2025

Curbing climate change was never going to be easy. The fundamental energy balance of a planet cannot be changed overnight; nor can a fossil-fuel-based economy that serves billions of people be replaced without furious political objections. But today the problem looks particularly hard.

On July 29th, continuing President Donald Trump's gutting of efforts to reduce emissions, America's Environmental Protection Agency said it would renounce its main authority to regulate greenhouse gases. That goes along with his reckless attacks on climate science. In Europe the war in Ukraine has spurred growth in defence budgets, squeezing spending on green policies, which also face renewed political opposition . Some voters think the cost of cutting emissions is too high, or should fall on others. In poor countries, which have historically emitted far less than rich ones, many resent green policies they see as foreign and heedless of the desperate local need for energy. Sensing the political winds, big global firms have gone quiet about greenery, though many still pursue it.

None of this deprives the world of its technical ability to decarbonise a great deal of its economy; on that score things have never looked better. The cost of clean energy is tumbling, as the demand for it continues to grow.

The problem is politics. Many people do not believe that the strict "net zero" targets to which some governments have tied their climate policies are in their interest—or that they will bring benefits to anyone else. Some think they are being taken for chumps, paying good money to meet bad targets while businesses and people elsewhere are belching out carbon, chuckling as they do so. Seeing an ever-more-powerful China emitting more than Europe and America combined makes resentful Western voters seethe.

The scientific rationale for net zero is strong. An end to warming requires the level of greenhouse gases in the atmosphere to stop increasing. That means either a world with no such emissions or one which takes as much greenhouse gas out of the atmosphere as it puts in (the "net" in net zero). The logic is inescapable. The political rationale is clear, too. Saying you will hit net zero by a certain date is a definite goal, easily articulated. Hard, ambitious targets have advantages: you never know for sure what can be done until you try.

However, reaching net zero in the nearish future would require emission cuts to be quick, deep—and painful. For countries which have not yet seen any decline in emissions—which, worldwide, is most of them—the steepest cuts would have to come very early. In many cases such scenarios are barely physically imaginable, let alone politically feasible.

If a target is so hard that it cannot win consent, then it needs to be changed. But how? For rich countries to abandon stringent net-zero targets outright would demoralise greens, energise climate nihilists and make sensible reforms harder. Better to find ways to ease them into the "more of a guideline" category. There will be resistance from those who believe that all problems can be solved by “more political will”, but as a famously iron-willed German once said, politics is the art of the possible.

Some politicians get it. Mark Carney, Canada’s prime minister and an economist, understands that, in many situations, the most efficient way to reduce greenhouse-gas emissions is to tax them. But many voters hate such taxes, so he has been quick to rescind the aspects of Canada’s carbon-pricing scheme that affect them directly.

Instead of charging for pollution, many governments have subsidised its avoidance. Some subsidies have borne fruit. Extra demand has driven the virtuous cycle of larger volumes and lower prices that have seen wind, solar and batteries become more available and cheaper. Costs are now so low that unstimulated demand will drive them even lower. That more or less guarantees a growing amount of decarbonisation come what may. Even post-Big-Beautiful-Bill America will see its emissions shrink, albeit more slowly than they could have.

Nonetheless subsidies still distort markets and reduce emissions less cheaply than a carbon price normally would. So it makes sense to charge for emissions when it is politically feasible (for example, when it does not affect voters directly). Governments should also scrap the many subsidies that harm the climate, such as those still applied to fossil fuels.

They should try harder to reduce the pain inflicted when decarbonisation involves lots of ordinary people. Do not bully them into buying heat pumps when there are too few technicians to install them. Make switching to an electric car easier by building charging infrastructure and letting in cheap imports from China. Apply the same pain-reducing logic to adaptation. Marine Le Pen, the leading French populist, struck a chord when she complained that France’s elite had air conditioning but its masses did not.

America will play an unusual role so long as Mr Trump is in charge: as a cautionary tale. Some promising clean-energy technologies, such as advanced geothermal and possibly even fusion, now have bipartisan support. But Mr Trump’s war on climate action will leave the country worse off. At a time of rising energy demand, some of it needed to power artificial intelligence—a national-security priority—prices will rise. Efforts to establish an American renewables industry to rival China's will wither.

Voters everywhere prefer cleanliness to pollution and a future in which they can thrive to one that looks dangerous. Those are more potent rallying cries than an abstract target. Stories that make people feel they are participating in progress still play well. The idea of not being subject to swings in fossil-fuel prices is attractive, too. "The art of the possible" may sound flat. But a politics of new possibilities could put climate policy on a more sustainable footing, as well as offering hope. That is what those fighting climate change need to offer. ■

For subscribers only: to see how we design each week's cover, sign up to our weekly Cover Story newsletter.

Leaders | Transatlantic trade truths

What opponents of the EU-US trade deal get wrong

Internal reform matters more than external trade

July 31st 2025

The critics were quick to jump in. Soon after the European Commission struck its trade deal with President Donald Trump on July 27th, it was being savaged in European capitals. François Bayrou, the French prime minister, called it a "dark day when an alliance of free peoples, united to affirm their values and defend their interests, resolves to submit". Friedrich Merz, Germany's chancellor, worried about "severe damage" to the German economy. Viktor Orban, Hungary's populist leader, twisted the knife, saying that Mr Trump "ate Ursula von der Leyen for breakfast".

The deal is certainly unlike any other the EU has struck before. Exports to America will face a tariff of 15%, lower than the 30% that had been threatened had no deal been struck, but nearly ten times as high as the rate that prevailed before Mr Trump returned to the White House. In turn, the eu will eliminate its own tariffs on imports of American industrial goods, and provide easier access for some farm produce. The bloc is also expected to buy more energy from America, and invest hundreds of billions across the Atlantic. For those who see trade as a zero-sum game in which deficits are for losers and exporters are winners, the EU got fleeced.

The naysayers are misguided, however. Unfortunately, Mr Trump's love of tariffs means the old days of low duties are not coming back while he is in power. And the deal is not as catastrophic as its critics claim. The EU has secured similar terms to Japan's, so its relative trading position remains the same. Cars made in Europe will no longer face higher, sectoral duties. And the EU has not had to surrender its plans to regulate digital services, which mainly hit America's tech giants.

Some bemoan the asymmetry of the deal; that European manufacturers face tariffs, while Americans gain market access. But trade is not a zero-sum game. European consumers will benefit from greater choice and lower prices, whereas the bulk of the tariff cost will be borne by American businesses and shoppers, even if some foreign firms do cut their prices.

Last, the broader geopolitical context meant that escalation was never an attractive option for the EU. If trade were the only thing on the agenda, the bloc could have better afforded to hit back, in the hope of forcing America to relent. But "it is [also] about security, it is about Ukraine," Maros Sefcovic, the EU's trade commissioner, has said about the negotiations. Because Europe has for decades outsourced its security to America, it needed to offer trade terms that would keep a mercurial president happy and willing to stay engaged in Europe.

The EU's critics ignore the fact that its problems run deeper than a single trade deal. The economy badly needs reform, innovation and investment, as Mario Draghi, a former head of the European Central Bank, laid out in a colossal report in 2024. Mr Trump's 15% transatlantic tariff pales in comparison with the cost of internal trade frictions; the IMF reckons barriers within the eu amount to a staggering 44% tariff on goods and 110% on services. Europe's capital markets are too shallow and fragmented to fund risky, innovative ideas. And the continent is far from adding the extra investments needed to close the productivity gap.

Rather than focusing on what America is doing wrong, the EU should look closer to home. Member states are stymieing reform. Germany is loth to boost its own capital markets, let alone integrate capital markets across Europe. France is the biggest obstacle to making more trade deals that would help diversify exporters' markets. Almost a year since the Draghi report, barely any of its recommendations have been acted on. Damaging as a trade war would have been, it might at least have shaken politicians out of their torpor. Instead of pointing fingers, the critics should roll up their sleeves. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

Leaders | Block off the old chips

America is easing chip-export controls at exactly the wrong time

The ban on sales to China was working, and should be kept in place

July 31st 2025

In the six months since China stunned the world with DeepSeek, its progress in artificial intelligence (AI) has continued to impress. In July alone three labs unveiled top-flight ai models, matching and in some cases even beating America’s best. The bosses of America’s leading modelmakers say that advanced ai, able to outperform the average human at all cognitive tasks, could be just a few years away. The race is not just commercial, but geopolitical: the country that gets to superintelligence first would enjoy mighty military advantages, too.

This is the backdrop against which the Trump administration has abruptly changed its mind on the export of America’s world-beating ai chips to

China. In April it blocked the sales of Nvidia's h20 chips to the People's Republic. On July 14th the firm said it had been given permission to resume them. The U-turn came shortly after a meeting at the White House between President Donald Trump and the boss of Nvidia, Jensen Huang. Nvidia is the world's most valuable company, and its fortunes move markets. To a president who views the S&P 500 as a personal approval tracker, that may give it sway that other firms lack. But even without the grubby optics, the decision is a grave mistake at the worst possible time.

That is because as impressive as Chinese models have been, America's chip controls were clearly working. When Nvidia devised the h20 to comply with an earlier set of rules, it inadvertently created a chip that was hobbled for training new AI models, but perfect for running them—a process called inference. Since exports of the H20 were banned in April, even the Chinese labs that had overcome the shortage of training chips to produce world-class AI models have been unable to access enough computing capacity to offer those models to paying customers. They have had to resort to relying on outsourced hosting, and making the most of the limited quantity of AI chips produced by Huawei and other Chinese hardware firms. But the trend seems clear: without H20s, Chinese companies cannot keep up with demand.

And as AI adoption increases, having enough capacity for inference will become ever more important, making export controls even more potent. America's ban on the export of H20s, in short, has impeded China's progress in AI. It seems perverse for America, engaged in an arms race with China, to give up this advantage.

Moreover, rapid progress in AI argues for restricting chip sales now, even if that ends up boosting China's hardware industry in the longer term. There is no question that blocking Chinese firms' access to foreign inputs has stimulated demand for Chinese alternatives. It has turbo-charged innovation and the development of an alternative ecosystem in a way that even President Xi Jinping and his deep pockets could not manage. China's domestic chipmakers remain years behind the industry's cutting edge, but export controls have strengthened their commercial incentive to catch up. America thus faces a trade-off: it can limit China's AI software industry today at the expense of emboldening its AI hardware industry in the longer term, or vice versa.

Mr Trump's ai adviser, David Sacks, says allowing chip exports will make China dependent on America's technology ecosystem, and discourage it from developing its own. The more Chinese firms use Nvidia's chips, goes the argument, the harder it will be for Huawei and other local firms to develop a commercially viable alternative. America's commerce secretary says he wants China to be "addicted" to American chips.

Yet given the stakes of the AI race, the risk that China's hardware supply chain will be strengthened in the long run is worth taking. The fiendish complexity of chipmaking means catching up will take many years. And if there is even a small chance that the time-frame for AI development suggested by America's AI leaders is correct, the race for superintelligence may have been won by 2030. Accordingly, America should do everything it can to win that race in the short term, even if that means it fails to hamper the development of China's hardware industry in the longer term.

When it comes to many of the ingredients of artificial intelligence, China measures up well against America. It has deep reservoirs of talent, data and capital, and plenty of power-generating capacity. Chips, however, are its Achilles heel. As artificial-intelligence models wow the world, and even bigger advances loom on the horizon, it is foolish for America to give its main geopolitical rival any assistance. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

Leaders | Just passing time

Spain’s scandal-plagued prime minister should step down

Pedro Sánchez needs to let his country’s democracy renew itself

July 31st 2025

Spaniards SEEM to be doing well these days, especially compared with some of their neighbours. Since 2022 growth in their economy has far outpaced that of the euro area as a whole. Unemployment, though still over 10%, is at its lowest since 2008. And this is despite a sharp rise in the minimum wage since Pedro Sánchez, a Socialist, became prime minister in 2018. Mr Sánchez has passed a useful labour reform, strengthened the welfare state, welcomed immigrants and taken the European lead in recognising a Palestinian state. His supporters see him as a last bastion of social democracy against the hard right. Despite leading a minority government, Mr Sánchez has kept the country ticking over pretty well.

Until now. The prime minister emerged weaker from a snap election he called two years ago, at which the mainstream conservative People's Party (PP) won the most votes. He clung on in the Moncloa Palace because his motley crew of allies—the hard left, as well as Catalan and Basque nationalists—preferred him to voting with Vox, a hard-right outfit. But he has paid a price for their increasingly unreliable support.

In the past few weeks Mr Sánchez has also been badly hurt by a corruption scandal. The two men he picked to run the Socialist Party for him since 2018 both now face trial for taking bribes on public contracts (which they deny). Recordings indicate that one of them hired prostitutes together with an associate—hypocritical in a party that proposes to ban prostitution. On Mr Sánchez's orders, the two party leaders ruthlessly sidelined internal critics. That means he has no one else to blame.

Polls show that Spaniards are more disillusioned with their politicians than any other Europeans, apart from Bulgarians, Greeks and Slovenes. Mr Sánchez has repeatedly apologised for his aides' transgressions. But that is not enough. To restore faith in Spanish democracy, the prime minister should take responsibility and step down. There is no good reason for him to stay on. Spain's economic growth predates him and owes rather less to his reforms than to those of his conservative predecessor, Mariano Rajoy. It would continue after him. He has placed political lackeys in supposedly independent institutions. He has not managed to pass a budget since 2023.

It is now Mr Sánchez's allies, not his party, who set the agenda. He is ever more vulnerable to their policy blackmail. The only weighty legislation passed in the current parliament was an amnesty for those involved with an illegal attempt by Catalan separatists to secede from Spain. This has damaged the credibility of democratic politics: Mr Sánchez opposed it as unconstitutional until he needed Catalan nationalist votes to stay in office. Spain's NATO partners reluctantly agreed to let the country raise defence spending to just 2.1% of GDP rather than 3.5% like the rest, but Mr Sánchez has not dared seek parliamentary approval even for this, since the hard left would vote against it. A bill that would give the government-appointed public prosecutor, instead of judges, control over the judicial police looks to critics like an attempt to shut down investigations into his circle. Another illadvised bill seeks to impose a 37.5-hour week, with no loss of pay, on all businesses.

Mr Sánchez came to office thanks to a censure motion against Mr Rajoy after courts condemned PP politicians for corruption. That he has not yet fallen in the same way owes everything to Vox: other parties fear that voting the PP into office would mean a government backed by the xenophobic populists of the hard right. Yet that need not be the case.

There are two other ways Spain's paralysis could end. One would be for Mr Sánchez to call a party congress and hand over leadership to a party elder. The prime minister has made confrontation with the PP, as well as Vox, his method of government; a different leader could seek a constructive relationship with the moderate opposition. The second route would be an early election. Mr Sánchez would probably lose it. But two more years of ineffectual gamesmanship will only further tarnish the positive aspects of his legacy. The prime minister should use his summer holiday to ponder the interests of his party and his country, and act accordingly. ■

Leaders | Bad protocol

The world needs a better way to share genetic information

That will involve a wholesale rethink of the Nagoya protocol

July 31st 2025

Biology is in the middle of a transformation. Over the past five years new sequencing techniques have made it much easier and cheaper to read long strands of dna, allowing scientists to record gapless genomes with much less uncertainty than before. Scientists are keen to put these capabilities to good use. One ambitious proposal is the Earth Biogenome Project, a moonshot idea to sequence all the planet's eukaryotic life—that is, all plants, animals, fungi and so forth . This would help scientists uncover the hidden handiwork of evolution, monitor how endangered species respond to global warming, and mine genomes for useful biological compounds, such as new antibiotics.

Unfortunately, the project faces big obstacles. One is the Nagoya protocol, which was supposed to make the biosciences fairer and more efficient. In force since 2014, the protocol asserts countries' sovereign right to negotiate access to genetic resources on their land. Although well-intentioned, it has made sharing biological samples across borders harder, and has not generated benefits for biodiverse countries, many of them poor. It should be scrapped, and replaced with something better.

Sequencing is not the only work being hampered by the protocol's red tape. Microbiological research, especially on pathogenic bacteria and viral strains, has often been obstructed, too. Brazilian researchers working under Nagoya-like rules were prevented from sharing samples of the Zika virus during an outbreak in 2016. Likewise with the MERS virus in Saudi Arabia in 2013 (when some Nagoya principles were already in place, under the Convention on Biological Diversity (CBD), of which the protocol is an offshoot). This has slowed vital research, including on vaccines.

The idea behind the protocol is a noble one. It sought to enable countries to share in the benefits generated from their genetic resources, and to ensure that stewards of biodiversity would not be relied upon for their work and knowledge without proper compensation. The intent was to protect poor countries, in particular, from being exploited by researchers and businesses from the rich world. But the protocol has not only failed to achieve its aims, it has been counterproductive.

Rather than helping biodiverse countries get their due, it is more often imposing a burden on them. As of 2023, more than 80% of countries that have ratified the protocol had yet to issue a single permit, meaning that those countries have received no benefit, monetary or otherwise. Many have no adequate processes in place to facilitate permits; in other places, local scientists seeking permits describe needing to know people if they are to find their way around countries' systems.

As a consequence, foreign researchers have at times pulled back from collaborating with colleagues in poor countries. After years of delay, the Wellcome Sanger Institute in Britain has had to reallocate funds from some projects with scientists in countries that have ratified the protocol to projects in countries that have not.

Countries are entitled to make their own laws, but the current framework is complex and unworkable. That is not just a bad deal for countries providing samples. The world at large is forgoing the benefits of research when biodiversity is under huge pressure, the threat of pandemics looms large and biology at last has the tools to make important progress.

That is why the protocol needs to make way for a better system. One might draw inspiration from another offshoot of the CBD, called the Cali Fund. This will create a financial mechanism for companies to pay for genomic sequences (rather than samples). Like copyright collection societies, it will allow data to be shared easily through online databases, in exchange for payment into a central fund responsible for compensating sequence-providing countries.

A similar system for sharing physical samples could lessen the administrative burden on the poorest countries by removing the need for permits and enabling collaboration. If some of the money that was generated went towards building technical capacity in poor countries, they could more easily take part in international research on an equal footing. That would create value not just for the planet's myriad creatures, but for fledgling scientific communities everywhere. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

Leaders | The What For declaration

In recognising Palestine, Britain and France won't advance peace

They could even set it back

July 31st 2025

GAZA IS IN the grip of an incipient famine, amid a futile war that neither Hamas nor Israel appears ready to end. In an attempt to highlight the suffering of the Palestinians, stop the fighting and save the idea of two countries for two peoples, Britain and France have in recent days both taken decisive steps towards the recognition of a Palestinian state. The Economist wholeheartedly shares those aims, but we doubt that recognition will further them—indeed, we worry that recognition on the terms set out by Britain and France could get in the way.

France moved first on July 24th when its president, Emmanuel Macron, announced that he will recognise Palestine at the UN General Assembly in

September. Five days later Britain's prime minister, Sir Keir Starmer, said that Britain would follow suit, but added that he would hold back if Israel stopped the war, clearly committed itself to a two-state solution and pledged not to annex Palestinian territory in Gaza or the West Bank. Those demands are unlikely to be met, meaning that Britain, too, is likely to go ahead.

It is easy to depict this as virtue-signalling by unpopular leaders keen to curry favour at home. Mr Macron has lost much of his domestic authority. Sir Keir is losing control over his own party, which is strongly pro-Palestinian, with grave implications for the rest of his term in office. Despite this, France's president and Britain's prime minister deserve to be taken at face value. The chief test of their announcements, in other words, is whether recognition is likely to advance their aims in the Middle East.

One answer, put forward by President Donald Trump, is that recognition is simply irrelevant. He scoffed that Mr Macron's pledge "doesn't carry any weight". You can see what he means. Given that 147 of the 193 members of the UN already recognise a Palestinian state, two more are unlikely to make much difference.

However, although Britain and France no longer matter as they used to, they still count for something—which is one reason Israel's government has reacted angrily to their change in policy. As permanent members of the UN Security Council and members of the G7, they are keen to sway other countries that are considering recognition. And sure enough on July 30th, Canada said it would also recognise Palestine in September, subject to some conditions. Britain has an added historical role because, in the Balfour declaration issued in 1917, it acknowledged the need for a Jewish homeland and promised to help to bring one into being. To the extent that either country has any influence even at the margin, they should surely use it—or what is influence for?

The argument for acting now is that the Israeli government, under its prime minister, Binyamin Netanyahu, will be shocked into realising that his country is losing the support of even long-term allies. Britain and France cannot compel Israel to change course, but in order to avoid becoming a pariah, Mr Netanyahu may sue for peace. Because America is not pressing Israel forcefully enough, Europe's two main diplomatic powers must step in.

It is a weak foundation on which to rest Middle East policy. For one thing, Mr Netanyahu and his ministers are more likely to dig in their heels than suddenly give ground. Many of them assess, correctly, that European governments will condemn them whatever they do. Yielding to demands today will only lead to more tomorrow. Some in Israel have concluded that they should do whatever they want now, despite criticism from abroad, and try to rebuild relations later. If Israel has already paid the—albeit small—price of recognition, Mr Netanyahu and his government may if anything become more extreme.

The other problem is that, if talks about two states begin again under a new Israeli prime minister, both sides will need to make concessions to bring them to a successful conclusion. Yet using recognition as leverage over Israel today means that Britain and France have deprived themselves of leverage over the Palestinian side tomorrow.

That is not a trivial thing to surrender, because the two-state deal will face many obstacles, including the details over territory and security. Unfortunately, Mahmoud Abbas, the president of the Palestinian Authority, looks unlikely to give ground willingly. He only recently denounced Hamas's murderous attacks of October 7th 2023 for the first time. He has repeatedly failed to hold elections and lacks the legitimacy to speak for Palestinians as a whole.

In the immediate future, that same logic confounds Sir Keir's wheeze to make recognition of Palestine a threat rather than a promise. The prime minister says that he is acting now because he is determined to end the fighting in Gaza and, at the margin, he may be able to exert some influence over Israel. But he has not threatened to withhold support for recognition if Hamas refuses to release hostages or to end the war. That potential reward gives Hamas an incentive to block a ceasefire until after the UN General Assembly in September. Yet once Hamas has pocketed Britain's prize, Sir Keir will have lost his leverage over Israel. It is a self-defeating policy that fails on its own terms, even supposing Israel is susceptible to pressure.

The truth is that Britain and France have most influence over Israel indirectly, through Mr Trump. He is the only leader who can press Mr Netanyahu into the ceasefire he says he wants; America is essential for keeping alive the prospect of lasting peace. Alas, by moving to recognise a Palestinian state, Britain and France have lost influence with him, too. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

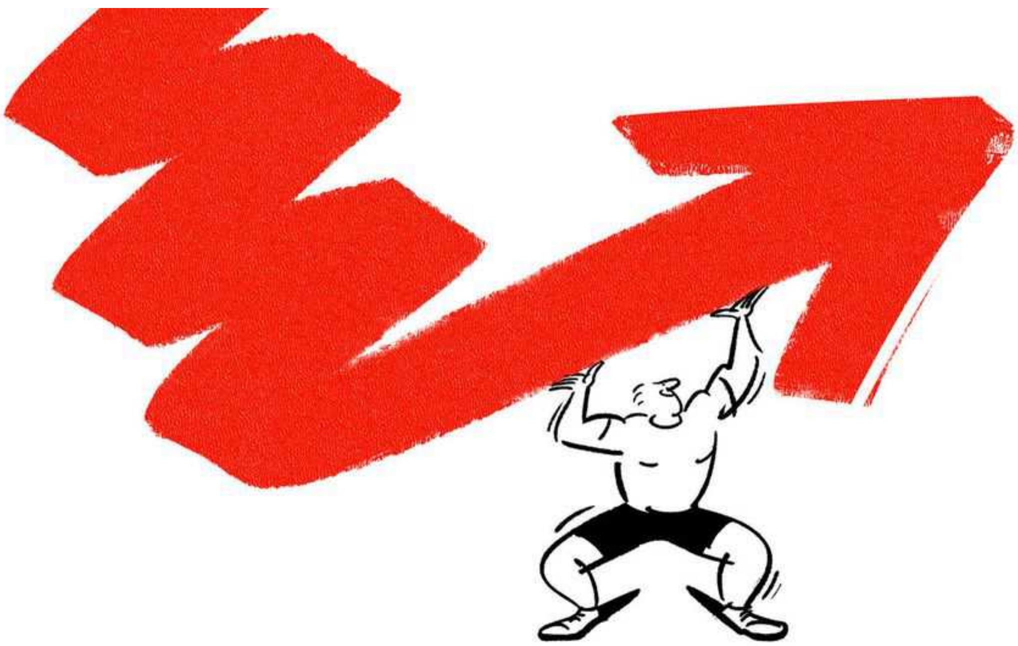
Letters

Letters | A selection of correspondence

The consequences of age-related testosterone decline in men

Also this week, Chris Wright, academic pay, UAE foreign policy, cameras, ice cream, brand manipulation

July 31st 2025



By Invitation

By Invitation | Trashing climate science

Donald Trump’s war on climate science has staggering implications

Even a policy of “drill, baby, drill” would imply more climate research, not its evisceration, says Ralph Keeling

July 31st 2025

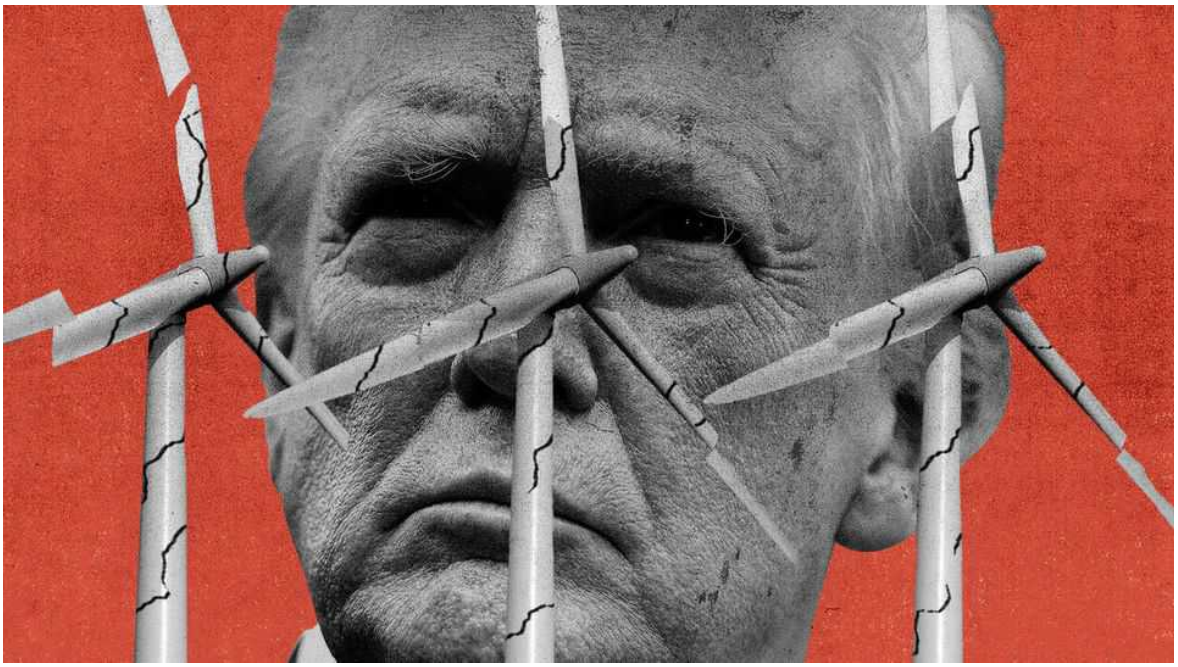
Briefing

Briefing | Big, beautiful, bonkers (cont.)

Donald Trump’s war on renewables

A not-quite-total eclipse of the solar

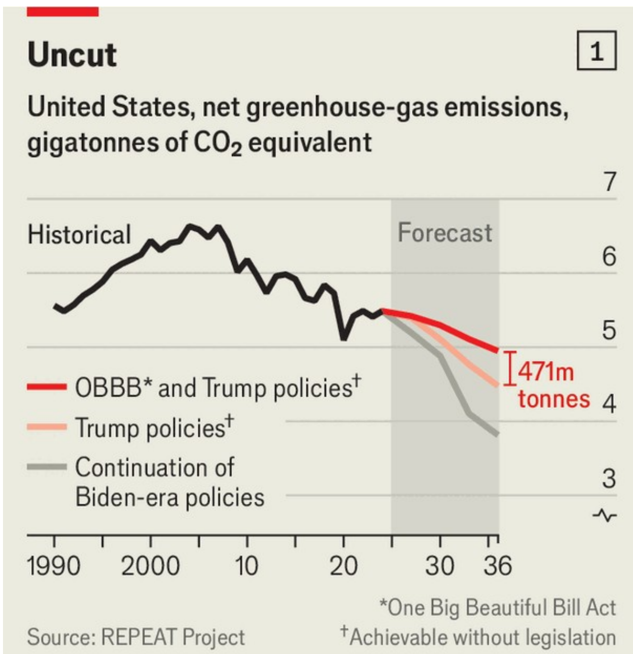
July 31st 2025



TAG ALONG with Mary Powell on a field visit to San Jose, California, and you might think you are looking at the bright future of clean energy in America. Sunrun, the residential solar firm she heads, helps consumers manage energy services in 22 states. One of her California customers, a hard-nosed engineer in Silicon Valley, shows off solar panels and batteries leased from Sunrun. A greater attraction for him than greenery, he says, is that the kit keeps his lights on during outages: and it works out cheaper than getting power from the local utility.

Sunrun’s “solar as a service” customers get cheap electricity in return for letting the company install solar panels and batteries on their property. By networking those systems together into “virtual powerplants” the company can also sell power to local grids at times when they need it most; it says it has helped forestall blackouts in states and territories including California, New York and Puerto Rico.

The company exemplifies the potential of solar energy. Solar panels have become cheap—very cheap, when the tax credits offered by the Inflation Reduction Act (IRA) of 2022 are included—and easily installed. That is why they accounted for over three-fifths of new-electricity-capacity installation in America in 2024. But they offer more than that. Coupled with ever cheaper batteries, they are also spurring the development of new business models which could help bring wholesale change to the energy system.



The One Big Beautiful Bill (OBBB) signed into law on July 4th is an attempt to stop all that. It is not as bad for the solar sector as it might have been. A tax specifically aimed at solar and wind introduced by Senate Republicans did not make it into the final bill, and the IRA's tax credits for solar, wind, "green" hydrogen and associated manufacturing investments are being phased out by 2027-28, not killed immediately. Its shortest-term effects are now the removal of tax credits for buying and using electric vehicles (EVs). These will end in September—bad news for, among others, the companies that took advantage of the IRA's tax credits to invest in the EV supply chain.

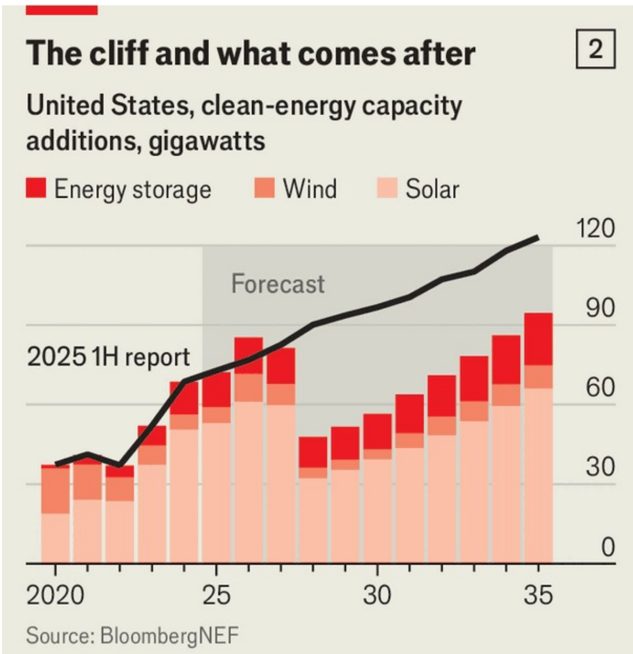
On top of this the OBBB provides new largesse to fossil-fuel firms, making it easier and cheaper to drill on federal land and expanding the area of such land available—though the question of how much, if at all, they make use of these options will be decided by prices in the global oil and gas markets. Car makers that were buying credits from EV makers to improve their fleet-efficiency figures will no longer need to do so, because the relevant regulations will no longer be enforced.

Researchers at Princeton University reckon that under the OBBB America's greenhouse-gas emissions in 2035 will be 470m tonnes of carbon-dioxide equivalent above what they might otherwise have been under President Donald Trump's policies (see chart 1). The Rhodium Group, a research company, has a similar number for the excess: 315m-574m tonnes. At the low end that is a bit larger than Britain's carbon-dioxide emissions in 2023; at the top end, a tad less than Germany's. When the Princeton researchers add in the effect of policies Mr Trump can enact without legislation—such as ending greenhouse-gas regulation by the EPA and scrapping both fuel-economy standards for motor vehicles and energy-efficiency rules for industry—the excess emissions in 2035 compared with those that could have been expected under the IRA reach 1bn tonnes or more.

Does the OBBB sound the death knell for the transition away from fossil fuels? No. Enthusiasts for green energy whose horizons are broader than just wind and solar can see grounds for optimism: nuclear and geothermal energy keep their IRA benefits. More controversially, so do schemes to remove carbon dioxide from the atmosphere. Some such "direct-air capture" is necessary for any net-zero endgame; it provides the negative emissions with which to net out the hardest real emissions to abate. At the same time it is tellingly popular with the fossil-fuel industry, which wants to use the carbon dioxide some such schemes produce to squeeze more oil out of ageing wells.

What is more, America needs electricity. Demand is rising quickly, and the titanic amounts of power some AI boosters see as crucial to their transformation of the world could see the rise increase sharply. That suggests investments in already cheap and well established renewables, especially solar, will return. By the end of the decade they may be rising at rates not unlike those of the bast few years years—if from a lowered base.

Counterintuitively, the very near term prospects for wind and solar may also be good. Jeh Vevaina of Brookfield, a Canadian investment goliath with over $50bn invested in America's clean-energy sector, says he expects a brief boom. The new rules mean that developers who start wind and solar projects before next July and complete them rapidly will still earn the IRA tax credits, so companies with the wherewithal are accelerating investments.



This is one of the reasons why BloombergNEF (BNEF), another research firm, expects more than 50GW of solar installation in both 2026 and 2027. After that, in the words of another big developer, things fall off a cliff (see chart 2). Rhodium expects clean-energy generation additions between 2025 and 2035 to be 57% to 62% compared with what would have happened under IRA policies.

Kevin Smith of Arevon Energy, a renewables developer, reckons $100bn or more in planned American solar and battery manufacturing investment "will not happen". The researchers at Princeton reckon that $500bn which might have been invested in renewables will go elsewhere.

Mr Vevaina insists the shake-out will see good projects still getting built, but smaller developers and those with long construction periods may not survive. Abigail Hopper of the Solar Energy Industries Association, a trade group, sees firms quickly adapting supply chains, investment strategies and business models. Because the OBBB maintains IRA tax credits for batteries, she reckons solar firms will "reorient product lines along storage". Sunrun is one of those already doing so. Emphasising storage and other less "political" options is a way of realising what Nat Eng of Apricus Generation, a solar and storage developer, says is the industry's new mantra: "Stayin' alive till '29."

After the crash, though, BNEF sees new annual additions of solar and onshore wind starting to climb again, with 94GW of additional renewable generation and storage added in 2035—more than any year to date. And the revival would be more sustainable, supported purely by cost advantages and sharper business models.

Unfortunately, there is no evidence that a more sustainable and efficient industry is what Mr Trump wants; he would like the strictures tightened. Three days after he signed the OBBB, Mr Trump issued an executive order directing the Treasury to issue guidance within 45 days on implementing the OBBB with the express intent of ending "the massive cost of taxpayer handouts to unreliable energy sources". The next day he was fulminating on the subject: "Wind is a very expensive form of energy, it's very bad…the other one is solar…very, very inefficient and very ugly too." He returns to the subject obsessively. On July 25th, after seeing the wind farms now visible from his golf courses in Scotland, Mr Trump said their spread was, alongside immigration, Europe's biggest problem: "You're ruining your countries. I really mean it, it's so sad. You fly over and you see these windmills all over the place, ruining your beautiful fields and valleys and killing your birds. And, and they're stuck in the ocean, ruining your oceans."

Despite the presidential animus, Jason Grumet of the American Clean Power Association, a trade group, says he is "optimistic that the executive order will be interpreted in a way that does not create price shocks." Perhaps. But many in the industry are quietly panicking. The worry, they say, is that the Treasury guidance becomes a "killshot" much more lethal than the OBBB's staged phase-out.

Ways to make things worse for wind and solar could include increasing the amount of capital spent, or the number of parts ordered, or the level of development at the site by a certain date needed for a project to qualify for credits. The idea that new limits might conceivably be applied retrospectively adds to the uncertainty.

Because large parts of the supply chains for solar, batteries and EVs still rely on Chinese inputs, another avenue for mischief is the "foreign entity of concern" (FEOC) provision which limits the access to supply chains of countries seen as adversaries. These issues are always tricky. Keith Martin of Norton Rose Fulbright, a law firm, argues that, at present, the "FEOC maze is manageable enough, based on the statute". The question is whether officials will limit their actions to the statute's expressed intent.

The Treasury's guidance is not the only way to turn the screws. On July 10th Mr Trump appears to have told his energy secretary to cancel a $5bn federal loan guarantee for the Grain Belt Express, a transmission line designed mainly to benefit midwestern wind farms. On July 17th an extraordinary memo informed staff at the Interior Department that almost 70 different types of normally routine paperwork for wind and solar projects would now need a personal sign off by the secretary. This will impose new delays on projects desperate to scrape under the wire. Even the sober Mr Martin thinks "The jury is out on whether projects can move forward."

If the only victims of such shenanigans were renewable-energy investors and the global temperature, such trickery would seem bound to continue. But it also raises problems closer to home. Analysts broadly agree that the OBBB will raise American energy prices and household bills. Bureaucratic jiggery pokery designed to nobble renewable projects under way, or almost so, will exacerbate that effect, and bring it forward. Mr Grumet takes comfort in the idea that the administration will not want to fuel even higher prices; it may be the most compelling reason to think the ugliest scenarios will not come to pass.

Energy Innovation, a think tank, reckons that even without added vindictiveness wholesale electricity prices will rise by 25% by 2030 and 74% by 2035. This comes as energy markets are already seeing rising demand and constraints on supply. In the first half of this year, utilities requested $29bn in rate increases, a big rise on last year's level. On July

22nd a power auction held by PJM Interconnection, an east-coast regional grid, indicated electricity prices are headed even higher.

Mr Trump's supporters may hope that old-fashioned types of power plant will replace the hundreds of gigawatts of new renewable capacity that the OBBB has nixed. They do so in vain. Existing nuclear plants take far too long to build; new smaller and more advanced designs, including those using fusion rather than fission, are only just making it into the prototype stage. The manufacturers of the turbines that new gas plants need have backlogs of four years or more.

Industry insiders report that the hostile White House stance is leading big investors, especially climate-focused European groups, to start shifting resources to greener pastures, such as Europe and the Middle East. If the Treasury guidance is fair, some of the investment may be saved. But the OBBB still looks like an obstacle to the president's oft-trumpeted goals of "energy abundance" and "AI dominance".

In the longer term, it is possible to see some silverish linings. If you look beyond wind and solar, "The law is favourable," says Mr Vevaina of Brookfield, which invests across almost all energy technologies all around the world. Zachary Bogue of California's DCVC, a leading "deep tech" venture fund, goes further. The new law "is fantastic for the long-overdue nuclear renaissance and for advanced geothermal…we are bullish on this space." Such technologies have the advantage that they can provide power day and night, winter and summer in a way renewables never can. A largely wind and solar future with no room for carbon emissions is going to need such power.

Jigar Shah is a pioneering solar-energy entrepreneur who ran the Biden administration's gargantuan energy-loan programme. He spent four years lending over $54bn to schemes involving everything from hydrogen and sustainable aviation fuels to carbon capture and lithium extraction. He takes a certain provocative pleasure in suggesting that the OBBB's support for its protected subset of low-carbon technologies may in time see it remembered as "America's second-most-important climate law". Jeremy Harrell of ClearPath, a clean-energy advocacy group influential among Republicans, goes further. After years of politicised, stop-start policies, he believes the

OBBB represents a valuable and durable bipartisan endorsement. "Investors can now have confidence out to the mid-2030s."

An OBBB which gives confidence to investors taking the long view on the energy transition and pushes up prices in a way which will eventually reincentivise investment in wind and solar is not what its backers want. But that is what they look likely to get. That, and a world where China's dominance in EV markets and many other renewable technologies is unassailable. And, on top of it all, an atmosphere containing a few billion more tonnes of carbon dioxide. ■

Briefing | Nothing to see here

America is slashing its climate research

Hear no science, see no science, speak no science

July 31st 2025

The Global Change Research Act of 1990 requires the American government to regularly produce “National Climate Assessments”—weighty scientific tomes that detail the impacts of climate change and the ways in which people and businesses throughout the nation might best adapt to them. John Holdren, who was Barack Obama’s science and technology adviser, recalls that, when he visited the offices of “mayors and city planners and governors [they would] ask me to sign their copies of the document, because they found it so useful”.

Unsurprisingly, President Donald Trump’s administration has stopped all work on the current (sixth) assessment. It has fired some of the federal employees who would work on it and terminated its contract with the consultancy which would have produced it. But this is not enough. The past assessments are being disappeared. In July the government website hosting the reports was taken down. A spokesperson for NASA promised that they would be put up on the agency's site instead; NASA now says that is not going to happen.

"Project 2025", a blueprint for the second Trump administration published by the Heritage Foundation, a hard-right think-tank, called for a "whole-of-government unwinding" of previous "climate fanaticism". The unwinding is being undertaken with both zeal and an impressively petty attention to detail.

The White House's proposed budget for 2026 would reduce funding for the National Oceanic and Atmospheric Administration (NOAA), a federal agency which oversees atmospheric science and a lot of environmental monitoring, by $2.2bn (27%), functionally dissolving its research arm. Hefty cuts to staff and programmes at other agencies—including the National Science Foundation, the Environmental Protection Agency (EPA) and NASA—would do away with the bulk of federally funded climate science, including one effort as iconic as it is vital.

The EPA is also disavowing its past research. On July 29th Lee Zeldin, its boss, said the agency was going to rescind the "endangerment finding" which underpins its powers as a greenhouse-gas regulator because the science behind it had been "warped".

Congress is resisting some of this; its members are particularly opposed to cutting the budget of the National Weather Service, which NOAA runs. The warnings it issues ahead of disasters like hurricanes or the deadly floods that recently hit Texas are not the sort of thing you want to have defunded if climate change turns round and bites your constituents. But let it not be said that the administration lacks a rationale for its actions. Recent cuts to a climate-modelling programme at Princeton were justified on the basis that it increased young people's "climate anxiety". ■

Briefing | It was all going so well...

The humbling of green Europe

Europe's hard right is pushing the continent's climate consensus hard. The response so far is tepid

July 31st 2025

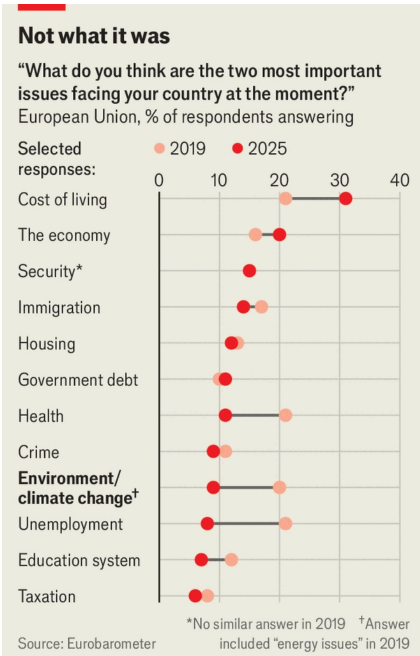
"GERMANY MAKES up 2% of global emissions," a legislator recently informed his Bundestag colleagues. "So even if we became climate-neutral overnight, it would not prevent a single extreme weather event." Such statements are commonly used as justifications for inaction by Europe's hard right, opposed as it now is to almost all forms of climate action. Nigel Farage, leader of Reform UK, was singing from the same hymnal when he recently accused the government of "[defrauding] British taxpayers of billions of pounds every year [by] subsidising wind energy and solar energy for literally zero effect on global CO2 emissions." But the German MP was not one of the similarly aligned climate sceptics from the Alternative for Germany. He was Friedrich Merz, the country's chancellor.

Europe's hard right, like America's, has come to loathe renewable energy. It is unreliable, they say, jumping on any grid mishap to prove their point regardless of whether it actually does. It imposes energy bills on consumers they cannot afford, and costs on businesses that make them uncompetitive. Heat pumps and home insulation cause expensive domestic hassle; electric-vehicle mandates mean you cannot get the sort of car you are used to. Being morally well intended, science-led, metropolitan in its vibe and global in its concerns makes the whole idea of fixing the climate "woke". And even if carbon-dioxide emissions matter (the opponents are not unanimous on the matter) those from Europe are so small that its unilateral actions count for nought.

Now parties on the centre-right are saying things that sound increasingly similar. For some this is a hardening of a long-held lack of enthusiasm for green measures. For others it is a more dramatic about face. Under Boris Johnson, its leader from 2019 to 2022, Britain's Tory party professed itself convinced of the need to reach net-zero emissions by 2050. Today that support has been ditched .

Few centrists openly question the fundamental importance of fighting climate change, as many on the hard right do. But they are trimming their sails regardless—quite dramatically so, in Mr Merz's case.

European voters still care about climate change. But they rank it less high than they used to (see chart). Increases in the cost of living, driven by post-covid inflation, have become the paramount issue. The robust growth which might reduce the pressure by raising wages is nowhere to be seen; the IMF projects a meagre 1% growth for the eurozone in 2025, and only 1.2% in 2026. The new tariff deal with America will do nothing to improve matters.



The voters, and the politicians, are also worried about security. Russia's full-scale invasion of Ukraine in 2022, coupled with Donald Trump's transactional approach to foreign affairs, means that most of Europe has committed itself to greatly increased defence spending. The need is felt by Greens as well as by most of the rest of the political spectrum "We need money for defence," says Lena Schilling, an Austrian MEP who sits with the Greens/European Free Alliance block. "We need to defend Europe and get ready for the worst-case scenario."

It is a very different world from that of December 2019, when European political ambitions on climate change, already strong, reached their high-water mark. Inflation and interest rates were low; growth, though not great, was an almost-respectable 1.6%. Pandemics were the stuff of history books; so were wars of conquest on European soil. The Paris agreement of 2015 had finally provided an internationally agreed basis for action on climate change. Plunging prices in the renewables sector suggested that meeting the promises made in Paris would be getting easier.

In Brussels it looked like a perfect time to double down on the climate. The incoming president of the commission, Ursula von der Leyen, said that "keeping our planet healthy" was the EU's greatest challenge. On December 12th the European Council decided to increase the ambition of the bloc's emissions-cutting plans. At Paris it had promised a reduction in emissions of 40%, compared with those of 1990, by 2030. In 2019, as part of an overarching commitment to climate neutrality by 2050, the council increased that to 55%. It was to be achieved through a set of policies known as the Green Deal.

Climate Action Tracker, an independent monitor, reckons that if the EU sticks to its currently announced policies the cut achieved in 2030 will be 52%: less than the target, but still impressive. The problem is that the currently announced, but not yet implemented, policies are at the heart of what has become politically and fiscally challenging. Cuts to date have been made in large part through decarbonising electricity generation, something achieved in part through the EU's flagship emissions trading scheme (ETS), which covers electricity generation and heavy industry. The decarbonisation being counted on in the years ahead will fall more directly on households and everyday businesses.

Existing subsidies and climate-associated costs definitely add to electricity bills in the EU, though not as much as they do in Britain. European energy subsidies, which were around €200bn ($230bn) a year from 2019 to 2021, shot up to €400bn in 2022 thanks to the war in Ukraine, outages in the French nuclear fleet and droughts which reduced the capacity of hydroelectric dams. But the share of the subsidy going to renewables actually fell over that period; high wholesale prices meant that renewable electricity attracted the prices that had been guaranteed to its suppliers without any need for topping up from the public purse. A significant amount of subsidy still goes to fossil fuels, though that goes ignored in right-wing rhetoric.

If green subsidies have not risen unduly, though, competition for public spending has. Supporting Ukraine without American dollars is costly; a convincing defensive posture built up under the same conditions will be extremely expensive. For a while the increase in spending can be funded through debt, rather than cuts elsewhere. But that cannot go on for long, especially in those European countries with high public debt (Italy, Belgium) or already-unsustainable deficits (France), or a large budget hole to fill (Germany). And the effect on interest rates of more government deficits has a direct impact on green investment; whether it is on home insulation or offshore wind, green spending tends to be very capital intensive, making investors more sensitive to interest rates than fossil-fuel people are.

When it comes to policies still in the pipeline, one way to cut costs and buy a little popularity is to cut red tape. Member states want rules about standardised climate plans and risk accounting to apply to large firms only. The EU's carbon border adjustment mechanism has been simplified, too. The commission says that excluding all shipments under 50 tonnes from the adjustments means that 90% of firms originally obliged to participate will no longer have to do so, a change which leaves 99% of the emissions the scheme is aimed at covered. If this is indeed the case the process was badly over-specified.

Reducing red tape can provide benefits and goodwill without much adverse impact on emissions. Nevertheless, some worry. "Of course you can simplify regulations, but the problem is: the climate does not have any buffer left," says Luisa Neubauer, Germany's most prominent climate activist. She fears a larger dismantling of climate regulations could follow, and that binding policies will become mere requests. Some firms would prefer predictability to haphazard, opportunistic deregulation. Time and money spent meeting standards is lost if they are then relaxed; investments in lobbying start to look wiser than investments in compliance.

Bolshy firms are something Brussels wants to avoid; it wants businesses and investors to see its policies in a positive light. The continent is already a large exporter of some types of low-carbon kit, according to IMF data. The "clean industrial deal" which the commission tabled in February is designed to spur investment into such industries. It tweaks state-aid and public-procurement rules to allow member states to favour European producers in their policies. It also has provisions for helping workers get useful skills and speeding up permitting for industrial projects.

There are new sources of funds for innovation, too. A report produced last year by Mario Draghi, a former head of the European Central Bank, called for the EU to boost its innovation and the scale of its markets; it also saw a need for public and private sources to invest an additional €800bn a year. In her first proposal for the EU's next seven-year budget, starting in 2028, Ms von der Leyen proposed a "Draghi fund". Though it is less than a tenth of the size its namesake suggested, its €451bn, available over seven years, could be helpful to green technology not yet ready for the market.

There is also the problem that some of the things which European industry would see as encouraging would drive up costs to consumers. Companies like government investment and R&D handouts, but many of them want protection from China as much or even more. China completely dominates the solar market; it is the world leader in the battery market; and it is the biggest exporter of electric vehicles. The market for wind turbines and trains is next. European policymakers have imposed a tariff of 8-35% on Chinese-made EVs, on top of existing tariffs on all cars, arguing that Chinese producers have received unjustified subsidies to beat competitors. Further protectionism may well be on the way.

On top of this the EU is trying to become more flexible. Trade-offs between mandated emission cuts in one sector and in others are in the works—for example, faster decarbonisation of the transport sector to give domestic heating more time. Flexibility can also be applied to the ETS. There are plans for permanent forms of carbon removal to be integrated in the scheme over the 2030s. The new emissions-reduction target for 2040 which the commission proposed on July 2nd was, at 90%, eye-wateringly ambitious: but it was pragmatic in stipulating that three percentage points could be achieved by paying for carbon-dioxide removals and reduced emissions beyond the bloc's borders. This would entail emitters buying "high-quality international carbon credits" of the sort envisioned by the Paris agreement, markets for which are still in their infancy.

Political resistance to these targets is certain. The hard-right parties in the European Parliament have successfully claimed the right to lead negotiations with the commission and member-states over them, as well as about changes to the ETS. "We are not in favour of declining growth levels. We're not in favour of abandoning our industrial base and leaving them in the lurch," said Jordan Bardella, head of the National Rally, France's hard-right party, when explaining the approach they envisioned. Such sentiments will be echoed by politicians of every stripe.

A nearer-term source of potential political risk is a new trading scheme called ETS2. From 2027 onwards it will cover emissions from fuels used in building and transport. To begin with the price per tonne will be considerably lower than that in the present ETS—the plan is for the two to converge later on. Fear of the reactions this new system may provoke mean that ways of softening it are already being talked about: exceptions for some classes of emitter, or the issuance of additional emission permits if the market drives prices too high, are among the options.

Optimists about climate action see a tendency for hard-right antipathy to climate measures to weaken as parties get close to, or into, government. Giorgia Meloni, Italy's right-wing prime minister, has been sceptical about some climate policies, but has not made them a central concern. Others think that centrists taking on some of the hard-right's scepticism is a price worth paying if they take some of the hard right's votes, too. Either way, though, the portents point to less appetite for spending on the climate or inconveniencing voters in its name.

Reversing the trend will take both courage and care. Europe's elites have sought to make action on climate change a part of what it is to be European. If they want that identity to take root, they urgently need to find ways to convince their fellow citizens that it is worth the candle. And they must rebuild support in a way that makes steady progress hard to reverse, even if that progress is not as fast as would be ideal. ■

United States

United States | After the floods

America is remaking its disaster-relief system

The administration hopes to undo perverse incentives

July 31st 2025

Five years ago the people of Calcasieu Parish had their annus horribilis. Within ten miserable months this corner of south-west Louisiana earned the unenviable distinction of four presidential disaster declarations. In August 2020 came Hurricane Laura, a storm so vicious that it peeled roofs from homes as if they were lids on tin cans. Buildings swayed like cruise ships and devices to measure wind speed broke. Next came Hurricane Delta; then Uri, a winter storm; then a bad bout of flooding. After Joe Biden stepped in, government men in polo shirts and khaki trousers arrived with chequebooks. An area built by oil, gas and petrochemicals was rebuilt partly by Uncle Sam.

Calcasieu Parish—the Louisiana term for a county—is a good place to consider America's system of disaster response and what might become of it under President Donald Trump. He thinks the federal government pays too much and that states should bear more of the cost. Initially he spoke of eliminating the Federal Emergency Management Agency (FEMA), which oversees relief. After a flood in Texas in early July killed more than 135 people, Mr Trump softened. Now his administration talks of making FEMA more "efficient".

Still, the direction of travel is clear. Already a fifth of the agency's permanent staff have left; the president is denying some governors' aid requests and taking longer to approve others; and the homeland-security secretary, who sits atop FEMA, insists on personally approving expenditures above $100,000.

Mr Trump's approach will bring changes both harmful and salutary. If he follows through, poor, hazard-prone places such as Louisiana will suffer the most. The state gets nearly $1bn on average from FEMA per disaster; it cannot possibly fill that gap. Louisiana, says Craig Colten, an emeritus professor of geography at the state university, excels at getting others to pay when it runs into trouble.

There lies the potential for changing perverse incentives. A paradox of disaster policy is that aid comes from the federal government, but decisions about land use—where and how to build—are made locally. This creates a moral hazard: localities forgo insurance and pursue development in disaster-prone places, then expect a bail-out. Mr Trump's approach should force states to think proactively about reducing their risk amid the ravages of climate change, says Susan Crawford, an emeritus professor at Harvard Law School. In time, that ought to constrain losses.

Over the past half-century the federal government has assumed an ever-larger role in relief. Initially it limited itself to flood control and repairs to public infrastructure. In the 1960s it began offering subsidised business loans, subsidised crop insurance and subsidised flood insurance to households. Mission creep continued. Seventy years ago the share of total catastrophe losses borne by the federal government was less than a tenth. Today it is at least half, and sometimes much more.

The federal government is not just doing more during each disaster. It is also showing up for more of them. The president has the authority to declare one—which turns on the money tap. Over the past decade or so the president declared 63 a year on average, up from 25 in the 1980s.

Meanwhile some hazards are getting more severe because of climate change and more costly because of population growth in disaster zones. The year 2005—when Hurricanes Katrina, Rita and Wilma hit—marked an inflection point. Average annual appropriations to FEMA jumped from $5.8bn between 1990 and 2004 to $25bn between 2005 and 2021. The average over the past five years was $42bn, driven by the pandemic (see chart).

FEMA provides two types of aid after a declaration. One programme is for individuals. The pot available to localities, known as Public Assistance, is much bigger; they get reimbursed for debris removal and repairs to public buildings. These grants operate as a cost-share, with the federal government covering a minimum of 75% and localities paying the rest. Sometimes presidents stump up more. Mr Biden covered 90% of Louisiana's outlay after Laura.

In April a FEMA memo proposed ways for Mr Trump to cut federal spending, by declaring fewer disasters and reimbursing at the minimum rate.

This will impact victims differently depending on where they live. FEMA comes to town when damages exceed a certain threshold: a state's population multiplied by $1.89. Thus populous ones already have experience handling sizeable disasters on their own. Texas, for example, will normally not get FEMA help for anything under $60m.

Federal aid evens out disparities between rich and poor places. Mr Trump's cuts, if they happen, will make recovery more difficult for the hard-up. But it should discourage risk-taking. There is little incentive to invest in mitigation or buy insurance if you expect taxpayers to make you whole. This dynamic applies less to individuals—they stand to get only a few thousand dollars on average from FEMA—than to local governments.

Sure enough localities forgo insurance in anticipation that they will get bailed out by the feds. In 2020 a study by the RAND Corporation, a think-tank, found that just 28% of Public Assistance recipients' building-repair costs were covered by insurance. FEMA could do more to encourage localities to buy insurance by denying grants to uninsured applicants or raising its reimbursement rate for insured ones. Relatedly, it could require states to pay a "disaster deductible" before they get federal funds, so they have skin in the game.

A consequence of Mr Trump's approach is that states will be compelled to reduce risk. Louisiana does not appear to be doing this. Between 2001 and 2019 a fifth of the country's new floodplain development occurred there, according to a study in Earth's Future published last year. Granted, nearly half the state sits in the floodplain.

John Fleming, Louisiana's treasurer, insists that the Trump administration's talk of efficiency means maintaining the same level of funding while cutting Washington bureaucracy. "I see this as a very positive thing for our state and I welcome President Trump's effort," he says. He is confident that the "buffet platter" of aid will continue. That may be right—or it may be naive. Officials in Calcasieu Parish, for their part, understand what is at stake. Dennis Bent, who works for the school board, does not hesitate when asked what it would mean to have to rely on the state government instead: "We're in trouble." ■

Stay on top of American politics with The US in brief, our daily newsletter with fast analysis of the most important political news, and Checks and Balance, a weekly note from our Lexington columnist that examines the state of American democracy and the issues that matter to voters.

United States | Up to the skies

US Space Command is preparing for satellite-on-satellite combat

Stephen Whiting, the general in charge, offers a glimpse of the near future

July 31st 2025

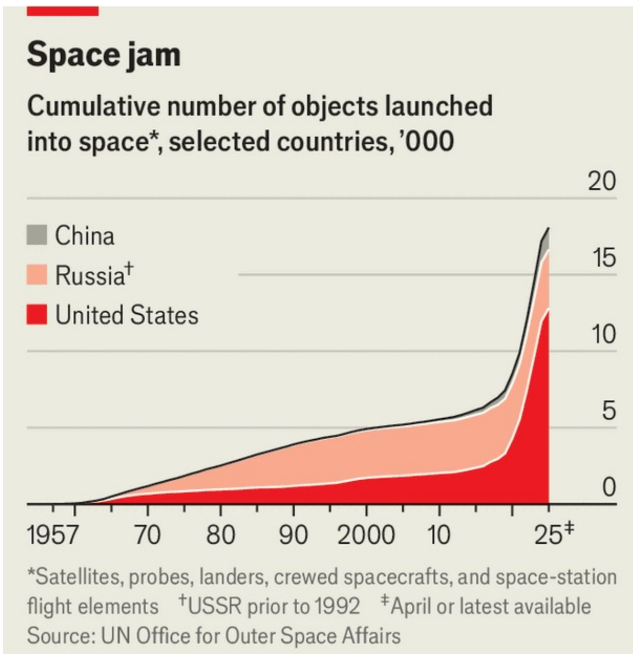
TOWARDS THE end of last year a pair of military satellites, one American and the other French, prepared for a delicate orbital minuet. They were about to conduct a so-called rendezvous and proximity operation (RPO)—in which one or more satellites approach another to inspect or manipulate it—near an enemy satellite. They have not said which, but it is not hard to guess. “The French have talked about Russian manoeuvres [near French satellites] over the years,” says General Stephen Whiting, speaking at the headquarters of US Space Command in Colorado Springs. “And so…we demonstrated that we could both manoeuvre satellites near each other and near other countries’ satellites in a way that signalled our ability to operate well together.”

The exercise was so successful, he says, that there are plans to repeat it later this year. It is a milestone: the first time that America has conducted an RPO like this with a country outside the Five Eyes, a spy pact whose members co-operate closely in space, and the first time it was done as a "purpose-built" operation, rather than in response to events. It also embodies America's new, more muscular approach to space. Space Command was re-established in 2019 during Donald Trump's first term. In recent years it has focused on building its headquarters and developing staff. Now it is ready. "We now have a combatant command focused on war fighting" in space, says General Whiting.

The impetus for that is two things. The first is that the American armed forces' reliance on satellites has "compounded exponentially", says an official, pointing obliquely to America's strike on Iran in June. "The majority of that operation is space enabled." The other is what the government sees as a change in the threat. Since 2015 there has been an eight-fold increase in Chinese satellite-launch activity, says the official. The People's Liberation Army has become much better at operating in space, including conducting electronic warfare in orbit, he says, with China eclipsing Russia. China, Russia and India have tested destructive anti-satellite weapons in 2007, 2021 and 2022 respectively. America also accuses Russia of developing an orbital nuclear weapon that could destroy thousands of satellites in low-Earth orbit (LEO) at once.

A few years ago Space Command was wary of talking about its own offensive capabilities. Now it embraces the idea. "It's time that we can clearly say that we need space fires, and we need weapon systems. We need orbital interceptors," said General Whiting in April. "And what do we call these? We call these weapons." He points to Mr Trump's Golden Dome plan for a missile-defence shield, which includes space-based interceptors to destroy enemy missiles. In theory the same weapons could also target enemy satellites. "Space to space, space to ground, ground to space" would all play a role in achieving the "lethality that is necessary to achieve…deterrence," says an official.

America's allies are also becoming more open about this. In a defence review published this year, Britain said for the first time that it would develop anti-satellite weapons deployed on Earth and in orbit. America leads a small but tight-knit club of spacefaring allies. In Operation Olympic Defender, Space Command works with six countries—Australia, Britain, Canada, France, Germany and New Zealand—to "deter hostile acts in space". In April the initiative reached "initial operational capability", with all seven countries signing a joint campaign plan whose details will be finalised this summer.



Space Command is also thinking about the tactical demands of war. While "everything in space is moving", says General Whiting, America has thought of its satellites as "individual forts" that sit in one place. That is because moving a satellite takes fuel, which can shorten its lifespan. There are three solutions to that, he says. One is for satellites to carry more fuel. Another is to refuel in orbit—something that China demonstrated in June. "That could give them a military advantage," he says, "so we need that capability."

The third approach is to operate so many satellites that each one can be treated as expendable. American officials have been talking about such "proliferated" constellations in LEO for years—think of SpaceX's Starlink. Now they are being built. America's National Reconnaissance Office, which runs classified spy satellites, has launched more than 200 since 2023, with a dozen launches scheduled for this year alone. SpaceX is also rumoured to be the front-runner to build a 450-strong constellation that will eventually relay missile-tracking and other data from sensors to interceptors and weapons.

A fourth method might be added to that list: making the satellites more intelligent. General Whiting says he would love to have AI on board satellites that would allow them to detect “nefarious” objects nearby and to move out of the way without human intervention. In time, suggests Christopher Huynh, a major in the US Space Force, AI-enabled satellites could fly in close formation, meaning they could act as “defender satellites to protect high-value assets in orbit”.

For now, the AI is mostly on the ground. In the past few months, General Whiting says, his staff has built a large language model that has been trained on all of the command’s threat and planning data. Officers can quiz “SpaceBot” on gaps in their knowledge or on how to respond to a fictional or real-world attack in space. “What would once have taken ten people five hours of work”, he suggests, “can be done at machine speed—a space-age achievement.” ■

Stay on top of our defence and international security coverage with The War Room, our weekly subscriber-only newsletter.

United States | Small and beautiful

Modular homes are helping LA's wildfire survivors rebuild

Could factory-made units ease America's housing shortage, too?

July 31st 2025

ON THE EVENING of January 7th Steve Gibson and his wife Charlotte saw a glow in the sky. "We opened the door and the street lights were out, but there were embers in the air," he recalls. The Eaton Fire was closing in on their little house in west Altadena. Their home burned, along with more than 16,000 other buildings across Los Angeles County that month. The six months since have been a confusing whirl of hotel stays, paperwork and questions about how to rebuild. Mr Gibson craved speed, so he turned to Cover, a startup that builds granny flats (Americans call them accessory dwelling units, or ADUs), at its factory south of Los Angeles.

Pre-fab homes have enjoyed a surge of interest since the fires. Groups of victims visit Cover's factory. Samara, a firm founded by former Airbnb executives, offers tours of a model home in nearby Thousand Oaks, which survivors come to visit most weekends. The startup is working with Steadfast LA, a non-profit run by the city's business elite, to donate modular homes to people who can't afford to rebuild.

The American Enterprise Institute, a conservative think-tank, reckons America could be short roughly 6m homes and that California's deficit is 1.8m. In 2023 McKinsey, a consultancy, calculated that off-site housing production could cut project timelines by as much as half and knock a fifth off the cost. Factories that use automation are more able to withstand labour shocks during, say, a pandemic or a mass deportation campaign. Pre-fab homes are common in Japan and the Nordics, but make up only about 3% of America's existing housing. Could that change? The mini-boom in modular housing that is coming to LA could portend wider adoption—if the industry can shore up several weaknesses.

Unlike construction crews, which are hired for specific jobs, factories need to run constantly to be efficient. That requires having a pipeline of homes to build even when interest rates and the cost of lumber and steel are high, as they are now. Tragically, climate change may help. Helping rebuild communities after fires, which are growing in frequency and severity, is keeping factories humming. The state of Hawaii is building 450 modular homes to temporarily house 1,500 survivors of the fire that razed Lahaina in 2023. Mike McNamara, Samara's boss, sees the fire-resistant features of its homes (metal roof, no attic, air filters) as a big selling point. But some Altadena residents worry that untested pre-fab startups will try to capitalise on their plight.

Lenders are leery of modular housing, so most people who can afford a pre-fab granny flat are already wealthy. Samara's biggest model, a two-bedroom cottage, costs about $277,000. But the price roughly doubles after customers pay for local taxes and fees, permitting costs, utility hook-ups and the lorry and crane needed to put the house on the lot. Even that is half the $1.2m median listing price in Altadena, itself evidence of the state's self-inflicted housing crisis. Still, some firms are wary of revealing the cost of a home to inquiring reporters, given all the variables. "We're not trying to be the cheapest way to build," says Alexis Rivas, the boss of Cover, who stresses the quality and efficiency of his homes. A bipartisan bill that just cleared the Senate Banking Committee could make it easier to finance modular housing units. Better public policy could enable local experimentation.

For all its promise, modular housing still has a lousy reputation. "People imagine a trailer," says Carol Galante of the Terner Centre for Housing Innovation at the University of California, Berkeley. Mr Gibson says a local group in Altadena fretted that pre-fab homes would "ruin the community", which is sprinkled with architectural gems. But uniform-looking neighbourhoods abound. America is dotted with homes people ordered from Sears catalogues in the early 20th century. Walk down the street in Cincinnati or Denver and the wide porches and brick chimneys speak of their common origins. Or consider the tract houses of Levittown and Lakewood. And modular doesn't have to mean ugly: many ADUs channel the mid-century modern style popular in California.

Samara and Steadfast LA's first donated home is meant to arrive in October. Mr Gibson hopes to move into his new house by the end of the year. His lot sits empty. Yet there are small signs of revival: tomato plants are pushing through his neighbour's fence, still yellow and eager for the sun.■

Stay on top of American politics with The US in brief, our daily newsletter with fast analysis of the most important political news, and [Checks and Balance](), a weekly note from our Lexington columnist that examines the state of American democracy and the issues that matter to voters.

United States | Takedowns for hipsters

What pro wrestlers in Chicago say about America

Beyond the WWE, liberals grapple with a MAGA bastion

July 31st 2025

At the Concord Music Hall, a venue in Chicago, two wrestling champions are preparing for their bout. A man wearing an inflatable eagle costume introduces the main contender. He is “the great USA-Hole”, dressed in cowboy boots, stars-and-stripes leggings, a shirt with a bald eagle, and a backwards stars-and-stripes baseball cap. Then comes his opponent, “CanaDad”, an overly polite father in double denim and a Canada jersey, to electronic strains of “O Canada”. As they warm up, USA-Hole shouts out an insult: “Bartender, I need some ice.” The crowd of about 500—many dressed in support of particular characters—erupts in boos.

Welcome to the tenth edition of Superwrestlers, an indie wrestling league in Chicago. According to its YouTube channel it is “Earth’s strangest Pro

Wrestling show!", about which there can be little doubt. Besides USA-Hole and his opponent, the recent show featured Pharaohsmith, a character inspired by a mash-up of ancient Egypt and the rock band; Steven Flowe, a grungy teenager whose theme song is a parody of Pearl Jam's "Even Flow"; and the Pubic Moose, wearing an antler hat and a large wig over his groin. At the end of the night "the King of Krosteria" travels "across galaxies" to bestow the prize—his kingdom—on the winner.

Pro wrestling in America has long been dominated by World Wrestling Entertainment, or WWE, a behemoth with revenues of $1.4bn last year. But recently the franchise has been stuttering. Viewership of "Smackdown", its weekly show, has declined after it changed tv networks last year. WWE Raw, a second show, has moved to Netflix. WWE's once-prodigious revenue growth has tailed off. All Elite Wrestling, its biggest competitor, has been eating into its market share.

And indie and alternative shows are booming, though few are as silly as Superwrestlers. Game Changer Wrestling, a "hardcore" wrestling league which started in New Jersey, has grown enough to put on shows all over the world. Its appeal relies on a higher level of violence. Then there's the International Wrestling Cartel, an indie league in Pittsburgh, which is seen as a training ground for new wrestling performers. Imports are thriving too, such as New Japan Pro Wrestling, which is shown on axs, a cable-TV channel.

What is driving the shift? Social media is part of it. A generation ago, wrestling fans could only watch what was on television, which meant WWE. Now new wrestling leagues can promote themselves on YouTube. In this world, weird can work—hence Superwrestlers. Larry Krasner, its founder, says Chicago's large comedy and theatre scene inspired him to experiment by going beyond the traditional men-in-pants-competing-for-a-belt format. "We try to hook people on that, with the music and with the comedy and with the improv and, reluctantly, yeah, we have to have a wrestling ring in there," he says.

Could politics be playing a role too? With the possible exception of golf, few sports (or indeed, "sports") are so closely linked to Donald Trump as professional wrestling. Vince McMahon, the co-founder of WWE, who resigned in disgrace after a sex scandal last year, is a close friend of the president. His ex-wife Linda is Mr Trump's education secretary. Hulk Hogan, a WWE veteran who died on July 24th, tore off his shirt to support Mr Trump's re-election bid at the Republican National Convention last year. Mr Trump's own style of politics is often said to be inspired by "kayfabe", the wrestling term for how everybody knows the action is fake but agrees to pretend it is not. It turns out that fans of USA-Hole can suspend their disbelief, too. ■

Stay on top of American politics with The US in brief, our daily newsletter with fast analysis of the most important political news, and Checks and Balance, a weekly note from our Lexington columnist that examines the state of American democracy and the issues that matter to voters.

United States | Fight or flight

What Donald Trump is teaching Harvard

Under pressure, America's oldest university may make a deal

July 31st 2025

At Harvard you can study negotiation. This being Harvard, there is in fact an entire academic programme dedicated to the craft. The principles are simple. Understand your alternatives—what happens if you fight rather than compromise—and your long-term interests. This being Donald Trump's America, Harvard itself is now the case study.

Mr Trump has turned full guns on that supposed hotbed of antisemitism and left-wing indoctrination. America's oldest and richest university would be his most satisfying trophy and its capitulation would become a template for coerced reforms across higher education. The government has sought to review some of Harvard's coursework as Mr Trump has pressured it to hire fewer "Leftist dopes" and discipline pro-Palestine protesters. When the university refused, his administration [froze federal research grants] worth $3bn and tried to bar it from enrolling foreign students.

Harvard has fought back and sued the government twice. Its many constituencies have loudly supported this resistance. Seven in ten faculty who took part in a poll by the Crimson, a student newspaper, said the university should not agree to a settlement. Yet it seems likely that Harvard will fold in the manner of Brown University and Columbia; reports suggest it will pay up to $500m.

Consider Harvard's options. Litigation has succeeded initially: a judge paused the ban on foreign students. Harvard had a sympathetic hearing in its lawsuit to restore government funding. Yet the university knows that it cannot count on the Supreme Court, with its conservative majority. Meanwhile, the potential damage from Mr Trump's campaign looks both acute and existential. Losing federal funds would transform Harvard from a world-class research university to a tuition-dependent one. They constitute 11% of the operating budget and represent almost all the discretionary money available for research. Making do without while maintaining current spending levels would see the university draw down its $53bn endowment by about 2% a year. That is possible for a while, though it would erode future income and much of the endowment is constrained by donor restrictions anyway.

Already Harvard has frozen some hiring and laid off research staff. More trouble awaits. The Internal Revenue Service is considering revoking Harvard's tax-exempt status. Elise Stefanik, a Republican congresswoman, has suggested that the university committed securities fraud when it issued a bond in April and failed initially to tell investors about the government's demands. She wants the Securities and Exchange Commission to investigate. The Department of Homeland Security has sought records about foreign students who participated in pro-Palestine protests.

Alumni, faculty and students report pride in Harvard's president, Alan Garber, resisting Mr Trump's extortion scheme. Yet more and more faculty are calling for a deal, especially in medicine and science since they have the most to lose. Steven Pinker, a psychology professor, has argued for a "face-saving exit": Mr Trump may be "dictatorial" but "resistance should be strategic, not suicidal".

A deal similar to Brown's would not be so hard to swallow. To restore its federal funds, that university will pay $50m to workforce-development organisations. A likelier model is the one reached with Columbia, which coughed up $200m to the government. Most of its federal funding, worth $1.3bn, was reinstated and probes into alleged civil-rights violations were closed. Viewed from the outside, the price paid by Columbia looks arbitrary—there was no explanation for how it had been calculated.

Columbia also agreed to dismantle DEI initiatives and will hire faculty specialising in Israel and Judaism, among other concessions. An outside monitor will ensure compliance. Claire Shipman, the university's acting president, said Columbia had not accepted diktats about what to teach or whom to hire and admit.

Maybe so, but the settlement was still a shakedown. Mr Trump skipped the legal process by which the government can cancel funds. By law the administration has to offer a hearing and submit a report to Congress at least 30 days before the cut-off takes effect. None of that happened. Of course coercive, bilateral deals are Mr Trump's métier—he has achieved them with law firms and trading partners.

Harvard has been making changes on campus that may be labelled as concessions in any eventual settlement. Some do appear designed to assuage Mr Trump. Since January the university has adopted the government's preferred definition of antisemitism; ended a partnership with Birzeit University in the West Bank; removed the leadership of the Centre for Middle Eastern Studies; and suspended the Palestine Solidarity Committee, an undergraduate group. DEI offices have been renamed and their websites scrubbed.

Harvard's lack of ideological diversity will not be fixed by fiat. In 2023 a Crimson poll found that less than 3% of faculty identified as conservative. Now the university is reportedly considering establishing a centre for conservative thought akin to Stanford's Hoover Institution. Across campus it is understood that too many students seem ill-equipped to deal with views that challenge their own, says Edward Hall, a philosophy professor.

Another insight you will glean in a Harvard negotiation class is to grasp your opponent's interests. In Mr Trump's practice, this means bagging a deal and bragging about it. He wrote a whole book on the topic. It could go on a syllabus. ■

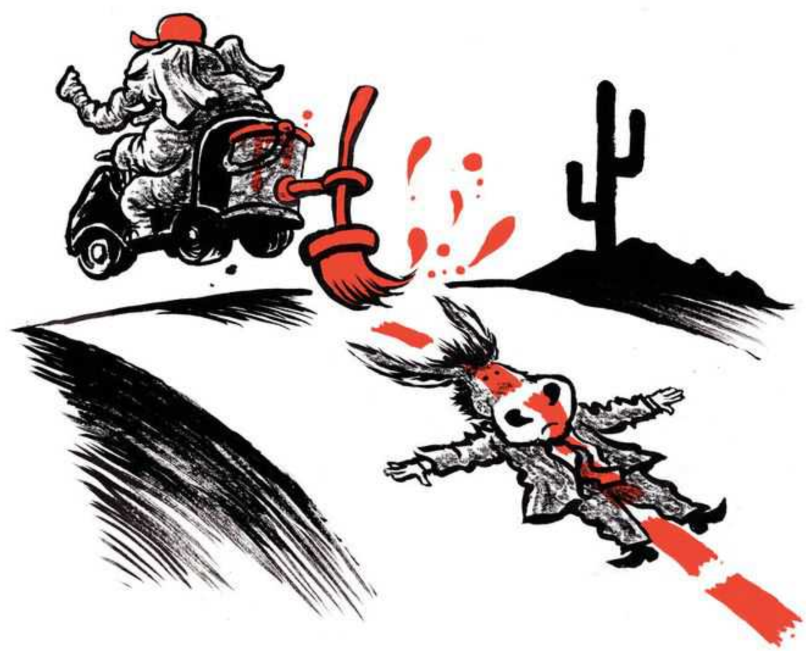
Stay on top of American politics with The US in brief, our daily newsletter with fast analysis of the most important political news, and Checks and Balance, a weekly note from our Lexington columnist that examines the state of American democracy and the issues that matter to voters.

United States | Lexington

Donald Trump’s redistricting ploy is politics at its most cynical

But the Democrats’ response is self-defeating

July 31st 2025



Could there be a more poignant figure in American public life than the tough-talking Democratic politician? There are plenty of them these days. You might have heard one on a podcast, dropping an F-bomb with a Pentagon planner’s care, or seen one on a cable television show railing about Donald Trump while trying to sound a bit like him—cocksure, blunt, “authentic”. These Democrats, particularly the ones angling to run for president, know that their party’s donors and other activists want a fighter. Their problem, having lost control of every branch of government, and having achieved a collective approval rating lower than Mr Trump’s, is that they can’t seem to get themselves into a fight they can actually win.

Now, in a bid to out-Trump Mr Trump, Democrats are spoiling for their least ennobling fight yet: to redraw congressional districts to favour themselves. As usual Mr Trump struck first, demanding that Republican officials who control the Texas government redraw the boundaries of its congressional districts so that Republican voters predominate in even more of them. He wants to give Republicans better odds in the midterm elections next year, to protect their thin majority in the House of Representatives for the rest of his term. By threatening the same partisan manipulation in states they dominate, Democrats are out to display their feistiness, and, it seems, their command of cliché. "Never bring a knife to a gunfight," enjoined Governor Phil Murphy of New Jersey. "All's fair in love and war," observed Governor Kathy Hochul of New York. The toughest talker, Governor Gavin Newsom of California, warned, "If we don't put a stake into the heart of this administration, there may not be an election in 2028."

The Democrats are right to be angry. Mr Trump's Texas power play is shocking by the standards of past presidents, who at least made the pretence of rising above such partisan games. By contrast, in mid-July, Mr Trump announced to his retinue of reporters precisely what he had in mind: "A very simple redrawing: we pick up five seats." This is classic Trumpian political alchemy: by being so brazen—or is the right word "transparent"?—he converts political chicanery, if not corruption, into a kind of honesty; he makes himself an anti-politician by engaging in the most blatant of politics. He has taken a similar approach to pardons for political allies and demands for campaign contributions, not to mention augmenting his fortune while in office.

In the case of redistricting, Democrats are choosing to race Mr Trump to the bottom. That is bad news for anyone still hoping to resist cynicism about American politics. For Democrats, the further problem is that it may not help them eke out more seats. Under the constitution, states draw their congressional districts every ten years, after the census determines the number and distribution of Americans. Each party generally hopes to delineate, or "gerrymander", districts favourable to itself, however tormented their shapes. The Supreme Court objects to gerrymandering along racial lines but has said the federal courts have no business interfering in gerrymandering done for partisan purposes. Yet there is widespread public disgust with the practice. In 2022 a bill to ban partisan gerrymandering passed the House but fell two votes short in the Senate.

Other than when forced to redraw boundaries by a court, states have rarely redistricted within the ten-year cycle. Some states have acted to prevent such shenanigans and partisan gerrymandering altogether. This is one obstacle to Mr Newsom, who is in the vanguard of Democrats now intent on redistricting. In 2010 California voters amended the state constitution to put redistricting in the hands of an independent commission. Mr Newsom would need to call a special election and persuade the voters to reverse themselves, or get the legislature somehow to remake the commission.

Then the other headaches would begin, says Bruce Cain, a political scientist at Stanford who helped Democrats run the first computerised California redistricting, in 1981. Progressive and centrist factions would fight over the make-up of each district, while countless interest groups would also demand a say, as would the citizens. The lawsuits would practically file themselves. And beneath the partisan self-interest in shaping districts, Mr Cain notes, would lie a layer of personal self-interest. Many state legislators would have ambitions to run for Congress themselves, further complicating negotiations over districts' boundaries. "Even to try to pull it off is a disaster," he says. "I just can't imagine that fighting over a few seats is a good thing for a party that's got too many issues to resolve already." Besides, though less than half of California's voters are registered Democrats, Democrats already hold 43 of its 52 House seats.

Similar obstacles would confront efforts in other Democratic states. In those where reforms have not been put in place, such as Illinois and Maryland, districts are already so gerrymandered it would be hard to reapportion Democratic voters without putting incumbents in danger by leaving them with too many Republican voters. Such too-clever-by-half redistricting is common enough that it has earned its own name, dummymandering.

This is a hazard for Republicans in Texas, too. The governor, Greg Abbott, was reported to have resisted Mr Trump at first, because Republican members of the Texas delegation were anxious about the risks of diluting the Republican presence in their own districts. The president's party has lost seats in the midterms all but twice since 1938. Rather than spend their time redrawing maps to parcel out voters, Democrats would be better off working out how to appeal to far more of them—maybe by fighting for stuff that matters, including a politics with some integrity. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

The Americas

The Americas | A new assault

Donald Trump’s unprecedented attack on Brazil’s judiciary

He has placed sanctions on the judge leading the prosecution of Jair Bolsonaro, his ideological ally

July 31st 2025

“Let this be a warning to those who would trample on the fundamental rights of their countrymen,” Marco Rubio, the US secretary of state, posted on X, a social-media service, on July 30th. The would-be human-rights trampler was Alexandre de Moraes, a Brazilian Supreme Court judge. The warning came in the form of sanctions placed on Mr Moraes under the Global Magnitsky Act, freezing his assets in American banks and prohibiting him from entering the United States.

The Magnitsky Act punishes foreign officials for “gross violations of internationally recognised human rights”. It has previously been used against genocidal Burmese generals and Russian officials who murdered political dissidents. Mr Moraes has done nothing like that. His most noteworthy act is leading the prosecution of Jair Bolsonaro, Brazil's far-right former president and ally of Donald Trump, who will soon stand trial on charges of plotting a coup to overturn an election he lost in 2022, which he denies.

Targeting a sitting judge in a functioning democracy is unprecedented. The sanctions come days after the State Department revoked the visas of most justices on Brazil's Supreme Court and other officials connected to Mr Bolsonaro's prosecution. In justifying the sanctions Scott Bessent, the treasury secretary, claimed that Mr Moraes was carrying out "an unlawful witch-hunt against US and Brazilian citizens and companies".

After the sanctions were announced, Mr Trump signed an executive order placing tariffs of 50% on many Brazilian imports from August 6th. In the order he cited the "politically motivated persecution, intimidation, harassment, censorship, and prosecution" of Mr Bolsonaro. He did not mention trade imbalances, the usual justification for tariffs, perhaps because Brazil runs a deficit with the United States.

Mr Moraes has been at loggerheads with the Trump administration and its allies since 2019. That year, the court opened what would become known as "the fake-news inquiry" to investigate misinformation on social media that affected "the honour and security of the Supreme Court and its members". The probe was controversial from the beginning. Brazil does not have a legal definition of misinformation. By investigating, prosecuting and ruling on threats against itself, the Supreme Court demonstrated its excessive powers. Mr Moraes was appointed to lead the inquiry, bypassing the usual lottery system.

The probe was meant to last less than a year. Instead, it continues six years later and its remit has expanded to include online disinformation about Brazil's democratic institutions. The probe is sealed, so it is unclear how many social-media accounts Mr Moraes has ordered to be taken down, or why. In April 2024 the judiciary committee of the US Congress published a report showing that Mr Moraes had ordered X to remove at least 88 accounts since 2019, usually without providing justification. In February, Mr Trump's media group and Rumble, a video-sharing platform, sued Mr Moraes, alleging that because his rulings affected Brazilians in the United States, they constituted overreach.

None of Mr Moraes's actions have been illegal on Brazilian terms. He is empowered by Brazil's constitution, one of the world's longest, which covers everything from health care to wages. It also allows Brazil's president, state governors, the country's bar association, trade unions, political parties and other groups to file lawsuits directly with the Supreme Court, instead of having them filter up from lower bodies. The court's 11 justices issued over 114,000 rulings last year alone. To deal with this caseload, individual judges are allowed to make far-reaching decisions. This gives Mr Moraes and his colleagues on the bench enormous power, especially in areas where Brazil's Congress has not legislated. Since it has yet to pass a law regulating social media, much of the enforcement has fallen to the court.

Brazilian speech law is more restrictive than that in the United States. It prohibits discrimination based on race, gender, sexual orientation, religion or "physical or social condition". Penalties for slander, defamation and libel are higher when made against public officials. In 2021, while Mr Bolsonaro was in office, Congress passed a law penalising "crimes against democracy" that include "restricting the exercise of constitutional powers" through serious threats or force. Equipped with this cocktail of laws, Mr Moraes has gone after Mr Bolsonaro and some of his fans.

Those who decry Mr Moraes's pursuit of Mr Bolsonaro seem to ignore the evidence in his prosecution. Bolsonaristas attacked government buildings on January 8th, 2023, after their leader falsely claimed that voting machines had been rigged against him. Mr Bolsonaro's allies make the riot sound like a tea-party. "It was done by old ladies, with Bibles, with flowers, with flags, by the elderly, by children, without tanks, without leaders, on a Sunday," says Rogério Marinho, a senator for Mr Bolsonaro's party. Any cursory search of the riot shows that it was a vandalistic orgy. On December 12th, 2022, when President Luiz Inácio Lula da Silva's victory was certified by Brazil's electoral court, Mr Bolsonaro's supporters set buses and cars alight in Brasilia, the capital. On Christmas Eve one man strapped a bomb to a fuel truck near Brasilia's airport, but it failed to go off.

Mr Bolsonaro's inner circle allegedly considered more thuggish actions to stay in power. According to federal police, his deputy chief of staff, Mario Fernandes, produced a plot to assassinate or kidnap Mr Moraes as well as Lula, as the president is known, and his running-mate before they could take office. The plan was allegedly printed out several times at the presidential palace in the last days of Mr Bolsonaro's administration. It listed weapons to be used, including rifles, machineguns, grenade launchers and anti-tank rocket launchers, as well as chemical weapons to kill Lula in hospital, where he was getting check-ups. On July 24th Mr Fernandes admitted in court that he was the author of the document, but called it a habitual "risk analysis" and claimed that he had printed it out to avoid straining his eyes. He said that he did not share it with anybody.

Police also allege that lawyers close to Mr Bolsonaro drew up a decree that would have called a bogus state of emergency to in effect annul the 2022 election. On June 10th Mr Bolsonaro admitted before the Supreme Court that he had called meetings in the presidential palace to discuss the possibility of declaring a state of emergency after losing the vote. He said he quickly abandoned the idea, which received pushback from generals.

Messrs Rubio, Trump and Bessent may think that putting pressure on Mr Moraes will liberate Mr Bolsonaro. Yet their novel use of the Magnitsky Act could backfire. Lula now frames the Bolsonaro clan as "traitors". Most Brazilians agree. Mr Moraes, who is accustomed to receiving death threats, is hard to intimidate. On the day the sanctions were announced he flew to São Paulo to watch his favourite football team play a match. ■

The Americas | Damned if you don’t

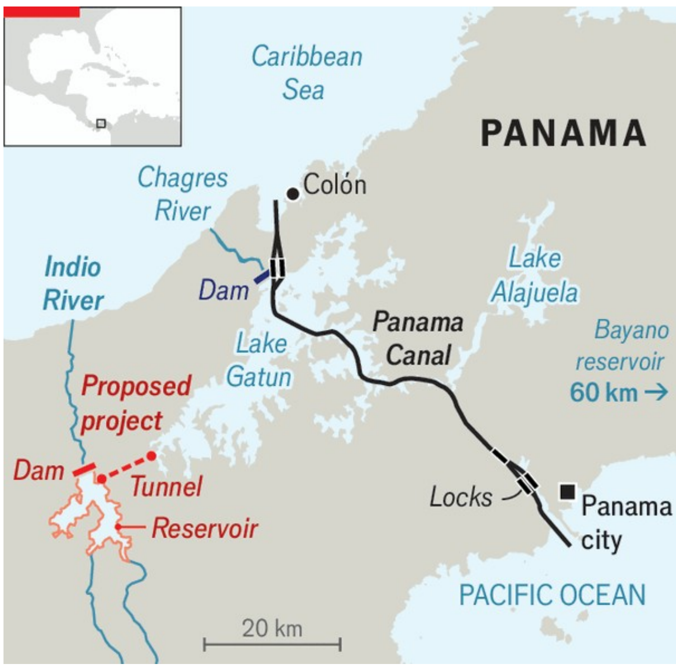
Panamanian farmers versus global shipping—and Donald Trump

A new dam should ease the Panama Canal’s water woes. Those against it don’t have a chance

July 31st 2025

In A remote part of Panama, where motorised canoe is the main mode of transport, a pristine asphalt road portends the arrival of infrastructure unwanted by many locals. In February the Panama Canal Authority (ACP) approved a $1.6bn project that will see the Indio river dammed, flooding the lands of 630 families who live in the basin. In May, dozens of farmers waving Panamanian flags took to the Indio in their canoes to protest against the decision. “This land is our heritage and our livelihood,” says Olegario Cedeño, a coffee and plantain farmer. “They haven’t given us any chance to debate this project.”

Panama is among the world's wettest countries, yet it has a serious water-supply problem. Lake Gatun, in the middle of the country, was created in 1913 by damming the Chagres river. Along with a series of locks, it forms part of the Panama Canal, the waterway that ships use to cross the Panamanian isthmus between the Pacific Ocean and the Caribbean Sea. The lake is the main source of water for the locks, as well as for Panama's largest cities, supplying water for half the population. During droughts, when water levels in Lake Gatun are low (they have dropped more in recent years because of climate change), the number of ship crossings must be cut while taps run dry in Panamanian houses.



Damming the Indio is supposed to fix these woes. Mr Cedeño and the farmers face powerful adversaries. Panama's president, José Raúl Mulino, agrees with the ACP that damming the Indio is the most efficient solution. Doing so will create a new reservoir that will replenish Lake Gatun through a tunnel nine kilometres (six miles) long. "Those who oppose the Rio Indio [dam] oppose progress," says Mr Mulino.

The reservoir will also benefit global trade. Some 40% of container traffic to the United States passes through the canal. When crossings are cut because of low water levels, ship owners face a choice: queue up for days, go the long way around Cape Horn, or pay for a pricey auctioned transit. Fees for those spots are so high that, despite a 29% drop in transits in 2024, ACP revenues held steady.

The United States wants the dam, too. Sky-high auction prices are part of what prompted Donald Trump's pressure campaign earlier this year. The concern is captured in the argument made by US Senator Ted Cruz in January, that high transit fees at times of drought affect Americans more than anyone else, as most of the cargo going through is bound for the United States. The only comfort to delayed ships, he said, was that "Panama may invest in more freshwater reserves in the future". Now that comfort has arrived. The ACP approved the dam shortly after Marco Rubio, the American secretary of state, visited the canal in February. The ACP denies that pressure from the United States influenced its decision.

The dam was a priority long before Mr Trump's eye turned to Panama. The day after Mr Mulino's inauguration in July 2024, the Supreme Court declared unconstitutional a law passed in 2006 that had reduced the area of the water basin around the canal that is administered by the ACP. With the Indio once more under its control, the ACP can invoke Panama's constitution. "Under the constitution we are obliged to protect water resources for the operation of the canal and drinking water for the population," says Ilya Espino de Marotta, the ACP's deputy administrator.

Resettling people like Mr Cedeño will eat up $400m of the ACP's budget for the dam. Ms Espino de Morotta notes that during the ACP's census of the region, 85% of the population gave information voluntarily. But she and her colleagues should be on their guard. Panamanians are on edge. The country has been rocked by protests against the government's social-security reforms, its tepid response to Mr Trump's pressure campaign over the canal and its apparent plan to reopen a big copper mine.

Mr Cedeño says locals' lack of say in the project breaks the Escazú Agreement, a regional treaty on environmental rights in Latin America, to which Panama is a signatory. The farmers argue there is another way to meet the canal's needs: a 100km pipeline from the Bayano reservoir in the east of the country. With Mr Trump breathing down their necks, neither the ACP nor Mr Mulino is likely to listen. ■

The Americas | A polarising verdict

Álvaro Uribe, a former president of Colombia, is convicted

The country is increasingly divided

July 31st 2025

It took Judge Sandra Heredia over ten hours on July 28th to read her judgment in the case against Álvaro Uribe, Colombia's president from 2002 to 2010. Her verdict, when it came, was that he was guilty of arranging the bribing of witnesses and of perverting justice. He is the first Colombian president to be found guilty in court. The sentence, which will be announced on August 1st, could land him with up to eight years in jail. Since Mr Uribe is 73, he might be allowed to serve it under house arrest. His lawyers say they will appeal. "This isn't a trial of history, nor an act of vengeance," said the judge. "It's an act of justice and only justice, and we ask that it be understood [as such]."

There is not much hope of that. The background to the case indeed involves the past 30 years of Colombian history. Mr Uribe is one of the most powerful and controversial figures in the country. He left office with an approval rating of 75%. Still politically influential, his conviction will further polarise a country that under Gustavo Petro, its current leftist and populist president, already suffers from dangerous political confrontation.

Mr Uribe's case dates back to 2012, when he filed a criminal complaint in Colombia's Supreme Court against Iván Cepeda, a left-wing senator. Mr Cepeda had brought witnesses into Congress to claim that Mr Uribe and his brother had formed a right-wing paramilitary group on one of their ranches in the 1990s. Mr Uribe cried slander. To advance his case, he hired Diego Cadena, a lawyer notorious for working for some of Colombia's top drug-traffickers, whom his government had imprisoned. Mr Cadena (who is on trial separately and no longer works for Mr Uribe) was then accused of having offered jailed paramilitaries money and legal benefits to change their testimony against Mr Uribe. Some of those conversations were taped. That prompted the Supreme Court in 2018 to quash charges against Mr Cepeda and open a case against Mr Uribe, who claimed he knew nothing of Mr Cadena's alleged activities. The judge did not believe him, saying he "knew his action was illicit."

The judgment was carefully argued, but Mr Uribe's supporters have nonetheless cried "lawfare", saying his conviction is political. Donald Trump's administration quickly echoed that. It remains to be seen whether punitive tariffs will follow, like those levied against Brazil over the trial of Jair Bolsonaro, a former hard-right president, for an alleged coup attempt (which he too denies).

For many Colombians Mr Uribe is the man who saved their country. When they elected him in 2002 Colombia was close to becoming a failed state. The communist FARC, other guerrilla groups and the paramilitaries of the United Self-Defence Forces of Colombia (AUC) controlled large swathes of the country. Promising security, Mr Uribe built up the army and the police, enabling the state to recover much territory. He slashed coca cultivation, depriving the armed groups of income. With the state back on its feet, he persuaded the AUC to demobilise; some of its leaders were jailed. His security build-up enabled his successor and former defence minister, Juan Manuel Santos, to reach a peace agreement with the weakened FARC.

But there were stains on Mr Uribe's record. The biggest was the "false positives", some 6,000 young men killed by the army and passed off as guerrillas although they were not. Mr Uribe claimed not to know, but his critics argued that he had set incentives to raise the army's "kill rate". His intelligence service snooped on judges and opponents, before it was shut down. Out of office, he turned on Mr Santos and campaigned against the 2016 peace agreement with the FARC.

Mr Uribe's father was kidnapped and murdered by the FARC in 1983, which left him scarred. Mr Cepeda, too, is a victim of violence. His father, a communist who was murdered by paramilitaries, had become a senator when the FARC set up a political party, the Patriotic Union, even as it pursued plans to take power by force of arms. Some question why Mr Cepeda has spent many years trawling through the prisons to pursue Mr Uribe. They cite revenge and political ambition. As an adviser to Mr Petro, Mr Cepeda has been a key figure in the president's "total peace" plan of talking to all illegal armed groups, including drug-traffickers. This has failed. Guerrilla groups are growing again and drug gangs are more powerful. In June a presidential hopeful from Mr Uribe's party was shot at a rally; he remains in intensive care.

Mr Petro, himself a former member of M-19, a guerrilla outfit, is a populist who is visibly frustrated by what he sees as the slim pickings of liberal democracy. Congress and the courts have blocked some of his reforms, a number of which are technically flawed. He is itching to call a referendum to write a new constitution, following the model of Venezuela's Hugo Chávez. What the country really needs is good government. Having funnelled public money to client groups, Mr Petro may well get a candidate into the run-off for presidential elections next year.

Colombia was once known for moderate, consensual politics. Next year's elections already look polarising. Mr Uribe's conviction will stir his fans on the right. "It makes it hellish for the centre," says a depressed activist on that side. A legal defeat may give Mr Uribe a political victory. ■

Sign up to El Boletín, our subscriber-only newsletter on Latin America, to understand the forces shaping a fascinating and complex region.

Asia

Asia | Fog of war

Why did Thailand and Cambodia fight a senseless border war?

After five days, 40 people are dead. But few know what caused the skirmish

July 31st 2025

Much of the disputed border area between Cambodia and Thailand is dotted with Hindu temples built on steep cliffs nearly 1,000 years ago. On the morning of July 24th the sound of gunfire echoed through the ancient ruins.

It is not clear who shot first. But by noon Cambodian and Thai soldiers were attacking each other at eight spots along a 200km frontier. Cambodia's army launched rockets at Thailand, and a Thai F-16 fighter jet dropped bombs inside Cambodia. Not since the Cambodian civil war ended more than three decades ago have these highlands seen such shocking violence. After five days of war more than 40 are dead, hundreds injured and 300,000 civilians displaced.

The two sides' prime ministers agreed to a ceasefire at a hastily convened summit in Kuala Lumpur, Malaysia's capital, on July 28th. Anwar Ibrahim, the prime minister of Malaysia, which currently chairs the Association of South-East Asian Nations (ASEAN), facilitated the negotiations. But diplomats from several countries pointed to America as the talks' key mover. A threat by President Donald Trump to halt trade negotiations with both Cambodia and Thailand until a truce had been reached forced both sides to the negotiating table.

Even so, the ceasefire looks shaky. Thai diplomats acknowledge that the situation is now more peaceful, but also allege that Cambodian troops have repeatedly violated the agreement with grenades and small-arms fire. Cambodians deny this. Military commanders on both sides have met, and appear to be working towards peace. It is possible that the situation will continue to get better, but equally possible that a skirmish will ignite the conflict again.

To understand why, it helps to know the history. The dispute dates back to a 1904 treaty signed between the kingdom of Siam and colonial France, which had conquered much of what is now Vietnam, Laos and Cambodia. The two agreed to define their border as the natural watershed in the area, known as the Dangrek mountains. Four years later, however, France's map-makers drew a line that put high ground and several historically important temples on its side of the border instead. The International Court of Justice awarded the largest of the temples to Cambodia in 1962, citing the French map. Thai diplomats have been smarting about the quality of French cartography ever since.

The two countries have tried to clear things up diplomatically, especially since the surrender of the last remnants of the Khmers Rouges in the area in 1999. But nationalism on both sides has got in the way. Cambodians feel a deep emotional attachment to temples built by the Khmer empire, which they claim as their heritage. For their part, Thais say the temples were part of Siam until European colonialists arrived in the 19th century. In 2008 this became open conflict when Thai protesters broke into the largest of the temples, Preah Vihear. Three years of skirmishes left 34 dead. Things quietened down again following a second ruling by the International Court of Justice in The Hague.

Why is the fighting flaring up again now? Both sides say the other's politics is driving it to make aggressive moves. Thais say Cambodian troops occupied one of the temples in February only after Thailand launched a crackdown on the scam industry, which thrives along its border with Cambodia. They suggest that Cambodia's still-powerful former leader, Hun Sen, may have been angered by this crackdown. Analysts estimate that revenues from scams now account for a large share of the Cambodian economy. Thais also speculate that Mr Hun Sen is unhappy with the slow pace of negotiations to resolve overlapping claims to oil and gas deposits in the Gulf of Thailand that could provide a windfall for poorer Cambodia.

Cambodian officials and analysts reject these theories. Mr Hun Sen, they say, is not so dependent on revenues from the scam compounds or oil- and gasfields as the Thais suggest. They point the finger instead at Thai generals, who they say are using the conflict to whip up nationalist sentiment that might make it easier for them to mount a coup at home. Thailand's generals have form in this regard: they have launched a dozen successful coups since Thailand's absolute monarchy ended in 1932. The last two came against members of the Shinawatra clan, which is in power again at the moment.

Whether it has been the armed forces' goal or not, Thai politics has indeed been destabilised by the dispute. A recording of a conversation between Paetongtarn Shinawatra, the prime minister, and Mr Hun Sen regarding the border was leaked in June. In it, she criticises the Thai army commander-in-charge of the area and calls Mr Hun Sen "uncle", a term of endearment in Asia. As a result, senators aligned with her opponents petitioned the constitutional court to remove her from office. On July 1st she was suspended while the court considers the case.

In the meantime, one of Ms Paetongtarn's deputies, Phumtham Wechayachai, is leading a government that holds a razor-thin majority in parliament. It seems unlikely that it will last the year. As the Shinawatras dare not look weak following the phone call, they have backed the army to the hilt in the border war—undermining Cambodian theories about its origins.

None of these factors can fully explain the rapid escalation of the conflict in late July, however. Other analysts suggest that ego, too, may have played a role. Ms Paetongtarn's father, Thaksin Shinawatra, was once fast friends with Mr Hun Sen. During his years in self-exile, the Thai tycoon would often visit his former counterpart, much to the annoyance of the army generals in Bangkok. But the two men appear to have suffered a falling-out earlier this year for reasons that remain obscure. Mr Hun Sen is known for his temper. Could a spoiled friendship have caused so much hardship for their peoples?

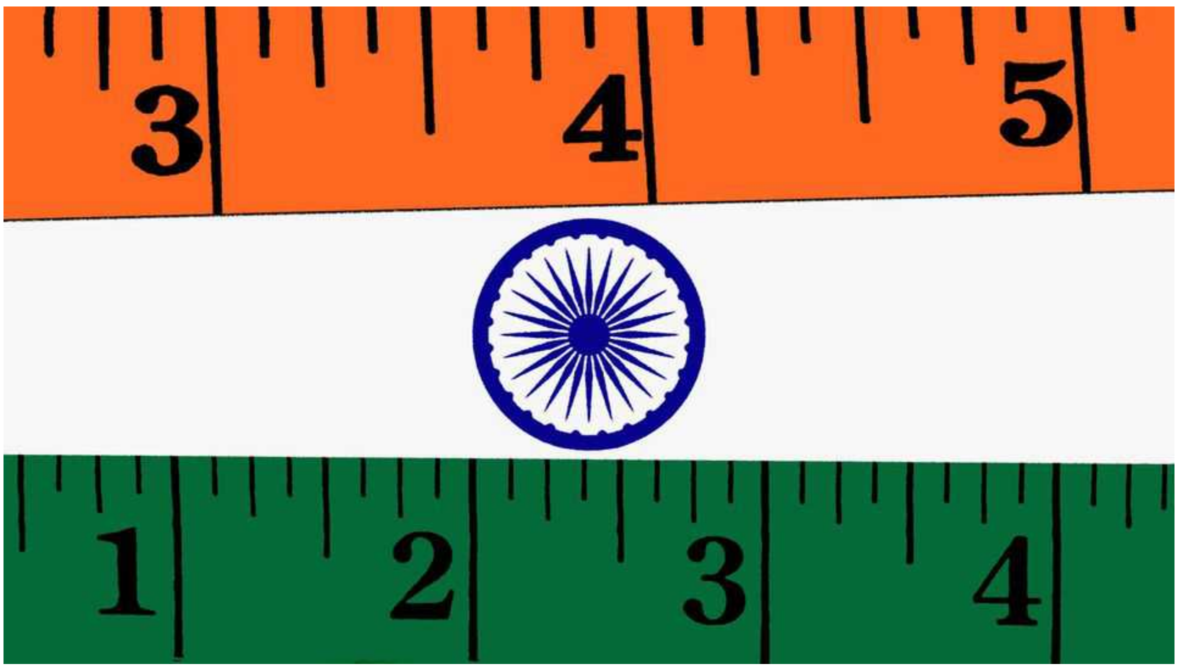
These unanswered questions and conspiracy theories make foreign diplomats in each capital nervous that the ceasefire reached in Malaysia may not hold. Further political turmoil in Thailand is a certainty. So are Mr Hun Sen's volatile moods. A return to hostilities is not in the interests of either nation. But the opacity of decision-making on each side puts the other on full alert. A more democratic political system in both countries, or at least one that offers greater transparency, would help ease tensions. Yet after a week of fighting, it looks an ever more unlikely prospect. ■

Asia | Fat chance

Indian firms aim to gorge on weight-loss drugs

Domestic demand is surging. And Indian generics could make slimming cheaper worldwide

July 31st 2025



Until recently, Indians had few safe ways of joining the global craze for weight-loss drugs. Some smuggled them into the country when returning home from abroad; others chanced it with bootlegged versions from Dubai. But in March Mounjaro, a weight-loss drug from Eli Lilly, an American pharmaceutical giant, became legally available in India. In June Wegovy, a drug from Novo Nordisk, a Danish firm, followed.

Demand is surging. Though Indians are on average slimmer than people in most other countries, the obese population is one of the largest in the world, along with America's and China's. In Delhi, every fourth resident has Type 2 diabetes.

Between 2021 and 2024 Indian sales of weight-loss drugs grew five-fold to \$72m. India's market could soon grow to \$1bn, predicts Jefferies, an investment bank. This may be a modest share of the \$24bn in annual global sales of weight-loss drugs. But as the global market is set to rocket to \$150bn in annual sales in the next decade, industry insiders see India as a juicy target. Mounjaro was an instant hit: consumption tripled from March to April, according to one industry tracker.

Indian pharma is hoping to cash in. Generic firms, such as Biocon, are already offering weight-loss drugs, such as cheaper versions of an inferior first-generation injectable, liraglutide. Sun Pharma, India's biggest drugs company, hopes to launch its own jab in five years.

The Indian market is especially lucrative because those who most need to lose weight are also best placed to pay up. In America, poorer people tend to be fatter. But in India obesity peaks in the most prosperous southern regions and is more common among urban than rural populations. The university-educated are more likely to be obese, too.

Indeed, the real boom will come next year. That is when the patent for semaglutide, the active ingredient in Ozempic and Wegovy, expires in India. The country's generics giants, such as Cipla and Lupin, will sprint to produce knock-offs. But to cash in on home turf, Indian drug firms need to beat foreign rivals by adapting a global blockbuster to Indian realities.

The first is cost. Starting at around \$200 a month, Eli Lilly and Novo Nordisk's Indian offering can cost as little as a fifth of their prices in America. But a year's supply of Mounjaro or Wegovy for a single Indian can still end up being roughly equivalent to the country's GDP per person. Indian generics will slash that figure. Some analysts predict a 95% nosedive. Second, South Asians are unusually genetically predisposed to fatty-liver disease. Novo Nordisk's clinical trials suggest semaglutide might reduce it by 37%. Delivering a drug that caters to the quirks of Indian physiology gives Novo Nordisk a head start.

Finally, consider logistics. Tirzepatide and semaglutide, the active ingredients in Eli Lilly and Novo Nordisk's products, respectively, are injectables. The jabs require cold storage. That is a tough ask in a hot country with patchy logistics chains. India’s Mankind Pharma is expecting trial results by the end of 2025 for what would become India’s first oral weight-loss drug that could rival injectables. Both Eli Lilly and Novo Nordisk hope to enter this race with their own versions next year. Whoever makes a good weight-loss pill will prosper, especially in rural India.

India is the world’s biggest supplier of generic drugs, meeting about 20% of global demand. Low- and middle-income countries across Africa, Latin America and South-East Asia have some of the fastest-rising diabetes rates in the world. Dr Reddy’s, an Indian pharma giant, plans to launch a generic version of Wegovy in 87 countries when the patent expires next year. The company is targeting Brazil, Turkey and other emerging markets.

India also supplies nearly half the generic drugs Americans consume. For now, America levies no tariffs on them. That could change before American patents start expiring in the next decade. David Ricks, Eli Lilly’s CEO, has warned that Donald Trump’s tariffs could jack up the price of Indian generics. Mr Trump has spoken of slapping 200% tariffs on pharmaceuticals. On July 30th he threatened a 25% general tariff on India and an unspecified “penalty” for its stances on trade and Russia. If Indian pharma escapes the fallout, it might yet make America skinny again. ■

Stay on top of our India coverage by signing up to Essential India, our free weekly newsletter.

Asia | Pincer movements

South-East Asia makes an AI power grab

No other region is as appealing to both America and China

July 31st 2025

When Lawrence Wong visited China on his first trip as Singapore's prime minister in June, he delivered a warning: economic restrictions are futile in an interconnected world. The more one country imposes restrictions on others, Mr Wong said in Beijing, "the more it incentivises others to find alternative solutions and sources". Many of those alternative solutions are in South-East Asia, which is becoming a vital arena in the global tech competition between America and China.

Firms are motivated not just by the region's 700m people, even though many of them are young and tech-savvy. South-East Asia's proximity to China and other large economies (such as Australia, Japan and India) makes it an ideal base to serve global clients. Singapore, Malaysia, Thailand and Indonesia host nearly 2GW in data-centre capacity, equivalent to the combined infrastructure of Europe's largest data-centre hubs, London and Frankfurt, according to Jones Lang LaSalle, a property-services firm.

Of all the countries in South-East Asia, Singapore and Malaysia benefit most from the AI race. Singapore, with its well-governed, stable economy, has deftly handled its relationships with America and China. In 2023 it awarded four new data-centre tenders: two to American firms (Equinix and Microsoft) and two to Chinese ones (GDS Holdings and a group led by Bytedance). It now hosts 60% of South-East Asia's data-centre capacity.

Chinese firms have moved aggressively. Huawei and Alibaba, two of China's internet giants, have built data centres across the region. Alibaba has partnered with Tencent, another Chinese tech titan, and GoTo, an Indonesian tech firm, to train Indonesians in cloud computing and AI. Tencent alone plans to invest $500m in Indonesia by 2030. Huawei has also begun selling its Ascend AI chips, an alternative to Nvidia's high-end semiconductors that are banned for sale to Chinese firms, in the Middle East and South-East Asia. This is further evidence that China is building its own rival technological stack, rather than merely evading American export controls.

Meanwhile Alphabet, Amazon and Microsoft, America's three big cloud-service providers, are also investing in South-East Asia. Amazon and Microsoft make up 60% of the cloud "infrastructure as a service" market in the region. Amazon plans to spend $9bn to expand in Singapore by 2028; Microsoft has pledged $4bn in Malaysia and Indonesia; Alphabet is building a $2bn data centre in Malaysia and investing $1bn in Thailand. Many American technology titans have their Asia headquarters in Singapore—including Alphabet, Apple, AWS, Meta and Microsoft—especially as the Chinese Communist Party has tightened its grip on Hong Kong, which was once the regional corporate hub for more traditional firms.

Perhaps the most telling example is the partnership between Oracle, an American cloud firm, and Bytedance, TikTok's Chinese parent. Their partnership has helped turn Johor, the Malaysian state that borders Singapore, into the world's second-largest AI hub, according to SemiAnalysis, a research firm. Bytedance will invest $2.7bn in Malaysia, while Oracle plans to invest over $6.5bn. Most of its graphics-processingunit (GPU) capacity (the kind used to train AI models) in the region goes to Bytedance. The data centres are run by chips supplied by Nvidia, whose advanced semiconductors power generative AI.

Oracle's data centres were built by DayOne, a developer based in Singapore, according to SemiAnalysis. DayOne was spun out of Chinese data-centre firm GDS Holdings, which retains a 36% stake. Donald Trump's AI Action Plan, which he unveiled on July 23rd, is "positive" news for data-centre projects across Asia, says Jamie Khoo, DayOne's chief executive. Earlier in the year uncertainties about America's policies on export controls created fear in the industry, she adds. Mr Trump's new policies create clearer rules for firms in Asia using high-end GPUs with American technology. According to SemiAnalysis, DayOne's biggest customer is ByteDance; its second-biggest is Oracle. Together, Oracle and DayOne are also setting up a big cloud facility in Indonesia.

DayOne is far from the only firm to distance itself from China. Manus, a Chinese AI startup, shifted its headquarters to Singapore in July. PC Partner Group, which assembles Nvidia GPUs for gaming, left Hong Kong for Singapore in 2024. Even Bytedance runs most of its international operations from Singapore—and repeatedly insists that it is not a Chinese firm. Other Chinese firms have also gained access to banned chips by renting servers in South-East Asian data centres. This remains legal, though controversial.

Beneath this flurry of legitimate activity is an underworld. In one attempt to circumvent semiconductor restrictions, a firm called "Luxuriate Your Life" bought servers from Dell and Supermicro, which may have contained banned Nvidia chips, in an alleged fraud worth $390m. The servers were thought to have been smuggled into Malaysia through Singapore. Singaporean authorities arrested three men suspected of shipping the chips to DeepSeek, a Chinese AI firm. If convicted, they face up to 20 years in prison.

More export controls are coming. Malaysia announced on July 14th that all exports, trans-shipments and transits of advanced AI chips would require a trade permit. Individuals and firms must notify Malaysian authorities at least 30 days before moving any items not explicitly covered by existing exemptions. This follows pressure from America to stop chips subject to export controls reaching China via Malaysia.

Of course, smuggling is not limited to semiconductors. When China banned exports of critical minerals to America in 2024, a new trans-shipment network emerged. Between December 2024 and April 2025 America imported almost as much antinomy oxide from Thailand and Mexico as in the previous three years combined. Chinese firms shipped restricted materials through third countries, using false labels like “iron” or “art supplies”, reported Reuters. As boundaries between legal and illegal supply chains blur, South-East Asia’s role in the global tech economy—as a partner, a geopolitical buffer and a back door—will only grow. ■

Correction (July 31st): An earlier version of this article said that DayOne had moved its headquarters from China. In fact, it spun out its international operations. Sorry.

Asia | Tariffs unstitched

South Asian women will be hurt by the trade war

Unless Bangladesh and Sri Lanka strike a deal with Donald Trump

July 31st 2025

ThE participation rate of women in the labour markets of South Asia is in general woefully low. The region's garment factories, however, are exceptions. In Bangladesh and Sri Lanka around two-thirds of those behind the sewing machines are women. The industry has pulled millions of them into the workforce while spearheading the countries' economic growth since the 1980s. But much hinges on selling cheap t-shirts and shoes to a country whose president's favourite word is tariffs.

Workers and industrialists have been on tenterhooks since Donald Trump announced "reciprocal tariffs" on most of America's trade partners in February. America is the largest single-country buyer of garments from the region. Sri Lanka, which still faces a tariff rate of 30% after a four-month pause runs out on August 1st, relies on garment sales for more than 40% of its export revenues. Bangladesh, the world's second-largest producer of ready-made garments, is renegotiating the 35% tariff that Mr Trump now says will come into effect that day. "This will be a disaster for us," says Mohiuddin Rubel, a former director of Bangladesh's garment manufacturers' and exporters' association.

Since February, American buyers such as American Eagle and Walmart have put millions of dollars-worth of orders on hold. Mr Rubel's own company has lost around 25% of his sales to America since March. A few days after Mr Trump renewed his threat of tariffs on Bangladesh on July 7th, Walmart told Iqbal Hossain, the managing director of Patriot Eco Apparel, a garment manufacturer there, to freeze $1.25m-worth of orders until more clarity emerges.

Both women and men are likely to suffer. But there are fewer options for women to retrain or find other work. Unions say that temporary workers have already been laid off in Bangladesh. Lima Akhter, a 28-year-old woman who supported her family of eight by working at Patriot Eco Apparel, lost her job without notice in June, along with 40 others. "I used to pay for my children's school fees and my parents' medication," says Ms Akhter. Instead, she has been obliged to borrow money from a microcredit company.

In Sri Lanka companies have been citing the proposed tariffs in order to refuse to pay salary rises or bonuses. Ranil Wickremesinghe, a former president of Sri Lanka, has warned that if they come into effect they could put over 100,000 jobs at risk. Trickle-down effects would hurt at least 2.5m to 6m dependants, says Anton Marcus of the Free Trade Zones & General Services Employees Union in Colombo, Sri Lanka's capital.

American brands such as Gap and Walmart have also asked manufacturers to absorb at least half of the initial 10% tariff that Mr Trump has imposed during the pause. A number of small and medium-size companies suspended production, just as they were recovering from the after-effects of the revolution that toppled Sheikh Hasina, Bangladesh's leader, in 2024. Over 800 businesses in the country will be affected, says Rashadul Alam Raju, general secretary of the Garment Workers Union Federation in Dhaka, the capital.

"It is difficult for a single mother to survive and pay school fees without a job," says Kohinoor Begum, a 35-year-old garment-worker who also lost her job last month in Bangladesh. Unions complain that when women factory-workers get dismissed, they struggle to get another position. Most leave their villages for factories in their late teens. They spend years repeating the same mechanical tasks without gaining new skills.

Ahead of Mr Trump's deadline, countries are renegotiating renewed tariff rates that may preserve some of their industry's comparative advantage. Bangladesh is ramping up imports from America to convince the Trump administration that it can close its $6bn trade deficit. Recently the government ordered 25 Boeing aircraft as well. The Sri Lankan government says it is scheduled for another round of talks with America.

Even so, both Bangladesh and Sri Lanka will need to undergo profound change to become immune to future shake-ups. Sri Lanka could offer America targeted benefits in high-value sectors such as tech to reduce its overdependence on clothes. This would have the added advantage of shielding the industry and its workers from the volatility of global trade structures, says Thiruni Kelegama at the University of Oxford. But for now, the next payslip of thousands may depend on giving Mr Trump what it takes to seal a deal. ■

Asia | Banyan

Why Indians suffer from a colonial mindset

The overbearing role of the state has never been challenged

July 31st 2025

THIS month India will mark 78 years since it unshackled itself from Britain. In that time it has risen from being a desperately poor country reliant on food aid to becoming a net exporter of grain and a recognised nuclear power. It will soon be the world's fourth-largest economy. Under the leadership of Narendra Modi since 2014, especially, Indians have gained new confidence in their own identity, shedding some of the hang-ups inherited from past generations. The India of 2025 is, on the surface, a modern, self-assured nation.

Yet a spectre haunts Indians: the spectre of colonialism. Consider one example. Last month Prada, a fashion company, launched a style of sandals that bore a striking resemblance to a local product, sparking a minor furore.

The Times of India christened the sandals "colonial couture". The Hindu also decried Prada's flip-flop colonialism. A member of a former royal family called on the government to "act decisively against companies that unlawfully appropriate our millennia-old crafts." One commenter on X chimed in: "Please take strict action against @prada."

Spotting insidious acts of colonialism is like seeing the image of the Virgin Mary on a slice of toast: a matter more of belief than evidence. And belief is something at which India excels. Any Western company, politician or commentator unwise enough to express an opinion—or utter a fact—not wholly complimentary to India is accused of harbouring a "colonial mindset". Yet it is the follow-up that is more revealing. It is not uncommon for Indians to look to the state for redress, seeking bans, probes or penalties against the offender. The former royal so irate about Prada, for example, did not just complain into the void but tagged the prime minister's office.

Nor are such calls restricted to acting against offensive foreigners. A glance at X posts tagging the home ministry—responsible for crime and public order—reveals Indians requesting the intervention of the highest levels of the state for the most minor transgressions, even when those concern their own compatriots.

This is India's very own colonial mindset. It is a deeply held belief—among leaders and citizens both—that the state sits at the centre of society and must be in control of it. In Hindi this vision of the state is called the maibaap sarkar, or "mother-father government". The maibaap sarkar nurtures and protects, but it must also discipline and punish.

The colonial mindset is distinct from the colonial hangover. The hangover describes vestiges of the past that have never been eradicated. It can be found everywhere, from the country's elite gymkhana clubs to its old-fashioned courts. The mindset evolved in part because of deliberate decisions taken during the creation of the new Republic of India. About a third of its constitution borrows directly from the Government of India Act of 1935, which was passed by Britain's Parliament and laid out the principles by which the colony would be governed. Jawaharlal Nehru, India's first prime minister, described it as a "charter of slavery". The constitution is colonial in that it takes heavily from a colonial document, writes Arghya Sengupta, a constitutional scholar, in his book “The Colonial Constitution”. But it is also colonial “in a more conceptual sense: it sets up a government that towers over the citizen much like colonial governments tend to do.”

Having fought a long battle to free themselves and their people from the yoke of colonialism, the founders of modern India found themselves in charge of a fragile and fissiparous new country. Liberal ideals were all well and good but, unsurprisingly, the urgency of keeping India whole took precedence. The preamble to its constitution carries echoes of America’s Declaration of Independence, which the framers admired. But where the first amendment of America’s constitution enshrines an inalienable right to free speech, the first amendment of India’s severely curtails it.

In 2023 Mr Modi’s government junked the Indian Penal Code, from 1860, and replaced it with the Bharatiya Nyaya Sanhita, a new version said to be fit for a modern country. The government made a big deal of excising the colonial-era crime of sedition from the new act. Yet it contains provisions that scholars and judges worry could simply become a proxy for the old offence. The mindset that sees the state as a parent persists. If Indians see colonialism everywhere, that is because they live in a country ruled by some of its principles. ■

China

China | Grey power arising

Can pensioners rescue China's economy?

The government is stingy and timid when it comes to retirement benefits

July 31st 2025

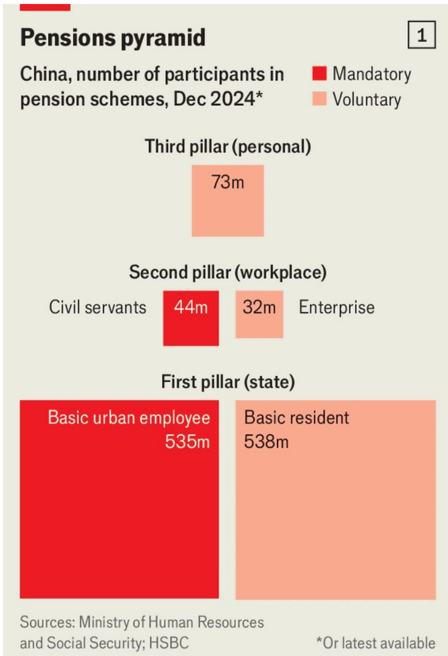
INSIDE BEIJING'S third ring road, Mr Li rides a scooter for FlashEx, a courier. Now in his 40s, with two school-age children, he migrated from Henan province, roughly 600km to the south. The capital's ring roads, he has discovered, are not paved with gold. Competition has increased; fees have declined. Of the roughly 8,000 yuan ($1,100) he makes each month, he saves more than half.

People like Mr Li pose a conundrum for China's economic policymakers. If China's households feel insecure, they will not spend. And if they do not spend, the country's ever more impressive industrial system will keep struggling to find customers. The lack of demand has already saddled the economy with persistent deflation: China's factory-gate prices have fallen year on year for 33 months in a row. Falling prices can become a vicious circle, if they oblige companies to cut wages, further dampening demand.

On a recent visit to Henan, China's leader, Xi Jinping, urged officials to strengthen social security and improve public services. Many macroeconomists agree: stronger social safety-nets would be good economically, as well as being good in themselves. On July 28th, the government took a welcome step in the right direction with a new subsidy to boost births: 3,600 yuan a year for families for each child under the age of three.

The government might look next to the other end of the life cycle. If China spent another 1trn yuan on rural pensions, it would increase GDP by roughly 1.2trn, according to Liu Shijin, who used to work for a think-tank attached to China's cabinet. That makes pension reform effective stimulus policy, as well as worthwhile social policy. It is one of China's best structural tools to unlock household consumption, according to Robin Xing of Morgan Stanley, a bank. The difficulty is getting the government to use it.

China is famous for its thrift. Households as a group now save over 30% of their disposable income. Migrant workers, like Mr Li, save even more: over 48%, according to one estimate, although some of that money will be spent by their family members back in their home towns.



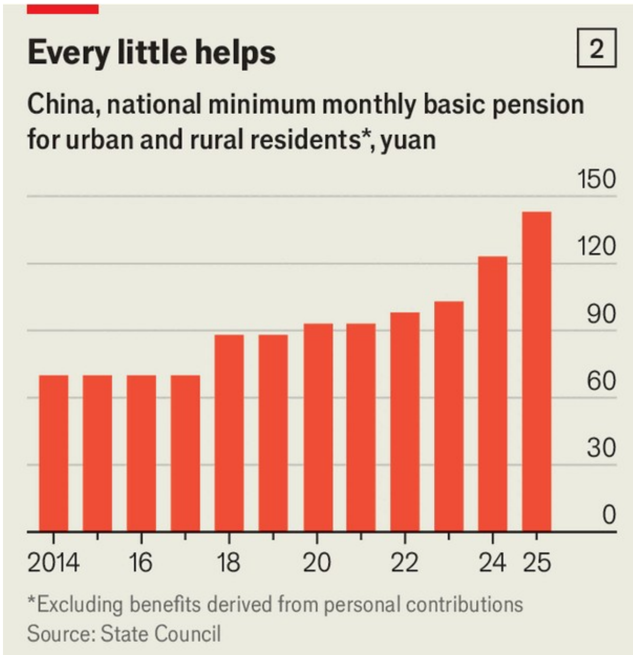
In the past, much of this saving was channelled into property. But purchases of flats have fallen by half since the housing market peaked in mid-2021. The saving is flowing instead into financial assets, often cash. Figures reported by HSBC, another bank, show that cash and deposits accounted for almost half of households' financial assets in 2022, compared with less than 14% in America. These piggy banks provide peace of mind, but meagre financial returns. The paltry income households earn from their wealth is another reason for weak consumer spending, says Adam Wolfe of Absolute Strategy Research, a consultancy.

To increase spending, pension reform will have to make the system both more generous and more adventurous. The existing pension architecture, it is often said, comprises three pillars (see chart 1): state, workplace and personal, which cover more than 90% of the adult population. But it is, in fact, a less tidy assemblage of five programmes. In some schemes an individual's contributions flow directly into assets held on their behalf. In others the link between money in and money out is much less tight. A government formula, not market returns, links past contributions to future payouts.

The government has been tinkering with many of these schemes, to improve their reach and financial returns. At the end of last year it rolled out personal pensions across the whole country, offering modest tax breaks to people who contribute up to 12,000 yuan a year to their private pension pot. Almost 73m people have signed up, but fewer than a quarter of them have paid in any money.

The government also wants the funds collected by occupational pensions (which cover about 76m people, including 44m government workers) to be invested more bravely. Because the money managers who handle these assets are typically judged annually, they play it safe, allocating only 10-15% of their portfolios to equities, so as to avoid a bad year. The result is long-term money managed with a short-term mindset, argues Bo Sun of Principal Financial Group, an investment firm. The government wants money managers to be evaluated over three years or more. That would allow them to buy more equities, which could help stabilise the stockmarket and earn higher returns over the long run.

The government is also trying to extend its mandatory social-security scheme for urban employees, which covers over 530m people, to gig workers like Mr Li and others engaged in more flexible kinds of labour. Such workers can now contribute 20% of their earnings if they wish, although many are reluctant to give up wages now for pensions later. Some e-commerce platforms have started offering to act more like regular employers, making top-up contributions for riders who divert a share of their wages into such schemes.



The biggest of China's five schemes spans around 538m residents, most of them rural, who can choose to make small contributions in their younger years in return for modest benefits later in life. In March, the government said it would add 20 yuan to the minimum monthly payout of 123 yuan, which is often topped up by provincial governments (see chart 2). Behind the state schemes stands the National Social Security Fund, which manages some of the money collected, as well as holding equity stakes in state-owned enterprises, with a book value of 2.1trn yuan.

Some economists think the government should do far more. Lu Ting of Nomura, a bank, argues that increasing the monthly pension by 300 yuan would have a double benefit. The extra money would increase the spending of pensioners, who now number over 180m. It would also reduce the saving rate of the scheme's 358m younger members who could look forward to receiving it when they retire. The extra cost would be less than 0.5% of GDP a year.

Is the government listening? In June, the Communist Party's central committee released a set of ten opinions on "improving people's livelihood", covering the elderly, education, health care and more. They represent the first comprehensive livelihood policy, issued as a central document, since Mr Xi came to power in 2012, according to a government spokesman. They said China should sweeten incentives to contribute to pensions, bring more flexible workers into the fold, and make it easier to enroll in schemes where people live, not where they are registered under China's hukou system of internal passports. The opinions were, however, disappointingly vague, failing to clarify "who is going to pay", points out Mr Xing.

The government does not seem ready for the kind of generosity that would really drive growth. The 20-yuan addition to resident pensions offered this year and last was itself a big increase compared with past increments. The government is wary of haste, even when the shortfall in demand is urgent. In recent weeks, it increased retirement benefits for urban employees and government workers by a measly 2%. "The problem isn't a lack of ideas—it's institutional inertia," argues Mr Xing. "The gap between diagnosis and delivery remains wide."

As for Mr Li from Henan, he is not counting on pension reform to secure his retirement. "If we can't work any more, we can go back to our home town to farm," he says. Mr Xi tells the country's people to look forward to "Chinese-style modernisation" and a gleaming industrial future. But many older people, like Mr Li, face the prospect of a return to the land. ■

Subscribers can sign up to Drum Tower, our new weekly newsletter, to understand what the world makes of China—and what China makes of the world.

China | Deliver us

Everyone loses in the rage of China’s delivery wars

Companies are caught in a race to the bottom

July 31st 2025

BOILED BEEF noodles gave He Wei a delectable idea. A decade ago the businessman, based in China’s wealthy coastal province of Jiangsu, started a small restaurant selling them. Now he has a chain of 100 such outlets. But life is getting less palatable for millions of small eateries and cafés across China. Not only is consumer spending sluggish, but the tech platforms that operate China’s food-delivery services are battling over prices, often dropping the cost of products to next to nothing and forcing merchants such as Mr He to cover the bill. Welcome to the front line of the “delivery wars”.

It all began in February when JD.com, one of China’s biggest e-commerce groups, announced that it would enter the market for food delivery. This posed an immediate threat to Meituan, a super app and leader in the field, and to Alibaba, an e-commerce giant that runs its own food-delivery service called Ele.me. Since then, the three have scrapped for market share in a business which had a staggering 1.6trn yuan ($223bn) in deliveries last year.

By lowering prices across the country, expanding the types of deliverable items and shortening delivery times, each combatant hopes to keep customers scrolling exclusively on their apps. Alibaba has attacked JD by offering "instant purchases" of goods such as electronics, which it promises to get to customers in under an hour. Meituan has also started selling "instant" smartphones and other electronics, while also promising it will not be late. The price of many coffee and tea drinks have come down to 1 yuan, or nothing.

As pricing functions and special offers fluctuate, so do the stacks of delivery bags that pile up on counters in restaurants and cafés. Customers may place delivery orders while sitting in the very tea shop from which they want a drink. Vendors are in a bind: they must choose between slashing prices or simply being ignored for cheaper goods. Mr He says his revenue from on-premises dining has shrunk by 30% since April. His revenue for deliveries has jumped by 20% during that time, but profits on deliveries have tumbled by more than 20%. He is, in effect, doing much more work for much less gain, a phenomenon referred to in China as "involution", or relentless, meaningless competition.

Involution is one of the defining characteristics of Xi Jinping's China. Price wars have swept up numerous industries as production of goods outpaces domestic demand. Competition on car prices has intensified to the point where automakers now struggle to pay their suppliers on time. About 80% of industrial sectors are reporting negative price growth compared with last year, notes Goldman Sachs, a bank.

You might think that consumers were winning in a golden age of cheap goodies. Not so. Restaurants are cutting back on costs. Mr He says he is committed to keeping his dishes safe, but wonders what dodgy ingredients others may be forced to use. "If you pay three yuan for pork-fried rice, what do you think you'll get?" he asks ominously. Delivery platforms have been forced in the past to crack down on rogue kitchens appearing in insalubrious places, such as public toilets.

Meanwhile, the list of losers from the war is long. As margins decline, sellers rely on volume to squeeze out earnings. Big coffee chains may make very little per cup, but large turnover eventually adds up to a decent sum. Small shops cannot compete. Things are not easy for mid-tier restaurants either. Mr He shows a receipt for an order of beef noodles and two biscuits that would normally cost 30 yuan. But the customer had a third off in discounts. Mr He's shop earns about four yuan on the transaction, but after platform fees and running costs it is hard to see how he profits.

China's platform companies may employ more than 10m delivery drivers. Think of them as the cavalry of the delivery wars. For those looking for work, the situation has certainly created more positions. JD has hired more of them to get its food delivery up and running. Meituan, which employs more than 7m drivers, says their average income has risen by 111% since June because of the flood of new orders.

But the cavalry is suffering, too. Before the start of the delivery wars, the average driver made an estimated 33.6 yuan per hour, according to a recent study by Renmin University in Beijing. Now they report that their income per delivery is falling, and that they need to work far longer hours if they actually want to take home more pay. On top of that they put their lives on the line to get goods to customers on time. Delivery drivers are often accused of reckless driving; traffic accidents involving them are on the increase, according to certain hospital reports.

Even the tech giants themselves appear to be losing. Meituan is said to make just one yuan per delivery. Analysts expect JD's delivery service to lose 33bn yuan this year. Taobao's "instant purchase" unit could create a hole in the company's balance-sheets of 44bn yuan this year and 50bn yuan in 2026. Bocom International Securities, a Chinese broker, has lowered its profit forecast for Meituan by 17% this year. Their reputations are taking a hit, too. Netizens have been reposting a classical Chinese phrase used to describe the cruelty of the Qin Dynasty but swapping in the super-app's name instead: "Life under Meituan is suffering," they say.

This cannot continue. In recent weeks the central government has shown that it wants to put an end to involution. On July 24th, its central-planning agency and its market regulator published proposed changes to the country's price law, first put in place in 1998. The draft amendment would prohibit companies from selling items below cost based on their "pricing mechanism", an oblique reference to the algorithms that widely determine the price of goods sold on e-commerce platforms. The proposed change to the law will probably take months to be approved by Chinese lawmakers.

It is all part of a bigger campaign. Mr Xi declared in early July that companies involved in "disorderly price-cutting" would have to contend with more robust regulation. On July 30th the Politburo, China's top decision-making body, signalled that it wants to curb price wars as a priority. In recent days officials in Shanghai have also called in the companies' leaders to complain about the situation. And a food and beverage association in Guizhou province in southern China released a missive earlier this month claiming that the wars had led to chaos in the market and to a vicious cycle among small businesses.

Through their delivery arms the tech giants have become some of the biggest employers in the country, however. Urban youth unemployment is a big concern for the Communist Party. It stood at around 14.5% in June, lower than the month before. Many of the platforms' drivers are young migrants from inland provinces who a decade ago would have worked in factories. Such jobs are disappearing now as many Chinese manufacturers move to cheaper markets, and fewer young people are willing to work on production lines. While halting involution is now on the government's agenda, senior leaders also value the employment these jobs offer. This is one reason the battles may rage on. ■

Subscribers can sign up to Drum Tower, our new weekly newsletter, to understand what the world makes of China—and what China makes of the world.

Middle East & Africa

Middle East & Africa | The hidden imam

Iran’s supreme leader is fading into the shadows

His diminishing power makes the country’s future increasingly uncertain

July 31st 2025

Political power in Iran used to be simple. Call him dictator, supreme leader, imam or shadow of God on earth, Ayatollah Ali Khamenei was the absolute ruler. Military commanders, presidents and clerics were his underlings. He made all the top appointments and rigged the choice of presidential candidates.

But since Iran’s 12-day war with Israel, things have become more complicated. The 86-year-old leader appears in public only rarely. His sermons, once lengthy, are brief. The question of succession looms larger than ever, with actors inside and outside the regime jostling for position, many openly advocating alternatives to 46 years of theocracy. The opacity around the fate of Iran’s nuclear programme after the strikes by Israel and

America is replicated across the political system. Iranians want to know whether their leaders will accept Donald Trump's terms for a deal. But they are no longer sure who is in charge.

Initially, the war appeared to stabilise Iran's politics. A wave of patriotism pulled rulers and ruled together after years of polarisation. Calls by Binyamin Netanyahu, Israel's prime minister, for Iranians to rise up fell on deaf ears. But since the ceasefire on June 24th the multiplicity of opinions on how to preserve unity has made the country look more fragmented.

Mr Khamenei's preferred option is cosmetic. To appeal to a population disenchanted with clerical rule, he is dressing his theocracy in nationalist clothes. During celebrations on July 5th for Ashura, the anniversary of the martyrdom of the Prophet Muhammad's grandson and the republic's holiest day, Mr Khamenei ordered a cantor to drop his incantations. He told him to sing Ey Iran, a rendition of a patriotic anthem that was popular before the Islamic revolution in 1979 and had since been suppressed. He has played down Shia saints and puffed up Iran's pre-Islamic past. New billboards in cities give ancient Persian myths modern themes. Mr Khamenei has also turned a blind eye to a new crop of reality shows, including a wildly popular Persian version of "Love Island", where unmarried couples flirt and make out. In parts of Tehran, the capital, headscarves and long coats for women feel like a relic of the past.

But such concessions are designed to reduce the demand for political change, not herald its coming. Earlier this month Mr Khamenei reappointed his crusty Friday-prayer preacher and his head of the Guardian Council—the latter, who is 99 years old, for the 33rd time. After a few post-war appearances, the state broadcaster has removed reformists from its airwaves. Executions are up; an expected amnesty for political prisoners looks far off.

As the supreme leader tries to keep up the appearance of business as usual, rivals are circling. The Islamic Revolutionary Guard Corps (IRGC), the regime's praetorian guard, is using the continued threat from Israel to justify its hold on power. Before retreating into his bunker as Israel struck, Mr Khamenei handed decision-making to the generals, making it more likely that a military junta reduces him to a figurehead. Yet the generals are struggling to project unity. Israel's evident infiltration of their ranks has spread paranoia, complicating co-ordination. The IRGC's extensive business interests and unbridled corruption mean some expect it to fragment into a hotch-potch of decentralised mafias.

Masoud Pezeshkian, the president, has called for a dialogue with the opposition and the return of exiles in an attempt to turn the unity produced by the war into lasting reconciliation. But he lacks the clout to deliver. Iranians blame him for blackouts and lengthy water cuts in the summer heat. He is also seen as responsible for the run on the rial, having failed to persuade Iran's sanctions-busting businessfolk to repatriate earnings.

Amid the discontent, two former presidents, Mahmoud Ahmadinejad and Hassan Rouhani, are plotting a comeback. Both command a larger popular base than Mr Pezeshkian. Mr Rouhani, a cleric, might fancy his chances as Mr Khamenei's successor, reckoning he could end the stand-off with the West. The war, he said in a statement, "should be a wake-up call to correct our course and rebuild the foundations of governance". Ali Larijani, a former speaker of parliament, is acting like the executive president he once tried to be. He, rather than Mr Pezeshkian, recently led a delegation to Moscow that met Vladimir Putin, Russia's president.

Dissidents, too, are speaking out. On July 11th Mir Hossein Moussavi, a former prime minister Mr Khamenei has kept under house arrest for 15 years, released a petition calling for a new constitution, which was signed by hundreds of intellectuals. Many younger Iranians want an overhaul without any past or present figures, including ageing dissidents like Mr Moussavi.

Domestic disunity weighs on foreign policy, where Iran has downsized its ambitions from regional domination to regime survival following Israel's pulverisation of its proxies. Hardliners advocate dashing for a nuclear bomb. Others hope China, Iran's primary market for oil, may come to the rescue with new warplanes. But with Israel threatening a resumption of bombing, any help would probably come too late. Russia, mired in Ukraine, has been slow to rebuild Iran's air defences.

That leaves America. Mr Trump's participation in Israel's war spooked Iran and put talks about a nuclear deal on hold. Abbas Araghchi, Iran's foreign minister, says Iran is ready to resume them. It may even consider a nonaggression pact with Israel. An agreement would release Iran from sanctions, end its isolation from the West and perhaps restore foreign investment, but it is hampered by differences over where Iran should be heading. For Iranians the decision is urgent. But they may no longer have a leader with the vision or the authority to make it. ■

Sign up to the Middle East Dispatch, a weekly newsletter that keeps you in the loop on a fascinating, complex and consequential part of the world.

Middle East & Africa | Only bad options

Famine in Gaza shows the failure of Israel's strategy

It has become an international pariah without vanquishing Hamas

July 31st 2025

The announcement was an admission of failure. On July 26th the Israel Defence Forces (IDF) said that it would parachute food into Gaza and implement daily "humanitarian pauses" in parts of the still depopulated areas of the devastated strip, allowing international aid organisations to bring in convoys.

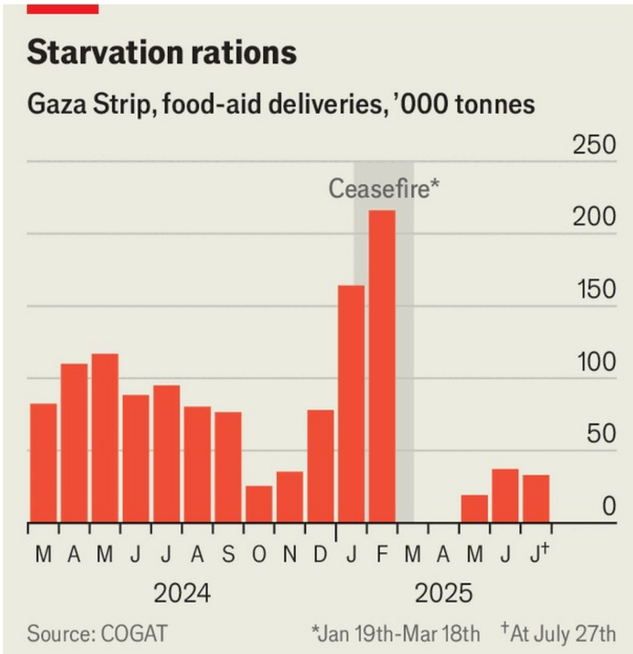
Four months after Israel ended the ceasefire in Gaza by closing the crossings into the territory, relaunching its military offensive and trying to replace the international aid system with an alternative supply arrangement, it has exacerbated a humanitarian crisis and drawn global opprobrium without destroying Hamas, the Islamist movement that still controls parts of Gaza.

Yet beyond immediate attempts to placate international critics while continuing to pander to hardliners at home, it is unclear what will replace its failed strategy.

The decision to let in more aid followed mounting reports of starvation within Gaza and pressure from Israel's allies, especially from the Trump administration. On July 29th the Integrated Food Security Phase Classification (IPC), an organisation that monitors food security around the world, said "the worst-case scenario of famine" was unfolding in the territory. It said that widespread starvation, malnutrition and disease were causing a rise in hunger-related deaths. Since April 20,000 children in Gaza have been hospitalised with acute malnutrition. On July 28th Donald Trump said there was "real starvation" in the strip.

The Israeli government still denies that Gazans are starving, calling the claims a propaganda campaign by Hamas. It insists that Hamas controls the flow of aid through the established aid organisations, a claim which the UN and other groups have consistently denied.

Replacing that system with the Gaza Humanitarian Foundation (GHF), a shadowy organisation that since late May has been distributing food at four centres staffed by American mercenaries and located inside areas controlled by the IDF, has proved disastrous. The flow of aid into the strip has slowed to a trickle. In addition, hundreds of Palestinians have been killed by the IDF on the approach routes to the centres, or have been trampled to death while queuing for food. In private, even Israel's military chiefs have admitted that the strip is on the brink of famine and have been urging Binyamin Netanyahu, the prime minister, to let in more food.



Aid officials say the about-face has yet to have much effect on the ground. Air drops have barely made a dent in the needs of Gaza's 2m people, as there is no way to ensure the food reaches those who need it most. On July 29th Israeli authorities said they were allowing 200 lorries a day into the strip, still far fewer than the 500-600 that aid groups say are needed to meet basic needs. Half of all planned convoys were still not being authorised, said aid workers. Several lorries that made it into the strip were stopped by crowds of desperate people and looted en route. To supply the vast quantities of aid necessary to stave off famine, says Tom Fletcher, the UN's emergency relief co-ordinator, quicker clearances and safer routes are needed.

Mr Netanyahu promised in a statement in English that Israel "will continue to work with international agencies" and "ensure that large amounts of humanitarian aid flows into the Gaza Strip." In Hebrew he was much less emollient, promising his base that "in Gaza we are continuing to fight" and that "we will achieve our aim of destroying Hamas." The aid entering Gaza, he said, would be "minimal".

Besides its propaganda purpose, the conflicting messaging reflects a lack of clarity. Mr Netanyahu has manoeuvred Israel into a corner where it has few options, much less a coherent strategy. Unofficial talks about a ceasefire have continued since indirect talks between Israel and Hamas broke down on July 24th. America is still urging Israel to make a deal that ends the war. Given intensifying international condemnation of Israel, Hamas may feel it can drive a harder bargain. But a deal that leaves Hamas with any degree of power in Gaza would be unacceptable to Israel.

Other plans being floated by Mr Netanyahu's government are equally untenable. Opposition from the IDF has blocked the government's idea of forcing the entire population into a "humanitarian city" on a sliver of Gaza's territory. Annexing parts of the strip or laying siege to the remaining areas inhabited by civilians would both worsen the already dire humanitarian situation and prompt louder global outrage without finishing off Hamas.

Airing such drastic ideas pleases Mr Netanyahu's far-right coalition partners. Their power to rattle his government has been diminished now that the Knesset, Israel's parliament, is in recess until mid-October. Mr Netanyahu could use this period for moves that would enrage them, such as agreeing to a ceasefire. Yet for now, he is playing for time. For starving Gazans, that means any relief may be temporary. ■

Editor's note (July 29th): This photograph, which originally illustrated our leader, was wrongly captioned. It omitted to say that Muhammad al-Matouq, an emaciated 18-month-old child, suffers from a pre-existing condition. We have replaced it because we are unable to know to what extent the decline in his health was caused by the incipient famine in Gaza, his lack of medical care or the inevitable progression of his underlying illness.

Middle East & Africa | What about tomorrow?

Ziad Rahbani held a mirror to Lebanese society

The musician and playwright died on July 26th, aged 69

July 31st 2025

GOOD art resonates with each generation. Ziad Rahbani might have wished that some of his did not. The plot of “Belnesba Labokra Chou?” (“What About Tomorrow?”), his classic play, is simple: a young man moves from the mountains to the city and finds work in a bar. But life in Beirut is expensive, so his wife turns to prostitution. It is a tale of a strained marriage and a strained society, the latter undergoing rapid urbanisation and an incipient civil war. Every Lebanese can quote its most famous line: “They say tomorrow will be better, but what about today?”

The artist’s death at the age of 69 on July 26th triggered the rarest of things in Lebanon, a moment of genuine national unity. Hundreds of people gathered outside the Christian Orthodox church where his funeral was held.

The prime minister came to pay his respects; so did the first lady. Mr Rahbani won acclaim for holding a mirror to Lebanese society. Nearly 50 years later, the reflection has changed little.

He was to the manner born. His mother Fairouz is Lebanon's most iconic singer, a diva whose haunting voice continues to enchant the Arab world. His father and uncle, Assi and Mansour, were composers and playwrights. They wrote songs for Fairouz and helped to launch the careers of other Lebanese artists.

Yet in a country where nepotism is common, Mr Rahbani was something unusual: a talent in his own right. He pioneered a Lebanese twist on jazz. When his father and uncle wrote songs for Fairouz, their lyrics often harked back to an idealised village life. Ziad's language was less grandiose, his themes more modern. One of his best-known compositions for her, "Kifak Inta" ("How Are You"), is a woman's plaintive confession to an old flame.

His plays, too, were written in the voice of the everyman: the bartender, the baker, the taxi driver. The earliest works were staged in the 1970s. Few were filmed. Those that were are too grainy to decipher. They endured for decades as audio tapes, passed around during and after the war like darkly funny samizdat.

The themes he explored—stagnation, corruption, poverty—are no less relevant today. Lebanon is six years into an economic crisis that has robbed many people of their savings. The protagonist of "What About Tomorrow?" declines the offer of a well-paid job in the Gulf. Half a century later, that is still the only way many Lebanese can earn a decent living.

He was a Communist, not uncommon for a man of his era. His ardent support for the Palestinians was more unusual, given that he came of age at a time when Christians and Palestinians fought on opposing sides. But that, too, was a mirror. He later said his political awakening came from watching a right-wing Christian militia massacre the inhabitants of Tel al-Zaatar, a Palestinian refugee camp.

If his politics were iconoclastic in his youth, though, they ossified in his later years. He supported Hizbullah, the Shia militia and political party, even as it assassinated his fellow intellectuals (among them a former head of the Communist party). Later he backed Bashar al-Assad during the Syrian civil war. Ziad was adept at skewering Lebanon's vanities, but he had a blind spot for the stagnant politics of resistance that has helped entrench so many of the country's ills.

The funeral was a rare public appearance for Fairouz, now a frail woman of 90. Trailing close behind her in the church, as if he were a member of the family, was the defence minister, Elias Bou Saab—who is also the highest-ranking Orthodox official in the government. Someone tried to steer him away from the front pew. He was undeterred. A priest opined on television that Ziad, a secular thinker (and probably an atheist), was a paragon of Christian thought. In life, some Lebanese try to transcend their sectarian identity. In death, confessionalism comes for them all.

Indeed, he might have found much to satirise at his own funeral. The parade of politicians who mourned his death have promised Lebanon a better tomorrow. After years of war and economic collapse, though, many Lebanese are struggling to get through today. ■

Middle East & Africa | Cape crusader

Helen Zille wants to save South Africa, starting in Johannesburg

The chair of the Democratic Alliance has a lot to say—and a lot to do

July 31st 2025

Helen Zille has had a long career as a journalist, anti-apartheid campaigner and politician. She is a grandmother living in Cape Town, the city she ran as mayor from 2006 to 2009. But instead of enjoying her retirement in the Cape, as many inland South Africans like to do, the 74-year-old wants to move the other way. She plans to run for mayor of Johannesburg, the country's commercial capital, next year.

Her decision says much about the decay of Africa's richest city. Johannesburg, which will host the G20 summit in November, is a mess. Power and water supplies are sporadic; potholes can be the size of craters. Ms Zille, who was born in the city to parents who fled from Nazi Germany in the 1930s, says that fixing it is “the hardest job in South Africa”. Yet her willingness to run for the post also says a lot about her status as a politician willing to speak out and get things done in a country replete with waffle and apathy. If she were to win, it would send a signal that her Democratic Alliance (DA) might, incredibly, replace the once-mighty African National Congress (ANC) as South Africa’s largest party.

A few years ago it seemed that Ms Zille’s career was over. In 2019 she stepped back from frontline politics after a decade as premier of the Western Cape, the South African province of which Cape Town is the capital. By then she had put more people’s backs up than an incompetent chiropractor. In 2017 she attracted criticism for suggesting that colonialism was not “only negative”. The storm was partly a function of the message in a country where centuries of white rule cast a long shadow. But the messenger also mattered.

As leader of the DA, whose base is the nearly 20% of South Africa’s population that is not black, from 2007 to 2015, she wanted to banish its label as the “white party”. She recruited and promoted aspiring black politicians, including Mmusi Maimane, who succeeded her as leader. But they then espoused policies—notably affirmative action—at odds with the DA’s classic liberalism. Internal fights pitted young black figures against party bigwigs opposed to “ANC-lite” policies. Ms Zille admits to a “self-initiated betrayal” of her liberal values in leading the DA into the ANC’s “‘race narrative’ arena”.

Today she is very much back. The formation of the Government of National Unity (GNU), a coalition anchored by the ANC and the DA established in 2024, has given her further clout. Though she is not in government, as chair of the DA she still wields a lot of power.

Time has not mellowed her. “I get into trouble all the time for telling the truth. But the truth has to be told, whether people like it or not…I’m not going to fudge around because I’m white.” Black Economic Empowerment, a set of regulations ostensibly aimed at increasing black South Africans’ stake in the economy, is “legalised corruption”, she says. The route to economic change is via “growth and jobs”, not redistribution on the basis of race.

If Ms Zille has a grand theory of South Africa, it is that the country is a giant cultural experiment: a collision of liberal Western norms and more traditional values that hold sway in parts of the ANC and its offshoots. She says her “friend” the former president, Jacob Zuma (whom she calls a “lovely human being” who “looted the state”), is genuinely dumbfounded by courts’ efforts to tell him what to do. South Africa is trying to entrench a democracy in decades, when it took other countries centuries, she notes: “No one has made a democracy succeed in our context.”

Increasingly, Ms Zille earns grudging admiration from South Africans. It helps that she can laugh at herself: this year she has appeared in a cooking show, dressed in an apron resembling lacy underwear, and in a comedy “roast” in which a comedian accused her of liking her political party the way she likes her coffee (“flat white”).

But the jokes would be irrelevant were she not a person of substance. Her criticisms of the ANC have largely proved correct. Many South Africans are tired of racial controversies when they cannot get a job or reliable water and power.

Pollsters who once found Ms Zille’s tough personality a liability now see it as an asset. In Johannesburg the ANC, which has the mayoralty, is in third place behind the DA and UmKhonto we Sizwe, Mr Zuma’s new-ish party. Property values have fallen in real terms since 2010 (while those in Cape Town have risen). Water cuts are common. The electricity provider is embroiled in corruption scandals. Voters, including in the black middle class, are more willing to give Ms Zille a closer look.

To become mayor, Ms Zille will need to win enough votes and form a coalition, since no party will win outright. If she can, it will have broader lessons for the country. Since the formation of the current government, the DA has gained in the polls as the ANC looks weaker than ever. It is no longer out of the question that the DA could win more votes than the ANC at the next general election in 2029, especially since Cyril Ramaphosa will be stepping down as president. If Ms Zille can show black South Africans she can fix Johannesburg, her party could well get a nationwide fillip. ■

Sign up to the Analysing Africa, a weekly newsletter that keeps you in the loop about the world's youngest—and least understood—continent.

Middle East & Africa | Keeping it local

Can a home-grown telecoms firm connect South Sudan to the world?

Civil war need not be an insurmountable obstacle

July 31st 2025

What do Che Guevara, an Argentine revolutionary, and Tupac Shakur, an American rapper, have in common? Both were charismatic and died young. Yet De Chan Awuol, a South Sudanese telecoms executive, keeps their portraits on his wall in part because he reckons both men triumphed against seemingly insurmountable odds.

Mr Awuol wants Digitel, the telecoms provider he launched in Juba, South Sudan's capital, in 2021, to pull off something similar. Last year Digitel introduced the country's first 5G service, ahead of multinational rivals. Mr Awuol says foreign firms have little incentive to roll out such tech across a poor, war-racked country such as South Sudan. Nor are they especially wellattuned to the demands of a market in which about 85% of the population is offline. By offering tailored products—such as phones with extra-long battery life—comparatively cheap data and, eventually, its own infrastructure, Digitel hopes to connect South Sudan to the world.

This will be tough. As in several countries in east Africa, South Sudan's telecoms market has long been dominated by a single operator. MTN claimed more than 60% of the market by the end of 2024, notes BuddeComm, a market-research firm. Previous attempts to loosen the South African behemoth's grip have failed.

Conditions today are even less propitious. Collapsing revenue from oil, the country's main export, due to the civil war in neighbouring Sudan, has sent inflation soaring. The dollars needed to import new equipment are drying up. Conflict in several of South Sudan's states makes it harder to build or maintain telecom towers.

That alone need not doom Digitel's ambitions. Telecoms companies should be "quite familiar" with war, says Nzioka Waita, the Africa head of the Tony Blair Institute, a consultancy. Somalia has a thriving local telecoms industry despite having been engulfed in war since the 1990s. Ethiopia's state-owned operator reports record growth in revenues despite persistent insecurity there.

Telecoms has long been an exception to the rule that African companies tend not to grow big. Though South Sudan's economy as a whole is deteriorating, MTN reported a 25% surge in the number of mobile subscribers in the past year. Digitel's own data suggests it is expanding its subscriber base faster than its rivals. Mr Awuol's dream to "bridge the digital divide" in South Sudan is not totally far-fetched.■

Sign up to the Analysing Africa, a weekly newsletter that keeps you in the loop about the world's youngest—and least understood—continent.

Europe

- Pedro Sánchez is fighting for his political life
- The German politicians who want to bar the AfD from government jobs
- Can interceptor drones stop Russia’s terror bombing?
- Ever more Ukrainian women are joining the army
- France’s top general says Russia could attack in five years
- Why Italy’s next cultural capital looks like a disaster zone

Europe | Waiting for the end

Pedro Sánchez is fighting for his political life

Shaken by a corruption scandal, Spain's prime minister is at the mercy of events and of his fickle allies

July 31st 2025

AS SPANIARDS Depart for their summer holidays, Pedro Sánchez must be breathing a huge sigh of relief. In June the shaken prime minister offered profuse apologies after Santos Cerdán, his right-hand man in the ruling Socialist Party, was remanded in prison to face charges of taking at least €620,000 ($730,000) in bribes on public-works contracts. Worse, Mr Cerdán's predecessor in the role, José Luis Ábalos, also faces trial before the Supreme Court for corruption (both men proclaim their innocence). Mr Sánchez told parliament this month that he considered resigning, but "throwing in the towel is not an option". Neither his party nor his parliamentary allies (he leads a minority coalition government) have yet forced him to. But he is now on borrowed time, at the mercy of events. With two years to go before the next election must be called, “the government is a lame duck”, admits a senior Socialist politician.

Spain’s political fragmentation since the great recession means that Mr Sánchez has governed in a minority since he came to office in 2018. Until 2023 his coalition was fairly stable. He steered the country through the pandemic and strengthened the welfare state. Since 2022 Spain’s economic growth has far outpaced the European average, while unemployment has fallen to its lowest level since 2008. The first Spanish prime minister of the current democratic period to speak fluent English, he has been an active player abroad.

But things have got much rockier since Mr Sánchez called and lost a snap election in July 2023. He remained in office only because Alberto Núñez Feijóo, the leader of the conservative People’s Party (PP), fell four votes short of a parliamentary majority. Catalan and Basque nationalists, as well as the hard left, preferred to stick with Mr Sánchez rather than vote with Vox, a hard-right party. But they extracted a price. This included an amnesty for those involved in an illegal drive for independence for Catalonia—something Mr Sánchez had previously opposed as unconstitutional.

The amnesty has helped to calm Catalonia. But the opposition sees it as an opportunistic move that has undermined the rule of law. In a stinging criticism delivered to the European Court of Justice this month, a lawyer for the European Commission stated that the measure was not “compatible with European values”.

The controversial amnesty is the only substantial law that Mr Sánchez has managed to approve in the 20 months of the current parliament. His allies are increasingly fractious. The government has postponed flagship measures, including one to cut the working week to 37.5 hours and others to “democratise” the judiciary. The latter prompted an unprecedented three-day strike by half of Spain’s judges, who see in them (with a degree of justification) a government attempt to control the courts.

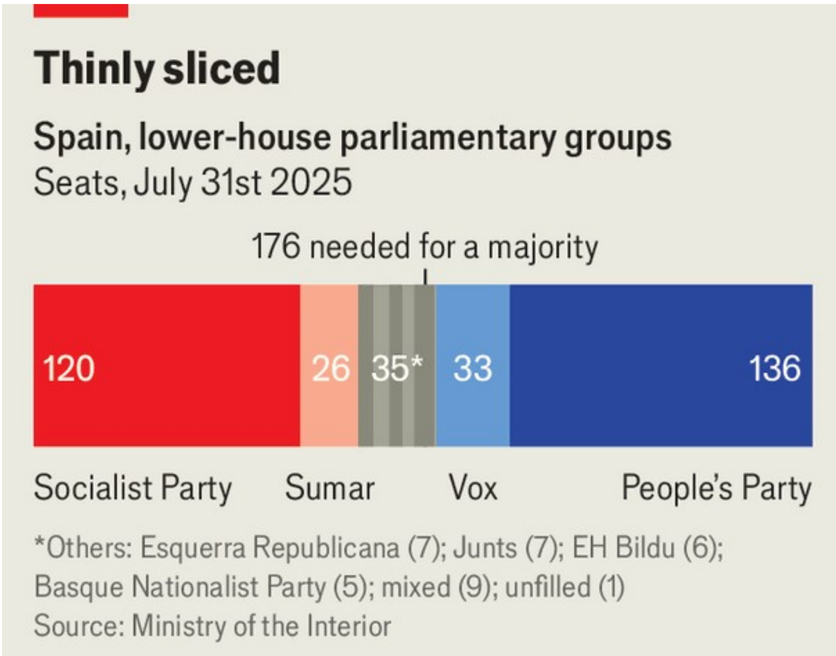
Mr Sánchez has not got a budget through parliament since 2023, and last year he simply ignored the constitutional requirement to present one. Even foreign policy is now hostage to his parlous political circumstances. His refusal at June's NATO summit to contemplate raising defence spending to 5% of GDP placated his hard-left parliamentary allies, and is popular with Spaniards. But it has infuriated his partners in Europe. To please Catalan nationalists, he defied European policy to block the merger of BBVA and Sabadell, two banks. His foreign minister has irritated other Europeans by repeatedly pushing for Catalan, Basque and Gallego to be accepted as official languages in the EU.

In the past, prime ministers who failed to pass a budget called a general election, as Mr Sánchez himself did in 2019. He now seems bent on survival at all costs. His aides put forward three main justifications.

The first is that he is the victim of "lawfare" and a conspiracy by right-wingers in the judiciary and the media. Legal cases against his wife, Begoña Gómez, for lobbying on behalf of companies that funded a project of hers, and against the public prosecutor appointed by the prime minister for allegedly leaking confidential information, do indeed look thin. But the police reports on the alleged corruption of Mr Cerdán and Mr Ábalos, and their bag-man, Koldo García, have undermined this argument. So has the charging last month of Cristóbal Montoro, the finance minister in PP governments over a decade ago, for allegedly taking bribes (which he denies).

Mr Sánchez's second argument is that his "progressive" policies are improving Spain. But impressive though the economic-growth numbers are, they depend heavily on adding labour through immigration. Real incomes have increased by much less. And the government has largely failed to deal with an acute housing shortage. So there is not much of a feel-good factor.

Finally, Mr Sánchez was able to avoid a heavier defeat in 2023 by whipping up fears of Vox. His supporters say he is the last bastion of European social democracy against the extreme right. "If Vox didn't exist, this government would probably have fallen," says Pablo Simón, a political scientist at Carlos III University in Madrid. Despite, or because of, Mr Sánchez, however, Vox is rising in the opinion polls.



Although Mr Cerdán and Mr Ábalos were Mr Sánchez's hand-picked political fixers, his party continues to back him. Determined to prevent any repeat of a rebellion which briefly ousted him as the Socialist leader in 2016, the prime minister has sidelined all internal critics. "The government is him, the party is him and Spain is him," says Fernando Vallespín, a sociologist who worked for a previous Socialist prime minister. "The problem for Sánchez is that if he is everything, he becomes the target for everything."

Officials have tried to limit the scandal to what they call a "toxic trio". But Madrid's political world expects further police reports on corruption in the autumn. "His survival depends on what else comes out," says Mercedes Cabrera, a historian and former Socialist minister. The scandals, and recordings in which Mr Ábalos and Mr García discussed the merits of several prostitutes, are hurting the Socialists in the opinion polls. "The question is at what point [his parliamentary allies] withdraw support because they think the corruption is too much," says Mr Simón.

Some believe that Mr Sánchez will propose a crowd-pleasing budget in the autumn, and call a snap election if it fails to pass. Such is his political resilience that many others think he will manage to hang on until 2027. But two more years of paralysis would frustrate Spaniards. And the main beneficiary might well be Vox. ■

To stay on top of the biggest European stories, sign up to Café Europa, our weekly subscriber-only newsletter.

Europe | Better out than in?

The German politicians who want to bar the AfD from government jobs

If the party cannot be banned, perhaps its civil servants can be

July 31st 2025

GERMANY'S DEAD-EYED bureaucrats are rarely the object of citizens' affections. But could some be seeking to subvert democracy? Such was the concern of Michael Ebling, the interior minister of Rhineland-Palatinate, when he declared that members of the hard-right Alternative for Germany (afd) would be barred from public-sector jobs in his state. "Anyone who places themselves in the service of this state must remain loyal to the constitution," he thundered. What ensued was, as the Germans call it, ein Shitstorm. Mr Ebling wavered, clarifying that afd members would be individually assessed rather than collectively banned. But the case encapsulates the struggle of Germany's centrists to lock out an extremist party that is becoming part of the mainstream.

Germany's "defensive democracy", a concept forged in the postwar republic's early years with the memory of the turbulent Weimar period still fresh, demands eternal vigilance against enemies who seek to turn its own freedoms against it. Its most potent expression is a constitutional provision to ban extremist parties outright. That power, vested in the mighty Bundesverfassungsgericht (constitutional court), has not been exercised since the 1950s. But many mps, and over a quarter of Germans, wish to apply it to the afd, now Germany's second-most popular party.

Any afd ban would be years away. A more pressing question concerns the millions of Germans who work for the state: its civil servants, judges, teachers and police. Public employees, who enjoy strong legal protections, take oaths to uphold Germany's state and federal constitutions. What if their behaviour violates that? Some civil servants have received warnings or pay cuts for, say, participation in right-wing extremist group chats, but most courts have frowned on attempts to fire them for activities unrelated to their jobs. A handful of afd politicians have been stripped of their jobs or pensions, but only after especially inflammatory statements.

German law is clear, says Josef Franz Lindner, a law professor at the University of Augsburg: membership in a legal party cannot itself suffice to block or dismiss someone from a public-sector job. But state bodies may treat membership of the afd as grounds for especially strict vetting. That case has been bolstered by a recent ruling from the Federal Office for the Protection of the Constitution (bfv), a domestic intelligence agency, that the entire afd should be labelled a "right-wing extremist group", in part owing to its derogatory views about non-white Germans. Several states have added the afd to lists of extremist organisations that raise red flags, putting the party in the company of revolutionary Leninists and al-Qaeda.

The bfv's ruling is suspended while the afd appeals. But if it is confirmed, for many the logic will look irrefutable: if spooks and courts have determined that the afd is actively undermining Germany's legal order, how can members of the party be trusted to uphold it in office? "If you choose to join the afd, you have joined a party that at least in parts is opposed to our constitution," says Nicolas Fink, a Social Democrat member of the Baden-Württemberg state parliament. He wants individual afd members in the civil service screened now, and a consistent set of rules applied across Germany's

16 states. Eventually he hopes to see the afd banned outright. That would force civil servants to choose between the party and their job.

Yet worried detractors are put in mind of the “Radical Decree”, a measure approved in 1972 that saw millions of public servants screened and thousands—mainly communists and other leftists—barred from jobs as mundane as delivering letters. (One of them, Winfried Kretschmann, is now the Green premier of Baden-Württemberg, having shed the Maoism of his youth.) Acknowledging its excesses, the decree’s proponents scrapped it years later. Some of its victims still seek redress.

As for the afd itself, “we won’t let ourselves be driven crazy,” says Sebastian Münzenmaier, one of its mps. In May the party urged its members in public-sector jobs to avoid intemperate language and personal attacks. Informal “patriotic networks” have sprung up to connect job-seeking members with friendly employers. More broadly, the party’s mps recently agreed to moderate their behaviour in parliament. Days later Alice Weidel, the afd’s co-leader, took the floor in the Bundestag to hurl insults at Friedrich Merz, the conservative chancellor, earning herself a reprimand. Old habits die hard. ■

To stay on top of the biggest European stories, sign up to Café Europa, our weekly subscriber-only newsletter.

Europe | Robot shield

Can interceptor drones stop Russia's terror bombing?

Vast waves of drones are overwhelming Ukraine's air defences

July 31st 2025

RUSSIA'S GROUND offensive in Ukraine's east is making slow progress this summer, at huge cost. But its mounting drone campaign against the country's cities is arguably a more serious threat. Day after day, strikes against Ukraine's civil and military infrastructure, not to mention people's homes, are battering the country's economy and eating away at its morale. Finding ways to block more of them is an urgent priority.

On July 9th over 700 drones, 60% of them carrying warheads and the rest cheap decoys, attacked Kyiv and other targets. That week alone, said Volodymyr Zelensky, Ukraine's president, Russia launched more than 1,800 drones and 83 missiles in a campaign of “intensifying terror against our cities and communities”.

Swarms of Geran-2s, Russia’s version of the Iranian Shahed kamikaze drone, are starting to overwhelm Ukraine’s defences. Until March this year, only about 3-5% of the Gerans were getting through. Last month that rose to some 15% of a significantly higher number. In addition to killing people and destroying infrastructure, the attacks exert relentless psychological pressure. They often last through much of the night. The aim is “to deepen the feeling that there is no safety and no confidence in the state or in the defence forces”, Serhii Bratchuk, spokesperson for the Ukrainian Army’s Southern Division, told the Kyiv Independent.

Russia has improved both the quantity and quality of its drones. Since last summer it has raised monthly production of Gerans five-fold, according to Ukraine’s military intelligence service. Increasing supplies of Chinese dual-use components have helped. In May about 2,700 Gerans and 2,500 Gerberas (a smaller drone usually used as a decoy) were produced at two factories, both nearly 1,500km east of the front line. The factories have been hit by Ukrainian drone strikes, but output has not been severely dented and is expected to rise further.

Since June Russia has been using an upgraded Geran-2 equipped with video guidance systems, artificial intelligence and improved electronics to thwart jamming, according to Olena Kryzhanivska, a defence analyst. It can fly at altitudes of up to 4,000 metres, allowing it to increase its speed from 185kph to 400kph as it descends on the target. Earlier versions carried a 40kg warhead, but the payload on new variants can be as heavy as 90kg. A Geran-3 with a turbojet engine that can fly at up to 600kph has also entered service, but it has an estimated cost of $1.4m, compared with about $200,000 for the upgraded Geran-2.

That poses a dilemma for Ukrainian defenders. Using million-dollar missiles such as the IRIS-T to shoot down drones that cost $200,000 or less can quickly exhaust high-end air defences, which are needed to stop ballistic and cruise missiles. Until recently a combination of electronic warfare (EW) and mobile firing groups with heavy machine guns and anti-aircraft artillery, such as the German Gepard, managed to destroy the vast majority of drones. But they are struggling against improved Gerans flying at high altitude on unpredictable flight paths.

The most promising solution is cheap interceptor drones. At least four Ukrainian firms, including Wild Hornets and Besomar, are producing different models. So are Tytan, a Germany company, and Frankenberg, an Estonian one. General Oleksandr Syrskyi, Ukraine's commander-in-chief, says that interceptor drones have a success rate of 70% against Gerans. Last week Mr Zelensky ordered his defence ministry to rapidly sign large-scale contracts for the proven interceptors. On July 25th he urged drone companies to boost production to at least 1,000 interceptors per day. Doing so, the president said, entailed an "urgent funding requirement" of $6bn. Unless Russia manages to raise its production of kamikaze drones significantly above the current 200 or so a day, that could tilt the advantage back to the defenders.

Charitable organisations such as the Sternenko Community Foundation and Come Back Alive have helped finance the drones' development. Taras Tymochko, a drone expert at Come Back Alive, says each interceptor must cost no more than $5,000. They require a speed of around 300kph and must fly and loiter at altitudes of up to 5,000m. (That means fixed-wing drones, not quadcopters.) They must hit the Geran and explode on impact; getting close is not enough.

The challenge now, says Mr Tymochko, is to award contracts, increase production and train operators—this last potentially a major bottleneck. Matching Russian production of Shaheds and Gerans is ambitious, but “we are really close.”

There are still technological hurdles, says Max Enders of Tytan Technologies. Drones need to be integrated with existing radar networks. They need advanced artificial intelligence to make them autonomous and resistant to jamming. He foresees an adaptation race, with each side constantly upgrading software in 15-to-20-day innovation cycles. At some point the Russians may be able to send swarms of drones that communicate with each other to get around defences.

Interceptor drones are no silver bullet, says Ms Kryzhanivska. Short-range defence will still require gun systems such as Ukraine’s Sky Sentinel, an autonomous turret equipped with a heavy machine gun, and Rheinmetall’s Skynex, designed to combat swarm attacks. Neither is yet available in significant numbers. Ukraine is also developing Tryzub, a laser system that can supposedly down aerial targets at altitudes of 3,000m or above. For now interceptor drones are the best hope. But in the meantime, the Gerans keep coming. ■

Stay on top of our defence and international security coverage with The War Room, our weekly subscriber-only newsletter.

Europe | Lady killers

Ever more Ukrainian women are joining the army

A growing group that is changing society

July 31st 2025

Commander Twig and her girls pull into a café near the Zaporizhia front and order non-alcoholic mojitos. In the distance is the occasional thud of outgoing artillery. The word “killing” implies murder, which would be wrong, says Twig’s comrade, Titan; she prefers to call her job “liquidating Russians”. The five-strong unit is one of a small but growing number of all-female drone crews. Genitals are irrelevant to flying drones, notes Maria Berlinska, a campaigner for military women.

Unlike men, many of whom are unwilling conscripts, all Ukrainian women under arms are volunteers. They number about 100,000 of the country’s 1m military personnel. Some 5,500 are on the front line, says Oksana Grygorieva, a gender adviser to the armed forces. They include medics, drivers, drone crews and others. Before Russia's full-scale invasion in 2022 about 15% of armed forces staff were female. The army's huge growth means that though the share is smaller, the number of women serving has more than doubled.

Perhaps 20% of the students in military high schools and universities are women, says Ms Grygorieva—a huge shift. Only in 2018 did Ukrainian legislators open such schools to women, and remove other restrictions on the roles they could fulfil. Laws against sexual harassment in the armed forces are now being tightened. The struggle is to ensure women "are not treated like second-class soldiers", says Ms Grygoieva. Formal barriers may have gone but informal ones remain, says Katerina Prymak, head of Veteranka, which campaigns for military women's rights.

Alina Shukh initially tried to enlist in the prestigious Azov Brigade, but they said they had "no positions for women". Instead she joined the more egalitarian Khartiia Brigade. As a former professional heptathlete, Sergeant Shukh notes, she is stronger than most male soldiers. In any case, says Olha Bihar, who commands an artillery unit, technology is changing warfare: the best killer may now be a tiny drone pilot with dexterous fingers. "All our stereotypes are changing," she says; she hopes, some day, to be minister of defence.

Ms Berlinska has been pushing to open more roles to women since Russia's initial invasion in 2014. Invisible Battalion, a research project she helped found, revealed that many women were fighting despite laws barring them from combat, registering instead as cooks and cleaners. "Every war has boosted technological progress and the emancipation of women," she says, and this war is no different. There has been no political debate about conscripting women. It might be risky, says Yevhen Hlibovytsky of the Frontier Institute, a think-tank. Ukrainian leaders may "fear that the Russians would smell strategic weakness" if the topic were opened. But with yawning gaps in recruitment, the idea cannot be ignored for ever.

Not everyone is on board. In a command centre near Komyshuvakha, eight men in T-shirts and slippers sweat in front of live drone feeds. A banner on the wall depicts a naked, sword-wielding maiden. Asked why he has no female soldiers, the commander curses a blue streak: the front, he thinks, is no place for a woman. ■

To stay on top of the biggest European stories, sign up to Café Europa, our weekly subscriber-only newsletter.

Europe | French force

France’s top general says Russia could attack in five years

Thierry Burkhard, the Forces Armées’ departing chief, says Europe has work to do

July 31st 2025

RUSSIA IS REARMING fast enough to be a “real threat” to Europe within five years, says General Thierry Burkhard. That is towards the low end of the estimates among his military and intelligence peers. By 2030, he tells The Economist, “Russia will possess the means once again to pose a military threat to Western countries, and European countries in particular.”

After four years heading France’s armed forces, General Burkhard will leave his post on September 1st. In 2021, before Russia invaded Ukraine, he told this newspaper that Europe had to prepare for high-intensity war. Today he warns that Russia’s combat experience, huge mass and capacity for endurance make it dangerous: in a conflict, the Russian people will last “five minutes longer than us”.

Yet there are reasons for optimism. General Burkhard thinks American armed forces will not leave Europe, though they might reduce their presence. And a growing web of bilateral ties, above all between Britain, France and Germany (whose leaders have met in recent weeks), points to a tangible vision of “what the European pillar of NATO can be.”

In the past few years NATO allies have begun to spell out regional-defence plans: what forces are needed, who will provide them and where they will fight. Almost no European allies meet the targets, and American retrenchment would widen the gap. Some, he warns, might use this as an excuse to argue that if “we don’t have all that [materiel], we’re not able to do it”.

Europe, General Burkhard says, cannot emulate America’s “industrial and mechanical” approach to war, which seeks to overmatch enemies “to reduce the risk to almost nothing.” European armies will have to do more with less “by taking more risks, by being more manoeuvrable.” Should American officers at NATO headquarters leave, they need not be replaced on a like-for-like basis. Europeans could “figure out how to create a new command structure with the officers [they] have left.”

European armed forces will also have to adapt to changes in warfare. Battlefields in Ukraine are unprecedentedly transparent: combatants can “see behind each bush”. From this he draws two lessons. One is the changing economics of lethality. High-tech weapons remain crucial—in July France said it was resuming production of SCALP cruise missiles after a 15-year pause—but cheap munitions are needed to wear out the enemy. “You need Ferraris from time to time,” says General Burkhard. “We won’t win the war with Ferraris.”

The second is that tactics and organisation are as important as technology. In 1940 all European armies had tanks, artillery and planes, but it was Germany that integrated them. “Today everyone has drones,” he says. Victory will go to armies that combine them on land, air and sea.

Then there is nuclear deterrence. Emmanuel Macron, France's president, said earlier this year that he wants to discuss "protection by our deterrent" with European allies. On July 10th France and Britain, Europe's two nuclear powers, agreed to deepen co-ordination, stating that any "extreme threat to Europe" would prompt a joint response.

The countries' nuclear forces will stay independent. There are already means to "deconflict" their submarine patrols, General Burkhard says. The prospect of a joint nuclear strike would require a new level of planning. France's nuclear force, unlike Britain's, is not assigned to NATO. The two countries are setting up a joint nuclear steering group. No general would ever lay out explicitly how they will handle any scenario; the point, he says, is "when a crisis happens...to see what the threats are and what you need to be ready to do."

Germany and other European allies are asking what all this means for them. On July 13th Mr Macron asked General Burkhard and Sébastien Lecornu, the defence minister, to start a strategic dialogue with European partners about the role of France's deterrent. "France cannot fight alone against Russia," says the general. If it is someday threatened by Russia, "it is not a matter of conventional weapons, it is a matter of nuclear deterrence." ■

To stay on top of the biggest European stories, sign up to Café Europa, our weekly subscriber-only newsletter.

Europe | Reconstructive criticism

Why Italy’s next cultural capital looks like a disaster zone

Sixteen years after an earthquake, L’Aquila has yet to shake off the damage

July 31st 2025

Like most things, the Fontana delle novantanove cannelle, or 99-spout fountain, sounds better in Italian. It is among Italy’s lesser-known and more unusual monuments. The spouts, carved to mimic the faces of men, women and animals, line the walls surrounding a broad square on the outskirts of L’Aquila, a city north-east of Rome. Water gushes into a trough below.

The fountain has become a symbol of the resilience of an ancient city that sits on one of Europe’s most seismically active regions. The most recent earthquake, in 2009, cost the lives of more than 300 people. Yet the fountain suffered only minor damage and reopened the following year. A notice attached to a damaged palazzo overlooking the square tells a sadder tale: its reconstruction began only on February 12th 2024. To judge by the scaffolding that envelops it, the work is far from finished.

To encourage tourism and boost L'Aquila's economy, the government has made the city Italy's "capital of culture" for 2026. The title would be well deserved in any year. L'Aquila is often compared to Salzburg, another city ringed by mountains with a passion for the arts, especially classical music. Arthur Rubinstein, one of the 20th century's foremost pianists, said L'Aquila had the most musically intelligent audiences he had encountered anywhere. Among the earliest efforts to restore morale after the disaster was the building of an all-wood, 238-seat auditorium designed by Renzo Piano. The city council sponsored an arts festival to coincide with L'Aquila's main annual religious celebration, La Perdonanza. And there were several private cultural initiatives.

"We knew we couldn't play a part in the reconstruction of the buildings," says Valeria Valeri, a secondary-school teacher. "But we felt we could do something to help rebuild the people." The association she headed organised six book fairs in the years after the earthquake.

The government's decision to turn a spotlight on L'Aquila is nevertheless incongruous, because the city is also a symbol of institutional failure. Fully 16 years after the disaster it remains a place of cranes, scaffolding and construction-site mobile toilets. To be sure, reconstruction has been hindered by the NextGenerationEU initiative and a profligate government-sponsored home improvement scheme, both of which have diverted engineering and architectural skills elsewhere. But funding was never lacking, says Giustino Parisse, a local journalist who lost his father and two children when the earthquake ripped through the nearby village of Onna. After a period of homelessness, including a spell in a tent, Mr Parisse opted to use his own money to build a new house into which he moved in 2012. Just as well: the old one is only now being rebuilt by the authorities.

L'Aquila's mayor, Pierluigi Biondi, belongs to the hard-right Brothers of Italy party. He is unsure how many of the 80,000 or so people made homeless by the disaster are still living in the temporary prefabricated accommodation which occupies big chunks of villages around the city. He says 92% of the applications for rehousing have been processed. But, says Mr Parisse, "a lot of people have not returned, even though their homes have almost all been repaired or rebuilt, because of bureaucracy."

Yet the biggest outstanding issue is the reconstruction of L'Aquila's public buildings: its government offices, churches and schools. The city hall was returned to the mayor and his staff at the end of 2023. But many of L'Aquila's stately official palazzi remain shrouded in hoardings. The city's most emblematic church, the basilica of Santa Maria di Collemaggio, has been impressively restored—by ENI, an energy company. Many other churches are still in ruins. Ironically for a city about to become Italy's cultural capital, almost 4,000 of L'Aquila's schoolchildren are still being taught in one- and two-storey "provisional scholastic-use modules". These are manifestly unsuited to a city where temperatures range from almost 40°C in the summer to well below 0°C in winter. "I've been teaching for 14 years in one that was built to last for five," says Ms Valeri.

Among the buildings waiting to be fully restored is L'Aquila's massive, daunting castle, built by southern Italy's Spanish rulers in the 16th century. A large sign on the bridge that crosses the moat reads "Work in Progress: So Sorry." The same could be said for all of sad, brave L'Aquila. ■

To stay on top of the biggest European stories, sign up to Café Europa, our weekly subscriber-only newsletter.

Britain

Britain | Bills, bills, bills

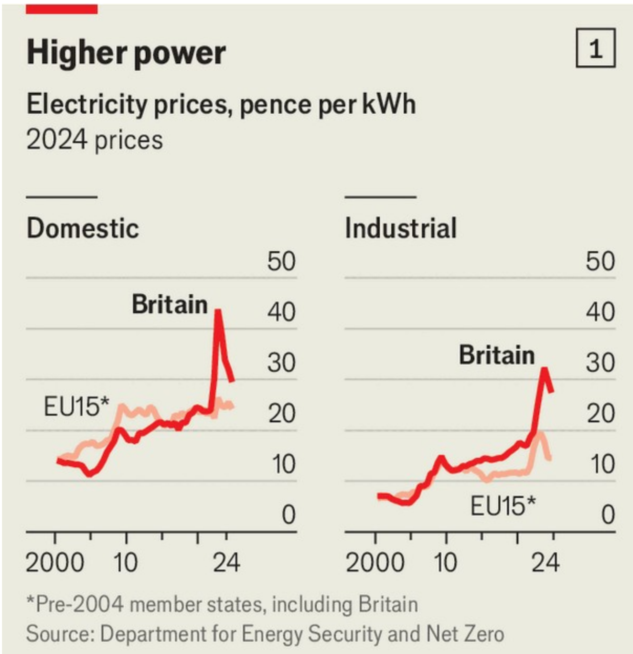
Is Britain’s net-zero push to blame for its high energy prices?

A mighty rise in electricity costs has complicated the drive for clean power

July 31st 2025

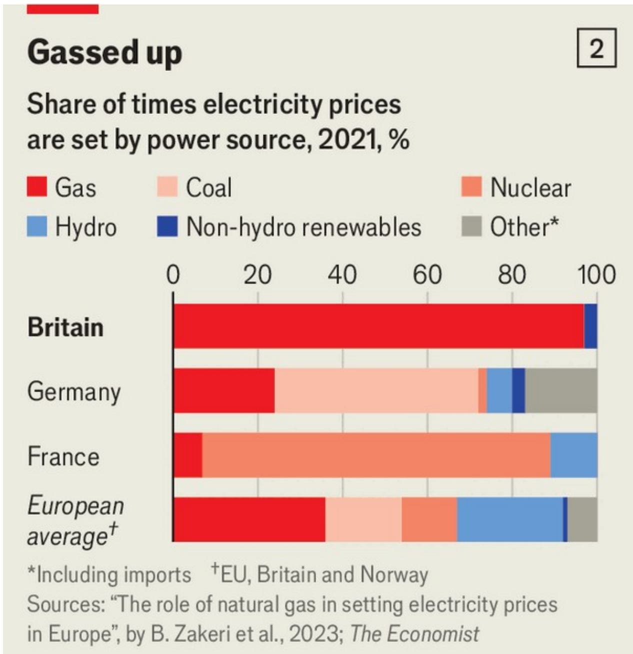
For a while, Britain’s green consensus looked ironclad. Through the 2010s and into the early 2020s, the Conservatives and Labour fought over who was keener to decarbonise the country. The public seemed eager too, so long as wind turbines wouldn’t spoil their view. Among the few decisive acts of Labour’s scattershot first year in government was an ambitious plan to turn the electricity grid green by 2030, half a decade ahead of the Tory target and speedier than any other big country.

That harmony has shattered. The Tories now call the climate targets they came up with “impossible”. Reform UK, which wants to scrap green subsidies, is ahead in the polls. Sir Tony Blair, a former Labour prime minister, has warned that Britain's climate strategy is "doomed to fail".



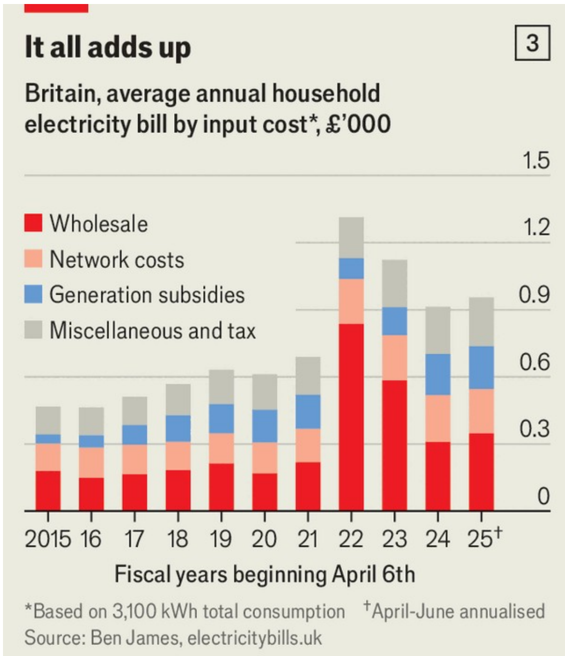
Behind the angst is a brutal fact: British electricity prices have become expensive. For decades, those prices rarely strayed far from the rest of Europe's. Now household bills are 20% above the average for the major European economies, and industrial bills 90% higher (see chart 1). The gap with America is starker yet.

Britain's woes began when natural-gas prices spiked after Russia invaded Ukraine. That put up electricity costs across Europe, but Britain was hit hard. Since it pushed coal off the grid in the 2010s, gas (as the marginal producer) has almost always set the electricity price (see chart 2). In France, nuclear is usually the price-setter; in Germany it is often coal; in some countries hydroelectric dominates. Wind and solar seldom do: their output varies too much with the weather and grids usually need at least some baseload power from elsewhere.



Meanwhile, Britain's clean-power push has started to land on bills. Paying for the new pylons and wires that will stitch together a more complex grid where power is generated in pockets all over the country is driving up network costs. So are "balancing costs", whereby generators are paid to smooth out the volatility of renewables. The Renewables Obligation, a subsidy scheme scrapped in the mid-2010s but with payments running into the late 2030s, makes up over a tenth of the average bill.

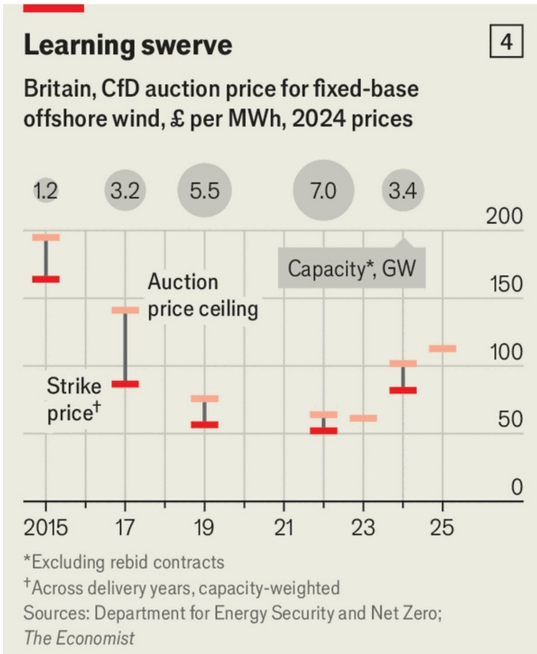
Since 2019 green subsidies and network costs (including some new expenses unrelated to the clean-power push) have contributed about two-thirds as much to the real-terms rise in bills as the wholesale price of electricity has (see chart 3). Both are set to keep rising. And carbon prices paid by gas generators account for a quarter of that wholesale cost, a share which may increase once Britain links its emissions-trading scheme with Europe's more expensive one.



Unfortunately, Britain has also been forced—by geographical misfortune and regulatory folly—to lean on offshore wind, a costlier sort of zero-carbon power, as the backbone of its revamped grid. Solar panels are getting spectacularly cheap, transforming the economics of energy in hotter parts of the world. But Britain gets less sun and uses most energy in winter, when sunlight is scarcest. Overzealous regulation means that [costs and timelines for nuclear power plants] have spiralled. Onshore wind often means a fierce battle with development-resisting NIMBYs.

The trouble is that offshore wind has stopped getting cheaper. Solar cells, which are modular and built in factories, seem still to be falling in price with mass production. But offshore turbines, as tall as skyscrapers, are more like civil-engineering projects. Bigger turbines are more efficient, but tougher to transport and install.

Britain procures offshore wind, like other renewables, through "contracts for difference" (CfDs). Under this scheme, the government promises electricity suppliers a fixed price, rising with inflation, for 15 years (soon 20). If prevailing prices are lower, the government pays the difference; if higher, generators pay the government.



The cheapest CfD auction round for offshore wind came in 2022. The round after that, in 2023, had no bidders; the government set its price ceiling too low. Prices rose in the 2024 auction. The 2025 round comes in August, and the price ceiling is higher still (see chart 4). One hope for the CfD scheme was that creating a reliable pipeline of projects would push costs down before the bulk of the buildout came. That worked at first, but progress has stalled and now Britain needs to buy a lot of offshore wind, fast, to meet its clean-power goals.

A perk of CfDs is that they lock in prices, so future gas spikes will hurt less. But those locked-in prices are not low. One megawatt-hour of offshore wind from the last round costs a few percent more than one from Britain's existing gas fleet, even at today's still-high gas prices. August's round will fix prices into the late-2040s.

All this makes the politics of grid-greening perilous. Ed Miliband, the energy secretary, says average annual electricity bills should fall by £300 ($400) by 2030. Without a drop in gas prices, they seem more likely to rise. For now, decarbonisation is popular, and blaming Vladimir Putin for high prices still works. But that backing looks fragile. Polling by More in Common for The Economist suggests that energy bills are the single most important measure voters will use when deciding whether to re-elect Labour.

Enthusiasm for climate action in surveys tapers off quickly if it costs even tens of pounds extra per month.

High bills have squeezed Britons' finances. Are they crimping growth? Output of energy-guzzling goods like chemicals, plastics and metals has fallen by more than 20% since gas prices first spiked. The government wants to subsidise power for those sectors, but that just moves the cost elsewhere. Energy flows into everything, even the services that dominate Britain's economy. References to energy costs in corporate reports and earnings calls have more than tripled since 2019, driven by the consumer, tech and financial sectors.

No big country is as rich as Britain while using so little energy per head. Revving up GDP growth without more power—a challenging prospect until more fresh baseload like extra nuclear or battery storage lands in the late 2030s—may be possible, but is uncharted terrain.

These days, Britain's carbon emissions are not far off a global rounding error. By phasing out coal so quickly, Britain has also already cut emissions by more than just about any rich country. The bet behind today's clean-power push is that Britain can be a trailblazer, and show how to painlessly decarbonise the grid even without much cheap solar power. But taking that prospect seriously also means entertaining the opposite risk. A botched transition would be not a model but a warning. ■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | If you can’t build them, extend them

Lessons from the last nuclear power plant in Scotland

Torness is closing in on its 40th birthday

July 31st 2025

The boxy metal shell surrounding Torness nuclear power station is painted to blend in with the surrounding sky. Bowing to the dour weather of Scotland’s coast, the designers picked a tepid grey-blue. Construction began in the early Thatcher years and power started flowing in 1988. That still makes it the second-newest (after Sizewell B in Suffolk) of Britain’s working nuclear sites.

Torness is also a parable for the failings and folly of Britain’s approach to energy. When the plant was built, the plan was to run it for 25 years; it has now been going for 37 years. The power that Torness generates—enough to supply over 2% of Britain’s electricity—proved too vital, in a grid hungry for stable baseload power and in a country that had forgotten how to build nuclear reactors at a reasonable cost.

So Torness pushes on. EDF, the French utility that now runs it, plans to keep it going until at least 2030. Paul Forrest, the station's day-to-day boss, reckons a few years past that might be manageable. In the meantime, a green refuelling machine inserts steel rods full of uranium pellets into the two reactors and extracts spent ones—which are then sent on a dedicated train across the border to Sellafield, in Cumbria.

Thousands of graphite bricks make up those reactors. This graphite moderator slows down the neutrons the uranium fuel spits out, raising the odds that atoms are split and energy produced. But it is slowly cracking under the burden of radiation and cannot be replaced.

Too many fractures and the plant could become vulnerable to an earthquake. Torness will keep running only so long as its operators, and the regulators, are persuaded that it will withstand a one-in-10,000-year quake. Making that call means computer simulations, cameras to monitor the cracks and, occasionally, putting a scale model on a "shaker table" in Bristol.

Usually, the site of a decommissioned nuclear reactor would be an ideal place to build a new one. Locals are used to the industry, and often employed by it. The geography is favourable: near a ready supply of cooling water in the ocean and with links to the electricity grid. Recent British governments have been a smidge keener on nuclear power. Two new plants are planned in England, Hinkley Point C and Sizewell C, both next door to 1960s-era reactors.

Most Scots, and even a majority of Scottish National Party (SNP) voters, support new nuclear power, according to polling by Britain Remade, an advocacy group. But the SNP has used its sway over Scotland's planning system to, in effect, ban new nuclear projects.

Unless the SNP has a change of heart, or blows its polling lead and loses next year's Scottish elections, no new nuclear power will come to Torness. The site's owners are still mulling how to use the surrounding land once the station itself gets passed to the state for decommissioning. Maybe a data centre, speculates Mr Forrest. Whatever gets built, the power will have to come from elsewhere.■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | Salvadorean solutions

Does Nigel Farage’s plan for halving crime in Britain add up?

No. But that might not be the point

July 31st 2025

NIGEL FARAGE hopes to turn Reform UK into a “serious party of government”. His anti-immigration party enjoys a comfortable lead over Labour and the Tories in the polls. But the next election is a long way off and, among other things, Mr Farage needs some more policies. On July 21st he turned his attention to crime, launching a six-week blitz to promote an approach that he calls the “toughest…this country has ever seen”.

Reform does not make policy the traditional way. No analysis accompanied the announcement. Nor did the party publish the policies on its website. At a launch in Westminster, lackeys instead passed around a crude five-page printout. It included lots of short sentences, such as: “Fast Track Courts.

24/7 justice if necessary." Some of these lines ("Cut the Cost of Prison by 20%") would seem to require more explanation. Still, a party that aspires to seriousness should be taken seriously. So how does the plan stack up?

Start with Mr Farage's claim that crime has "rocketed since the 1990s". Crime has risen in the past two years, driven by spikes in shoplifting and phone theft. Yet overall it is still down by 75% since 1995, when car theft and burglary were common. Mr Farage says official data are "completely false", without elaboration. That may be because, if crime is indeed lower, his claim that Britain faces "nothing short of societal collapse" would sound ridiculous.

Setting aside quibbles about the level of crime, Mr Farage plans to halve it within five years. Step one is recruiting 30,000 more police officers, at a cost of £2.1bn ($2.8bn) a year. Sarah Pochin, Reform's justice spokeswoman, says the party's preference is "great big strapping male" officers, who could impose curfews on youths, and stop and search one in five people in high-crime areas. "Society needs that tiny little bit of fear," suggests Mr Farage.

He is right that Britain's police are not very good at catching criminals. Yet it is not obvious that the answer is more muscle. The police recently completed a huge recruitment drive. Labour will hire another 13,000 officers by 2029. Police chiefs are hardly calling for more beyond that. "It would have diminishing returns and wouldn't cut crime much at all," reckons Graham Farrell of Leeds University. The bigger challenge is attracting officers of high quality who can respond to crime smartly. Belittling half of your potential workforce is unlikely to help.

Mr Farage's next ideas are tougher sentences and more prisons. He would introduce life sentences for those who commit three serious offences and prevent early release for violent and sexual offenders, or those caught with a knife. Five "Nightingale prisons" with space for 12,400 inmates would be built in 18 months on Ministry of Defence (MoD) land. Reform says this could be done for £200,000 per prisoner.

Successive governments have been desperate to build prisons, and struggled for reasons Mr Farage does not appear to have grappled with. The easy sites have been exhausted (even suitable MoD land is not abundant), and new ones take years to get past local opposition. Mr Farage's costs seem to be based on an outdated quote for "rapid deployment cells", prefabricated units which have been craned into existing prisons in small batches. Five new sites would cost much more and take longer. Meanwhile, tougher sentences would push existing prisons past breaking point.

That leads to the third part of the plan: deporting prisoners. Mr Farage says he would repatriate the 10,400 or so foreign nationals now locked up and deport another 10,000 high-risk prisoners to countries like El Salvador. Britain already has 112 prisoner-transfer agreements, notes Catherine Heard of Birkbeck University. In the year to March it returned more than 5,000 prisoners. The constraint is that some countries try to extract outsize payments or allow those returned to walk free, reducing justice for victims.

The idea of outsourcing high-risk prisoners is more novel. Based on Mr Farage's back-of-a-fag-packet sums, it could be done for £25,000 per prisoner per year. Under the last government, discussions with Estonia ended because the costs were roughly ten times that. British law requires that a prisoner serving a sentence overseas has equivalent conditions. Even if Mr Farage repealed that and persuaded the public to let him send British murderers to a Salvadorean pit, the cost of getting them there would be prohibitive. (The enforced removal of a migrant who has not murdered anyone costs around £14,000.)

Will such practicalities matter? Rachel Wolf, a former Tory adviser, thinks not: "On crime and culture Reform are sending the message 'We are really serious about this and we might just be mad enough to do it'." On the other hand, these policies add yet more dubious numbers to tax and spending plans that already look primed to cause a Liz Truss-style panic in the markets. If and when voters start to think seriously about life under a Reform government, it might just be the glint of madness that puts them off. ■

Britain | Doubling down, down under

Britain presses on with its tilt to the Indo-Pacific

Despite signs of American misgivings

July 31st 2025

Not since 1997 had a British aircraft-carrier berthed at an Australian navy base. As HMS Prince of Wales pulled into port at Darwin harbour in the country’s Northern Territory on July 23rd, the old sight of a white ensign and union flag fluttering above a British carrier returned to Australian shores.

The flagship of Britain’s Royal Navy is on a months-long deployment to the Indo-Pacific region as part of a carrier strike group. Her visit to Darwin marked the end of the strike group’s participation in this year’s iteration of “Talisman Sabre”, which was the largest military exercise Australia has ever hosted. In all, Talisman Sabre 2025 involved around 35,000 personnel from

19 countries—including, first and foremost, America, the co-host of the exercise.

For Britain, it was the latest showcase of its much-touted "tilt" to the Indo-Pacific. First mooted in 2021 under the previous Conservative government, its animating ambition has been to deepen Britain's defence, trade and foreign-policy partnerships in Australasia, not least in response to China's assertiveness in the region. In opposition, the Labour Party at first dismissed these aspirations as boosterish folly: Russia's full-scale invasion of Ukraine highlighted the ongoing threat in Europe. The party has nonetheless stayed the course since taking office last year.

That is partly because the policy looks more substantial than it once did. Britain is building a next-generation warplane with Japan and it is co-designing a nuclear submarine with Australia as part of the AUKUS pact, a weighty three-way deal announced by America, Australia and Britain four years ago.

The docking of the Prince of Wales coincided with the visit of Britain's foreign secretary, David Lammy, and its defence secretary, John Healey, to sign a 50-year bilateral treaty with Australia cementing their leg of AUKUS. The treaty sets the parameters for co-operation on the design and build of the future nuclear-powered submarines, as well as the industry and workforce requirements. It will create a "seamless defence industrial base" between the two countries, enthused Richard Marles, Australia's defence minister.

British officials have been especially keen to stress the economic benefits of all this defence co-operation. They estimate that the latest treaty will contribute some £20bn ($27bn) in exports over the next 25 years and support around 21,000 British jobs. "There are people not yet born who will benefit from the jobs secured through this defence deal," boasted Mr Healey.

This enthusiasm stands in contrast to recent murmurs of American tergiversation. A review of the AUKUS agreement by the Pentagon has some defence analysts concerned that the deal could be in trouble. Officials in the Trump administration have also expressed misgivings over the choice to deploy Britain's thinly stretched military resources to Asia. Elbridge Colby, the Pentagon's policy chief, recently pooh-poohed Britain's decision to send an aircraft-carrier to the Indo-Pacific, and suggested that America's close ally should focus on the Russian threat in its own back yard instead.

For now Britain seems undeterred. In a statement after his visit, Mr Lammy and his Australian counterpart, Penny Wong, stressed the "interconnected" nature of the threats facing Europe and the Indo-Pacific area. On the flight deck of the Prince of Wales in Darwin, Mr Healey raised eyebrows by telling journalists that Britain would be "ready to fight" in a potential conflict over Taiwan. But such bravado, and even a visiting aircraft-carrier, do not mean Britain will really be there when it counts in this part of the world.■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | Twelve years on

In Britain, same-sex marriages are more common for women than men

But the men seem to benefit more

July 31st 2025

Twelve summers ago, a bill allowing same-sex marriages in England and Wales became law. If the institution seems to have been around for longer, that could be because it has rapidly become uncontroversial. Three-quarters of Britons now support gay marriage. Its enemies, which in the early 2010s included the Church of England, have mostly gone quiet. But how are the actual marriages going?

They are certainly popular. Fully 7,800 same-sex weddings were held in England and Wales in 2022, a record. In that year one in every 31 weddings was between people of the same sex. Kate Hamilton of the Gay Wedding Guide, which lists gay-friendly venues and suppliers, says that many wedding outfits now depict same-sex couples in their marketing materials and train staff to deal with gay and lesbian clients. They would be foolish to do otherwise, especially considering that heterosexual couples are not exactly rushing down the aisles.

In London and Manchester, most same-sex weddings join men. Those cities have large gay communities and established gay districts, which makes them obvious venues. The London borough of Westminster hosts more gay men's weddings than any other local authority in England or Wales. But outside big cities the great majority of confetti lands on women's shoulders. In Devon, for example, 137 marriages of women took place in 2022, compared with 46 marriages of men.

In the Netherlands, which legalised same-sex marriage in 2001, men's unions have proved to be more resilient than women's. The Office for National Statistics has not released the data that would allow a precise comparison of gay and lesbian marriages in England and Wales, but it seems likely that the same is true. Women accounted for 58% of same-sex marriages between 2014 and 2022. Between 2015 and 2023 they accounted for 68% of same-sex divorces.

Gay men do not rush into marriage. Civil partnership, a precursor to same-sex marriage that has become available to everyone, is more popular among male couples than female ones, though it is rare for all. When gay men marry they tend to do so late, which suggests that they want to be absolutely sure of their partners and their relationships. The average opposite-sex wedding unites a 35-year-old man and a 33-year-old woman. Women marry women at an average age of 34. But men marry men at an average age of 38. With a few more years' experience of life, and possibly with more money and more secure jobs, it would not be surprising if their marriages are particularly strong.

Moreover, marriage seems to benefit them especially. Fernanda Fortes de Lena and Diederik Boertien of the Centre for Demographic Studies in Barcelona have analysed a British social survey that tracks people over time. They estimate that marriage boosts earnings for gay men more than it does for lesbians, bisexual people or straight men (straight women's earnings fall). The authors suggest that marriage might make gay men, but not women, seem more acceptable to employers. Whatever the reason, the increase is welcome. Those expensive Westminster weddings do not pay for themselves.■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | Slowly does it

What the World Snail Racing Championships says about rural England

Summer fetes show there is still hope for the English village

July 31st 2025

Arriving at The "Big Summer Bash" in Congham, in East Anglia, one cannot help but notice the peculiar containers carried by many visitors: oddly shaped tupperwares and terrariums, stuffed with foliage. Inside are small, slimy athletes. For this is the World Snail Racing Championships. And trainers from as far afield as South Korea, America and France have come to test their molluscs' mettle.

Their racetrack is a small table covered by a damp cloth stitched with two concentric circles, 13 inches (33cm) apart. Fifteen snails set off from the centre; the winner is the first to extend its antennae over the outer rim. That gets it into the final, where it competes to become world champion—and to break the world record, held by a snail named Archie. In 1995 he crossed the course in two minutes flat (equating to around 0.006mph).

Until recently the competition took place as part of Congham's church fete, an English summertime tradition where people pay a few pennies to throw coconuts at other coconuts, or guess the weight of a cake, to raise money for the local parish. The pandemic killed many village fetes, however, including Congham's. Organising the licences, volunteers and produce became too daunting, particularly for committee members growing somewhat long in the tooth. Rural populations are ageing, and many of the schools, pubs and shops that served them have closed.

But summer fetes are enjoying an unexpected revival. Organisers around the country report record fundraising totals (the closest proxy that free-to-attend events have for attendance numbers). One reason is the increasing presence of middle-class urbanites. Such people are often blamed for the decline of village life, pricing out locals without really integrating into the community. Yet in many places they have shown themselves to have the skills, resources, energy and time to organise a fete with the requisite enthusiasm.

The Lurgashall village fete in West Sussex, for example, is run by a retired private-equity ace. Otford's, in Kent, is chaired by a JPMorgan alum who moved from London. Eleanor Herring, co-chair of the World Peashoot Championships in Witcham, Cambridgeshire, moved to the area in 2021. The "vast majority" of those on the Compton village fete organising committee in Surrey "have moved here in relatively recent years", says Miranda Wells, the chair.

In Congham the snail contest is now run by Nicholas Dickinson and Ian Haynes, both newcomers. The two businessmen have built a rejuvenated version of the village fete around the mollusc match. This year's edition, on July 19th, was marked by violent rain; last year's by hail. Such is the British summertime. But snails thrive in the damp. As Alyssa, a passionate ten-year-old armed with several of her own racers, puts it: "Snails are amazing creatures. They've got that attitude about them that just makes you believe in them."

Sadly, no amount of belief could propel your correspondent's snail, rented from the snail master's stable for £1 ($1.35), to victory. Michael Shellmacher was pipped to the mark by Bilbo Sluggins, who, as it happens, went on to be champion. The final was a tense affair. Some spectators whispered that the French were cheating. Others bragged that their oversize Roman snails would outmuscle the rest. And as a hundred strangers sheltered from the rain under a testudo of umbrellas, you could not help but feel a creeping sense of hope for the English countryside. ■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | The lionesses’ roar

England’s women’s soccer team bring it home

Victory in the European Championship is a rare moment of national joy

July 31st 2025

Moments of pure national joy are rare. England’s footballers provided one in Switzerland on July 27th by beating Spain to retain the UEFA European Women’s Championship. It was a come-from-behind, “proper England” win: the Lionesses lost their first group-stage match and trailed in all three knockout games, clinching the title in a penalty shoot-out. Celebrations included a parade to Buckingham Palace. It was another boost for women’s sports, and a contrast with England’s men, who have not had a tournament triumph since 1966. ■

For more expert analysis of the biggest stories in Britain, sign up to Blighty, our weekly subscriber-only newsletter.

Britain | Bagehot

Starmer’s Palestine problem

Sir Keir Starmer defined himself against Labour’s preoccupation with Palestine. It now defines him

July 31st 2025

The attacks on Israel of October 7th 2023 fell on the first day of the Labour Party’s conference, and the scale of the slaughter was still emerging when it was taken as a proxy for a more trivial conflict: the battle between Labour’s factions for control of the party. Acolytes of Sir Keir Starmer, then its leader and now prime minister, wanted delegates to stand for a moment’s silence. Could it pass, live on television, without a heckle?

It did. In the zero-sum struggle with followers of Jeremy Corbyn, Labour’s leftist former leader, it was a symbolic victory. For the Starmerites, how the conference responded to the massacre was a test of their boss’s project to change the party. It would reveal whether Labour could be a home again for

British Jews after antisemitism had flourished in its ranks, and whether a Labour government would be able to tell Britain's allies from its enemies. Above all, they saw a test of whether Labour could elevate the priorities of its working-class electorate over the passions of its middle-class activists, and talk about Nuneaton more than Nablus.

But that declaration of victory now looks like hubris. Palestine is, again, the animating force within Labour's internal politics. Sir Keir, a leader who defined himself against his members' concern with the Middle East, will now be defined by it.

On July 29th he announced that Britain would recognise the state of Palestine at the UN General Assembly in September, unless Israel acted to end Gaza's humanitarian crisis, implement a ceasefire, repudiate settlement-building in the West Bank and commit to a two-state solution. It was a shift from Labour's position, tucked away on page 124 of the manifesto, to recognise Palestine as part of a peace process (currently conspicuous for its absence). The prime minister had let himself be pushed. More than a third of MPs, half of them Labour, had signed a letter demanding recognition. A third of the cabinet agreed, some publicly.

If pleasing his colleagues was the aim, it is unlikely to work. The government's supporters describe a systematic shift in policy on Israel. It restored funding to UNRwA (an aid body accused of harbouring Hamas), stopped many arms exports to Israel, ended trade talks, indicated it would uphold an International Court of Justice arrest warrant for Binyamin Netanyahu, Israel's prime minister, and imposed sanctions on his most extreme ministers. Yet Labour's pro-Palestine supporters regard these shifts as wholly inadequate given the enormity of the crisis now unfolding.

Sir Keir may have given his MPs most of what they wanted, but he looks slow, moving after rejecting the declaration days before by France's Emmanuel Macron (the Élysée is now thrilled). Making the recognition dependent on Mr Netanyahu sticking to his course was intended to maximise Britain's leverage, but in practice may waste it. Action over words is Sir Keir's mantra: judge him by his plodding results rather than bold rhetoric. Yet words are what his critics want above all, and Sir Keir struggles to find them. Nine in ten Labour members want him to criticise Israel more harshly.

For activists, Palestine is a moral crisis more than a strategic one, and for those who characterise the war in Gaza as a genocide, his low-volume approach is not a sign of statecraft but complicity.

What Sir Keir cannot admit is that what he says on Palestine does not matter all that much. His members think him indifferent; in truth he is impotent. Mr Netanyahu angrily accused the British government of "appeasement towards jihadist terrorists", but in reality it is not Britain or France but America that can make Israel change course. The British-made arms exports to Israel that really matter—spare parts for F-35 jets—could be stopped only by pulling out of a global components pool, which ministers will not do. In a letter to the Guardian Andy Burnham, Emily Thornberry and other Labour bigwigs declared it would be "fitting" for Britain and France to take the lead in recognising Palestine because together they "conspired together to carve up the Ottoman Levant" in the Sykes-Picot Agreement of 1916. This is the sort of appeal to imperial grandeur last seen on the Brexit right.

Sir Keir's election landslide last year masked how much Gaza had gouged his electoral coalition. Across the electorate Labour gained six percentage points in support compared with 2019. Among those voters who said they sympathised "much more" with Palestinians than Israelis, it fell by 18 points.

Gaza was to many Muslims what Brexit was to the white working class, argues More in Common, a polling firm. It was the moment a poor, patronised, socially conservative underclass asked what the Labour Party had ever done for them. In the 21 seats where more than 30% of the population is Muslim, Labour's share dropped by 29 points, to 36%. Five pro-Gaza independents were elected, among them Mr Corbyn. One in three Muslims say they would vote for the new left-wing party Mr Corbyn has launched with Zarah Sultana, another ex-Labour MP, according to Stack Data Strategy, a consultancy. Nigel Farage, the leader of Reform UK, speaks with glee of how Gaza has fractured Labour's coalition in northern English towns, bringing them closer to his grasp. Expect the Labour Party to repeat that logic ad nauseam in the next three years: its best hope of retaining power lies in a terror of Mr Farage gluing its coalition of progressives back together.

But Gaza breaks the old rules of politics. Labour officials admit they struggle with a new media, in which TikTok is flooded with horror that would be cut from the television news. For such voters, Gaza is much bigger than Mr Farage; bigger than Westminster itself. “We have to vote for them or it’s Farage? We’re saying screw your false choice,” declares Ms Sultana, who terms her former colleagues the “genocide party”. The Starmerites thought they had defeated the politics of Palestine. It may defeat them. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

International

- How spy agencies are experimenting with the newest AI models
- Could AI tilt the outcome of elections?
- Can China save South Africa from Donald Trump?

International | Model students

How spy agencies are experimenting with the newest AI models

America has better technology. But will China adopt it more quickly?

July 31st 2025

ON THE day of Donald Trump’s inauguration as president, DeepSeek, a Chinese company, released a world-class large language model (LLM). It was a wake-up call, observed Mr Trump. Mark Warner, vice-chair of the Senate Intelligence Committee, says that America’s intelligence community (IC), a group of 18 agencies and organisations, was “caught off guard”.

Last year the Biden administration grew concerned that Chinese spies and soldiers might leap ahead in the adoption of artificial intelligence (AI). It ordered its own intelligence agencies, the Pentagon and the Department of Energy (which builds nuclear weapons), to experiment more adventurously with cutting-edge models and work more closely with “frontier” AI labs—principally Anthropic, Google DeepMind and OpenAI.

On July 14th the Pentagon awarded contracts worth up to $200m each to Anthropic, Google and OpenAI, as well as to Elon Musk’s xAI—whose chatbot recently (and briefly) self-identified as Hitler after an update went awry—to experiment with “agentic” models. These can act on behalf of their users by breaking down complex tasks into steps and exercising control over other devices, such as cars or computers.

The frontier labs are busy in the spy world as well as the military one. Much of the early adoption has been in the area of LLM chatbots crunching top-secret data. In January Microsoft said that 26 of its cloud-computing products had been authorised for use in spy agencies. In June Anthropic said it had launched Claude Gov, which had been “already deployed by agencies at the highest level of us national security”. The models are now widely used in every American intelligence agency, alongside those from competing labs.

AI firms typically fine-tune their models to suit the spooks. Claude, Anthropic’s public-facing model, might reject documents with classified markings as part of its general safety features; Claude Gov is tweaked to avoid this. It also has “enhanced proficiency” in the languages and dialects that government users might need. The models typically run on secure servers disconnected from the public internet. A new breed of agentic models is now being built inside the agencies.

The same process is under way in Europe. “In generative AI we have tried to be very, very fast followers of the frontier models,” says a British official. “Everyone in UKIC [the UK intelligence community] has access to top-secret [LLM] capability.” Mistral, a French firm, and Europe’s only real AI champion, has a partnership with AMIAD, France’s military-AI agency. Mistral’s Saba model is trained on data from the Middle East and South Asia, making it particularly proficient in Arabic and smaller regional languages, such as Tamil. In January +972 Magazine reported that the Israeli armed forces’ use of GPT-4, then OpenAI’s most advanced LLM, increased 20-fold after the start of the war in Gaza.

Despite all this, progress has been slow, says Katrina Mulligan, a former defence and intelligence official who leads OpenAI's partnerships in this area. "Adoption of AI in the national-security space probably isn't where we want it to be yet." The National Security Agency (NSA), America's signals-intelligence service, which has worked on earlier forms of AI, such as voice-recognition, for decades, is a pocket of excellence, says an insider. But many agencies still want to build their own "wrappers" around the labs' chatbots, a process that often leaves them far behind the latest public models.

"The transformational piece is not just using it as a chatbot," says Tarun Chhabra, who led technology policy for Joe Biden's National Security Council and is now the head of national-security policy at Anthropic. "The transformational piece is: once you start using it, then how do I re-engineer the way I do the mission?"

Sceptics believe that these hopes are inflated. Richard Carter of the Alan Turing Institute, Britain's national institute for AI, argues that what intelligence services in America and Britain really want is for the labs to significantly reduce "hallucinations" in existing LLMs. British agencies use a common technique, in which one algorithm searches for reliable information and feeds it to an LLM, to minimise hallucinations, says the unnamed British official. "What you need in the IC is consistency, reliability, transparency and explainability," Dr Carter warns. Instead, labs are focusing on more advanced agentic models.

Mistral, for example, is thought to have shown would-be clients a demonstration in which each stream of information, such as satellite images or voice intercepts, is paired with one AI agent, speeding up decision-making. Alternatively, imagine an AI agent tasked with identifying, researching and then contacting hundreds of Iranian nuclear scientists to encourage them to defect. "We haven't thought enough about how agents might be used in a war-fighting context," adds Mr Chhabra.

The problem with agentic models, warns Dr Carter, is that they recursively generate their own prompts in response to a task, making them more unpredictable and increasing the risk of compounding errors. OpenAI's most recent agentic model, ChatGPT agent, hallucinates in around 8% of answers, a higher rate than the company's earlier o3 model, according to an evaluation published by the firm.

Some AI labs see such concerns as bureaucratic rigidity, but it is simply a healthy conservatism, says Dr Carter. "What you have, particularly in the GCHQ community," he says, referring to the NSA's British counterpart, "is an incredibly talented engineering workforce that are naturally quite sceptical about new technology."

This also relates to a wider debate about where the future of AI lies. Dr Carter is among those who argue that the architecture of today's general-purpose LLMs is not designed for the sort of cause-effect reasoning that gives them a solid grasp on the world. In his view, the priority for intelligence agencies should be to push for new types of reasoning models.

Others warn that China might be racing ahead. "There still remains a huge gap in our understanding as to how and how far China has moved to use DeepSeek" for military and intelligence gaps, says Philip Reiner of the

Institute for Security and Technology, a think-tank in Silicon Valley. “They probably don’t have similar guardrails like we have on the models themselves and so they’re possibly going to be able to get more powerful insights, faster,” he says.

On July 23rd the Trump administration ordered the Pentagon and intelligence agencies to assess regularly how quickly they are adopting AI relative to rivals such as China, and to “establish an approach for continuous adaptation”.

Almost everyone agrees on this. Senator Warner says that American spy agencies have been doing a “crappy job” gathering intelligence on China’s progress. “The acquisition of technology [and] penetration of Chinese tech companies is still quite low.” The big concern, says Ms Mulligan, is not that America rushes to use AI before understanding the risks. “It’s that the Department of Defence and the IC keep doing things the way they’ve always done them. What keeps me up at night is the real possibility that we could win the race to AGI [artificial general intelligence]...and lose the race on adoption.” ■

International | Artificial interference

Could AI tilt the outcome of elections?

New research shows it is being used for good and ill

July 31st 2025

THE GLOBAL wave of elections in 2024 was heralded as the first of the artificial-intelligence (AI) era. But opinions about what that meant varied. Would AI prompt a glut of malign deepfakes and large language model-generated spam? Or empower politicians to speak to constituencies segregated by language, and voters to find new sources of information to guide their choice?

With the polls closed, votes tallied, and new and returning politicians ensconced in office, the predictions of widespread AI-powered campaigning turned out to have been accurate. An exhaustive database of elections assembled by academics representing the International Panel on the

Information Environment shows that AI was used in four out of five ballots last year.

The group, which models itself on the IPCC and the role it plays monitoring climate change, found AI in elections—from America to India and Britain to Indonesia. The few democracies that saw little impact from the technology tended to be small, with Botswana, Mongolia and Togo the only countries with populations larger than 2m where AI did not make an appearance.

And that impact was generally unhelpful. Most of the usage was in content creation, with the ultimate source often unknown: a little under half the time (46%), the origin of content created using AI was untraceable by the panel. Of what could be traced, almost as much came from foreign actors (20%) as from local AI-savvy political groups (25%).

There are reasons to keep one's identity secret that fall squarely within the rough and tumble of competitive politics. Using AI to dub a politician's speech into a minority language, for instance, could win respect from underrepresented groups—but might be less compelling if the video carried the logo of the management consultancy responsible. When domestic governments openly used AI tools, it was always benign, as in Madagascar, where the technology was used to help voter identification.

Harmful uses, such as when popular dead Indian politicians were re-animated for endorsements, or when a deepfake purported to show a Bangladeshi candidate dropping out of her race, made up more than two-thirds of the recorded AI usage. Foreign actors were uniformly hostile: in the Solomon Islands, for instance, the country's 750,000 citizens were targeted by Russian and Chinese actors.

One question remains unanswered. Did any of the assorted attacks, experiments and jokes actually matter? Some clearly generated discord, as in Romania, where the constitutional court noted that AI was used in an electoral-interference campaign that saw the country's presidential election annulled and re-run. But the panel's mission mirrors the IPCC's in more ways than one. The environment is changing, both groups' research confirms. But what to do about it is a decision for politicians, not panels. ■

International | The Telegram

Can China save South Africa from Donald Trump?

South African leftists dream of telling the West to get lost

July 31st 2025

SOUTH AFRICA is a country with a dark past and a frustrating present. In such a society, to represent the future is a glorious thing. For many South Africans, China holds the keys to a better tomorrow. To its admirers, China represents a timely alternative to a West that is turning inwards, cutting aid and tightening border controls. If America imposes 30% tariffs on South Africa on August 1st, as it says it will, their country has options, they say. China long ago overtook America as South Africa's largest trading partner, with two-way trade growing 25-fold this century. A Chinese maker of electric cars, BYD, is said to be scouting for South African factory sites. Public opinion is marked by racial divisions. Asked by the Social Research Foundation, a South African think-tank, whether Russia and China provide more investment and jobs than America and the EU, 59% of black South Africans agreed, but only 34% of whites. Geopolitics inspires more caution. Asked whether South Africa should pursue anti-Western foreign policies aligned with China, Iran and Russia, 41% of black respondents and 12% of whites said yes. A narrow majority of all said no.

In Johannesburg boardrooms and Cape Town cafés where politicians gossip and scheme, there is agreement about China's importance and alarm at lopsided trade. South Africa exports mainly raw materials and minerals to China while importing manufactured and capital goods, running a trade deficit of $9.7bn in 2023. Diplomatically, South Africa has moved away from a tradition of non-aligned pragmatism. It now often backs Chinese positions in the BRICS, the G20, the UN and other forums. But centrist politicians and business leaders reject the notion, heard on the left of the ruling African National Congress (ANC), that closer alignment with China avoids the need to mend fences with the West.

South Africa's relations with America, notably, are at their worst since apartheid ended. President Donald Trump and Republicans in Congress have threatened sanctions for some invented crimes, starting with what Mr Trump falsely claims is a genocidal campaign, egged on by South African officials, to kill white farmers and take their land. But real disputes have soured relations, too. These touch on everything from South Africa's sponsorship of genocide charges against Israel at the International Court of Justice, to its commercial and diplomatic ties with Russia and Iran. Relations with Europe have also been frosty in recent years, says a Western envoy, though the EU is currently wooing South Africa as a swing state in the global south.

In his capacity as agriculture minister, John Steenhuisen sees "huge opportunity for South Africa in China", with farmers eager to sell citrus fruit, wine and nuts to Chinese city-dwellers. But as the leader of the Democratic Alliance, a business-friendly party in coalition with the ANC, Mr Steenhuisen says: "Those who think we can say goodbye to the West and look at China haven't checked the numbers." He notes that 75% of foreign investment to South Africa is from America, Britain and the EU, which will be hard to replace "in the short and medium term". Morris Mthombeni, dean of the University of Pretoria's Gordon Institute of Business Science, calls it "naive" to think that South Africa can afford to lose its trade with the West.

China buys large volumes of commodities, but "in terms of diversity of trade, the West is more important. Trade with China and with the US are not substitutable."

A researcher at the China-Global South Project, Cobus van Staden, sees ideological affinity guiding some ANC politicians. As veterans of a liberation movement with Marxist roots, they admire China's Communist Party for combining economic growth with central planning and a big state-owned sector. "The problem is that China builds that on top of a hugely competent technocracy, which isn't the case in South Africa," he notes. Modern-day Chinese party cadres are more entrepreneurial than South African bureaucrats. "The line you hear from Chinese diplomats is they would like to do more with South Africa, but they find it over-regulated. They're frustrated at the number of hoops they have to jump through," reports Mr van Staden.

For that matter, it is common to hear South Africans frustrated at the reluctance of Chinese firms to transfer technologies and high-value skills when they open factories in South Africa, or to promote Africans to senior positions. In his embassy in Pretoria, its design a nod to grey-walled Chinese courtyard mansions, China's ambassador, Wu Peng, denies that his government imposes any "artificial technical barriers" to technology transfers by companies. On the contrary, he says, China encourages firms to bring capital, technology and skilled personnel to South Africa, for instance in such fields as cars, batteries, renewable energy and pharmaceuticals. Yet conditions must be ripe. "You cannot reach industrialisation in one day. You need your economic structure to be more competitive," advises the ambassador. China's model of modernisation holds "strong appeal" for many African countries, Mr Wu avers. But China "never, ever" lectures African governments about the best path to take.

South Africa's dysfunction and red tape (eg, rules requiring ownership stakes for non-whites) harm it. Because electricity is so expensive and unreliable, it is profitable to mine chromium ore in South Africa and ship it to China for smelting, laments Songezo Zibi, the head of a small centrist party, Rise Mzansi. He describes China's current relationship with his country as "unhelpfully extractive", urging South Africa to seek deeper, more sustainable ties with both China and the West.

Bluntly, there is no magic China solution. Hard reforms are needed, as well as balanced foreign relations. Otherwise, whether the future is Chinese or not, South Africa will be left behind. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

Business

Business | Wham, bam, monogram

Can Bernard Arnault steer LVMH out of crisis?

Investors are starting to call for the luxury conglomerate to break itself apart

July 31st 2025

Louis Vuitton’s new 17,000-square-foot development in Shanghai is, quite literally, the luxury brand’s Chinese flagship. The structure, which serves as store, restaurant, museum and billboard, is shaped like a giant boat, its hull emblazoned with Louis Vuitton’s monogram print. To some, it is also a metaphor for Louis Vuitton’s parent company, LVMH, which is floundering in China and beyond. Is it a superyacht headed for promising new waters, asks Flavio Cereda-Parin of GAM, an asset manager, or “Titanic 2.0”?

Four decades of dealmaking have turned LVMH into a luxury colossus. The group is made up of 75 independent maisons, from fashion labels such as Louis Vuitton and Dior to booze brands like Hennessy and Moët &

Chandon, alongside watchmakers, hotels, retailers and more. Last year these brought in €85bn ($100bn) in sales, making LVMH around four times as large as the industry's two other big conglomerates, Kering and Richemont. Its creator, Bernard Arnault, was perhaps the first to recognise that combining luxury brands under one roof could bring significant economies of scale by conferring negotiating power with advertisers, landlords and suppliers, and helping to entice and retain talent. Over the past decade alone Mr Arnault, referred to as "the wolf in cashmere", has devoured a high-end jeweller (Tiffany & Co), a luxury-hotel chain (Belmond) and a premium luggage brand (Rimowa).

LVMH rode the luxury boom that began around the turn of the millennium, as monied middle-class shoppers across the globe bought posh frocks and pricey bags by the trunk-load. According to Bain, a consultancy, global spending on personal luxury goods quadrupled between 2000 and 2023, when LVMH's market value reached its peak of around €450bn, briefly making Mr Arnault the world's richest man.

Much has changed since then. On July 24th LVMH reported that its revenue in the first half of 2025 fell by 4%, year on year, with net profit plunging by 22%. Shoppers in America and China, the two biggest markets for luxury wares, are cutting back spending. American tariffs on European goods have not helped. LVMH's market value has fallen by more than a quarter over the past year, to less than €250bn. Hermès, a luxury brand Mr Arnault tried and failed to buy, and has eyed with envy ever since, has taken LVMH's crown as the most valuable company in the industry, despite generating only €15bn in sales last year (see chart 1). Adding insult to injury, the Arnault family, which has topped France's rich list since 2017, has also been dethroned by the Hermès clan. Can Mr Arnault turn the ship around?

LVMH can't blame the economic environment for all its woes. It raised prices enormously in the post-covid "revenge shopping" boom, irking some customers. The price of Louis Vuitton's Speedy 30 canvas tote bag has more than doubled since 2019, for example, while the average price of personal luxury goods in Europe has increased by just over 50%, according to HSBC, a bank. Only a handful of designers, including Chanel and Gucci, have raised prices more.

A series of scandals has also damaged the image of some of its brands. Moët Hennessy, LVMH's drinks division, has recently faced accusations of sexual harassment, bullying and unfair dismissal by former employees (which it denies). On July 14th an Italian court placed Loro Piana, an LVMH label that sells cashmere sweaters for over $1,000 apiece, under judicial administration for using suppliers that allegedly violate labour rights. Dior faced similar investigations last year. LVMH's response has been half-hearted: "Transparency, control, and management of this whole ecosystem can sometimes prove a bit difficult," it said recently.

Mr Arnault is trying to steer to calmer waters. New bosses have been put in charge of the booze, watches and retailing units. The appointment of Jonathan Anderson as the new creative director of Dior has been cheered by fashionistas. Some investors, however, worry that the problems are deeply rooted. One concern is that decades of pushing fancy clothing and accessories not just to the super-rich but also the merely well-off has made LVMH's brands more vulnerable to economic cycles and dented an image of exclusivity. Even Louis Vuitton, the firm's crown jewel, has not been immune. Analysts at HSBC term the brand "schizophrenic" for its attempt to peddle entry-level goods like chocolate and make-up alongside ultra-pricey handbags and luggage.

The outlook for Moët Hennessy is more worrying still. As profits have shrunk, the division has announced thousands of job cuts. Analysts point out that the young aren't drinking as much as older generations, and when they do they tend to shy away from [cognac](), which makes up much of LVMH's booze business. The wines-and-spirits division now contributes less than 10% of LVMH's operating profits, down by roughly half in a decade (see chart 2).

By contrast, [Hermès](), which has remained focused on selling fashion to the exceedingly wealthy, has continued growing handsomely. Its market value as a multiple of its net profit is now more than twice as high as for LVMH. Brunello Cucinelli, another purveyor of ultra-luxe fashion, is valued at a similar multiple to Hermès. If Louis Vuitton were to be valued at such a multiple, it alone would be worth significantly more than the entirety of its parent company.

That has led some to call for a break-up of LVMH. On July 25th reports emerged that it was exploring a sale of Marc Jacobs, a fashion label founded by a former creative director of Louis Vuitton. A bolder move would be jettisoning the troubled drinks business. Diageo, owner of tipples from Guinness to Johnny Walker, already controls a third of Moët Hennessy and has in the past expressed interest in taking the rest of it off LVMH's hands.

The British firm is currently grappling with its own slump in profits and recently parted ways with its chief executive, but analysts speculate that it could make a deal work by selling off its beer business at the same time.

Mr Arnault, aged 76, is navigating all this while making plans for a transition at the helm. He clearly intends to keep the enterprise under family management. All five of his children work in different corners of his empire under the tutelage of experienced executives. His daughter Delphine, who has been given the job of turning around Dior, is his eldest and the only of his offspring on the executive committee of LVMH, making her the most likely candidate to succeed her father. Yet there are other possibilities. In February Alexandre was parachuted in as the deputy head of Moët Hennessy. In March Frédéric was put in charge of Loro Piana.

Mr Arnault refuses to answer questions on the topic of succession. Having raised the age limit for his job from 75 to 80 three years ago, he raised it again to 85 earlier this year. That may mean he will wait until he has steadied the ship before relinquishing control. Even then, some investors question whether it is possible to replace the man who created the modern luxury industry. Mr Arnault still has plenty to do before he hangs up his captain's hat. ■

To stay on top of the biggest stories in business and technology, sign up to the [Bottom Line](), our weekly subscriber-only newsletter.

Business | Eyes on the prize

The remarkable rise of "greenhushing"

Businesses once trumpeted their climate goals. Now they are quietly plugging away

July 31st 2025

Read the headlines and the easy conclusion is that big business has abandoned the fight against climate change. In the past two weeks BP, an oil giant, has sold its American onshore-wind business; Jaguar Land Rover, a carmaker, has reportedly delayed the launch of its new electric Range Rover; and HSBC, a bank, has left the Net-Zero Banking Alliance (nzba), a group committed to lending in a greener way. But these bits of gloomy news are only part of a sunnier outlook. Taken as a whole, companies are quietly making progress on their climate goals.

A report published in March by pwc, an auditor, found that of the 4,000-odd firms that reported climate commitments last year to the CDP, a non-profit, only 16% dialled back their goals, while 47% stood by them and 37% became more ambitious. The analysis also found that 67% of companies with targets were on track to meet them, a proportion which had inched up by three percentage points compared with 2023. Once companies were accused of “greenwashing”: making nonsense promises, and doing nothing to achieve them. Now they seem to be “greenhushing”—getting on with the job of decarbonisation without making a fuss.

Firms are also improving the rigour of their targets. Some companies are moving away from using ineffective carbon offsets to claim carbon neutrality, says Thomas Day of the NewClimate Institute, a think-tank. That includes Microsoft, Google and easyJet. Our analysis of data from the Science Based Targets initiative (sbti), a non-profit that verifies climate goals, shows that the share of companies that target “scope three” emissions (a category which includes pollution created in their supply chain and from the use of their products) in their climate goals rose from 28% in 2022 to 67% in 2024.

This is welcome news because when businesses set green goals, decarbonisation tends to follow. MSCI, a provider of stockmarket indices, looked at the 2,400 or so large and medium-size companies in their global index. In the past three years those with a climate target have seen an 8% drop in their emissions intensity (defined as emissions from a firm’s operations and from purchased energy per dollar of revenue). That figure declined by only 3% for those without a target.

Plenty of problems remain. One is that the sectors where there is backsliding are particularly crucial to slowing climate change. That includes the oil-and-gas industry, which is struggling to find a way to decarbonise profitably. Murray Auchincloss, bp’s boss, announced a shift away from renewable energy and back to fossil fuels in a “fundamental reset” earlier this year. On July 22nd news broke that Shell, Enbridge and Aker bp, three oil companies, had quit the sbti’s advisory group set up to define what “net zero” means for oil companies. They are said to have left because they were told achieving it would mean not developing new oil- and gas-fields.

Financial institutions are also backsliding. Along with hsbc, big American banks including Goldman Sachs and Morgan Stanley have dropped out of the nzba, as have some from Japan and Canada. The Institute for Energy Economics and Financial Analysis, a think-tank, estimates that the leavers account for two-fifths of the group's total assets. The same problems are afflicting similar organisations, such as the Net Zero Asset Managers initiative. This year Wells Fargo, another American bank, scrapped some of its green-lending plans and in March Switzerland's ubs pushed back its climate targets after acquiring Credit Suisse.

Part of the problem for financial institutions is politics, which was shifting even before Donald Trump returned to the White House. In America Republican senators have suggested that joining a green alliance could breach antitrust rules. Since Mr Trump's re-election the pressure has been cranked up. In January ten state attorneys-general wrote to America's biggest financial firms, including BlackRock and Goldman Sachs, threatening legal action if the companies did not change their climate and diversity policies.

The consequence of all this is that companies which are continuing to take action to decarbonise have grown more reluctant to parade their efforts. The number of times climate change is mentioned on earnings calls of companies in the s&p 500 or stoxx Europe 600 indices has dropped from 427 in the first quarter of 2022 to 246 in the first three months of this year.

No longer being able to boast about their targets might make some firms start to question whether setting them is worthwhile. Already companies that hoped their green credentials would give them a share-price boost have been disappointed.

Yet the fact that many are quietly persevering with decarbonisation points to a more comforting conclusion: that they realise that taking action is beneficial to their bottom lines, no matter what politicians say or do. If the worst accusation that environmentalists can level at a company is its tendency to greenhush, then that is surely a sign of progress. ■

To stay on top of the biggest stories in business and technology, sign up to the Bottom Line, our weekly subscriber-only newsletter.

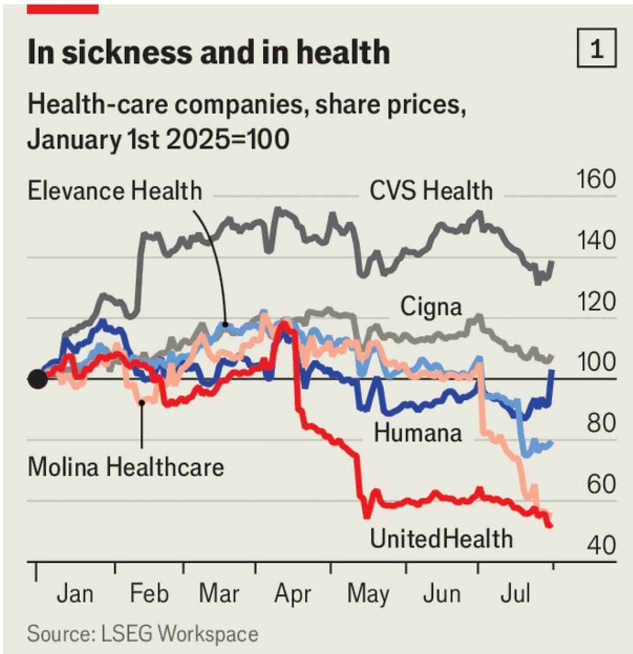
Business | On the sick list

America’s ailing health insurers

An industry that has run on government money faces a reckoning

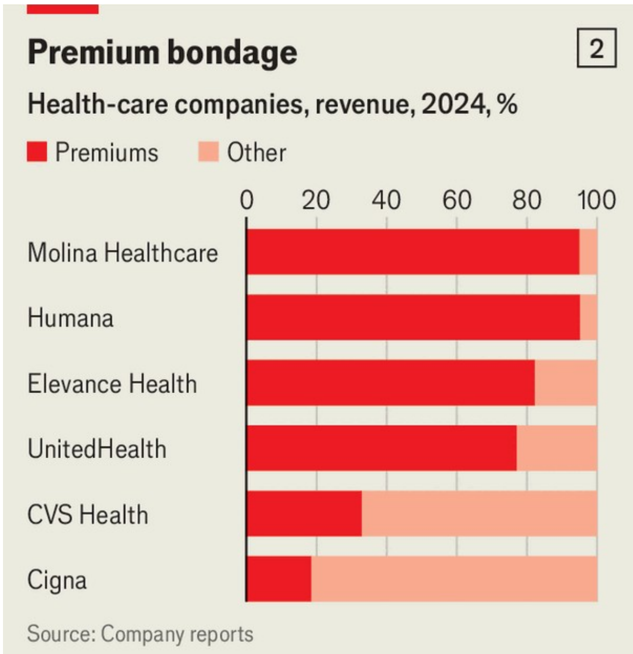
July 31st 2025

Few firms in America are more unloved than health insurers. As gatekeepers of the world’s costliest health-care system, their miserly response to claims is a constant source of patient unhappiness. Investors, by contrast, have long regarded them as soothingly safe bets: boring businesses with steady returns. That is no longer the case. UnitedHealth Group, the country’s largest insurer, stunned investors in April by reporting unexpectedly disappointing results. Within weeks it had replaced its boss and scrapped its profit forecast for the year. Its latest results, released on July 29th, offered more misery. Since November UnitedHealth’s market value has collapsed from $575bn to $240bn.



The infection has spread. This earnings season has delivered a drip-feed of bad news. On July 17th Elevance Health, America's second-largest health insurer, also cut its profit forecast for 2025. Centene, another big competitor, swung to a $253m loss in the latest quarter, from a $1.1bn profit a year ago. Another, Molina Healthcare, has lowered its earnings estimates twice in as many weeks, blaming a "season of great uncertainty". Since mid-April the three firms have lost more than 40% of their market value. Only Cigna and cvs Health have avoided the rout (see chart 1). Both firms' insurance operations are part of a bigger business, which has lessened the damage (see chart 2).

The downturn reflects underlying symptoms. Medical costs are rising, regulatory scrutiny is growing and public funding is tightening. Investors are now coming to terms with how reliant these firms are on government money and how vulnerable they are to policy change.



For many years, public programmes drove growth. Despite America's lack of universal health care, the government still foots much of the bill for treatments. Medicare, a federal scheme for those aged 65 and older, covers more than 68m people. Most now choose Medicare Advantage, a private alternative under which insurers are paid to provide equivalent care but with added benefits.

Medicaid, run by the states, serves low-income Americans and covers 71m (including 12m also on Medicare). Most states outsource the administration to private insurers. The Affordable Care Act (aca), passed in 2010, boosted the industry by providing subsidies for people who do not get health insurance from their employer but buy it from private firms on government-run exchanges. Altogether, public health-insurance programmes cover about 170m people, roughly half the population.

Larry Levitt of kff, a health-policy think-tank, says with low expansion in employer-provided insurance, Medicare Advantage has become a growth engine for private insurers. It has also been lucrative. UnitedHealth's revenues from Medicare and Medicaid have risen from $70bn in 2014 to $220bn in 2024. These programmes once brought in nearly three-fifths of its insurance income; now they account for nearly three-quarters. The government pays well. Medpac, a congressional advisory body, estimates that Medicare Advantage costs taxpayers 20% more per patient than standard Medicare.

The model is now under strain. Medical costs are climbing at the fastest rate in over a decade. pwc, a consultancy, expects a rise of 8.5% in both 2025 and 2026, fuelled by pricey cancer treatments, growing demand for mental-health care and booming sales of weight-loss drugs. Patients on public plans tend to be especially costly. Mark Newsom of Avalere Health, another consultancy, notes that people enrolled on Medicare and Medicaid are “the sicker population” compared with those on commercial plans. They use more hospital services, have more prescriptions filled and need more care.

Government payments are not keeping pace. s&p Global, a financial-data firm, forecasts that the medical-loss ratio, the share of premiums spent on care, will hit 88% this year for the big insurers, up from 83% in 2020. Most aim for 80%. The rise, driven by publicly insured patients, is eating into margins.

More pain may be on the way. President Donald Trump’s One Big Beautiful Bill act (obbb), passed earlier this year, includes deep cuts to federal health-care spending. According to the Congressional Budget Office (cbo), a non-partisan agency, Medicaid funding will fall by $910bn over the next decade, equivalent to a spending cut of 14%. The obbb also imposes stricter conditions for coverage, including tougher and more frequent checks on eligibility. Meanwhile, generous subsidies for aca plans are due to lapse at the end of the year. These tax credits currently lower premiums for millions.

The result, says the cbo, will be 16m more uninsured Americans by 2034 than would otherwise be the case. Those leaving the market are likely to be healthier, leaving insurers with a smaller, sicker and more expensive pool of patients.

Regulators are also circling. On May 1st the Department of Justice (doj) filed a lawsuit against Aetna, Elevance and Humana, alleging they conspired to steer patients into Medicare Advantage. The doj claims the firms paid brokers “hundreds of millions of dollars” in kickbacks to push people toward their plans, even if those services were not in patients’ best interests. The companies deny any wrongdoing. UnitedHealth, for its part, revealed last week that it faces both civil and criminal probes into its billing practices. The Wall Street Journal reported that the firm allegedly inflated diagnoses to make patients appear sicker and trigger higher government payments. UnitedHealth says it has “full confidence” in its practices.

Insurers are likely to pass on the added costs. Centene, the largest seller of Medicaid plans, expects states to raise payments. In the aca exchanges, most insurers are seeking premium increases of 10–20% for 2026, according to kff. Patients may lack sympathy over the industry’s pain but soon they may be paying for it to go away.■

To stay on top of the biggest stories in business and technology, sign up to the Bottom Line, our weekly subscriber-only newsletter.

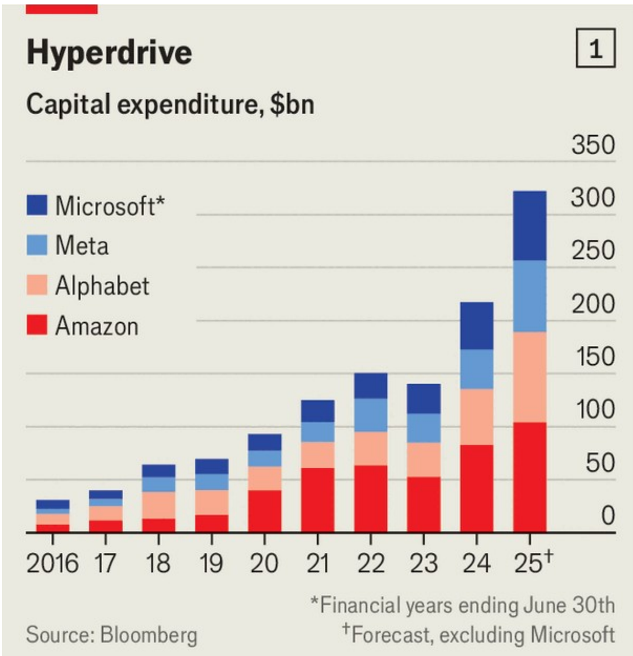
Business | Unplugged

How big tech plans to feed AI's voracious appetite for power

As data centres get more energy-hungry, the hyperscalers get more creative

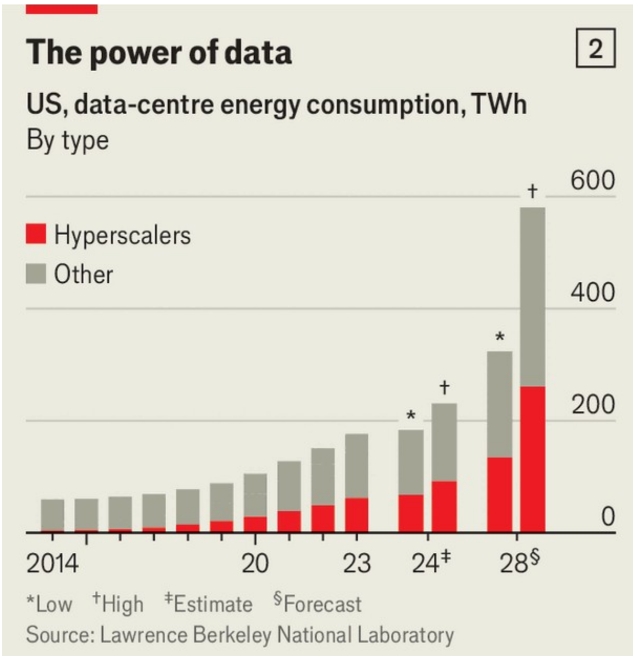
July 31st 2025

America's tech giants are masters of the digital realm. Yet as they bet stupendous sums on artificial intelligence (ai), their ambitions face constraints in the physical world. Shortages of chips and data-centre equipment such as transformers and switching gear mean soaring prices and lengthy waits. Just as pressing is access to energy as utilities struggle to match the demands of Silicon Valley. On July 24th President Donald Trump published an "ai action plan" which describes stagnating energy capacity as a threat to America's "ai dominance". How is big tech coping with a worsening power crunch?



[Demand is rocketing](#) thanks to ever more ambitious ai plans by the hyperscalers—Alphabet, Amazon, Microsoft and Meta—all of which rely on data centres to run their services. On July 23rd Alphabet, owner of Google, said it would raise capital spending for 2025 by $10bn to $85bn, taking the likely total for the hyperscalers to $322bn this year, up from $125bn in 2021 as they spend on bigger and more power-hungry data centres (see chart 1). Mark Zuckerberg, Meta's boss, recently unveiled project Prometheus, a cluster of centres in Louisiana covering an area almost the size of Manhattan.

New facilities consume more electricity than ever. A rack of servers stuffed with ai chips requires about ten times more power than a non-ai version a few years ago. A study by the Lawrence Berkeley National Laboratory found that in 2023 America's data centres used 176 terawatt-hours (twh) of electricity. That is forecast to increase to up to 580twh by 2028 (see chart 2), or 12% of America's total consumption, with hyperscalers accounting for about half.



The situation is further complicated by the shifting requirements of ai. Most of the computing power now trains ai models. As the technology is adopted more widely, more of it will be used for “inference”, when an ai system responds to a query. To speed up responses, many in the industry argue that inference data centres need to be near where people are using the software. But available land and power are even harder to find near cities.

Faced with a power shortage, the tech giants are turning to less suitable locations. Preferred places such as north Virginia, with favourable tax regimes and proximity to high-capacity fibre-optic cables that ferry data around, are overloaded with data centres. Firms are turning to “less than ideal places”, says a former executive. Yet even the new spots, such as Hillsboro, Oregon, and Columbus, Ohio, are becoming “capped out”, explains Pat Lynch of cbre, a property firm. Vacancies are near an all-time low and centres due for completion in 2028 are fully booked.

Another strategy is to team up with smaller rivals. In June Google announced that it would rent data-centre capacity from CoreWeave, an ai cloud provider which has already signed a similar five-year $10bn leasing deal with Microsoft. Part of the capacity for such “neoclouds” comes from repurposing facilities once used to mine cryptocurrencies.

Tech firms are also scouring the land for fresh sources of power. Amazon Web Services planned to buy and develop a nuclear-powered data centre from Talen Energy, an electricity generator. The deal was blocked by regulators for fear of raising locals' bills. On July 15th Google announced a $3bn deal for hydropower from a dam in Pennsylvania. Hyperscalers are also playing more of a role in commissioning power projects. That not only includes striking deals directly with power firms but building generation capacity at data centres, to reduce reliance on grid connections.

A survey by Bloom Energy, a power provider, finds that data-centre bosses expect that 27% of facilities will have onsite power by 2030 compared with only 1% last year. Google signed a $20bn deal in December with Intersect Power, a developer, to build a data centre and solar farm with battery storage. Some of the power for Meta's Prometheus project will come from gas extracted at the site.

The hyperscalers' desperation is helping cultivate novel sources of generation. Google has an agreement with Kairos Power, a startup developing small modular reactors (SMRs), to provide nuclear power from 2030. Amazon has invested in X-energy, another SMR startup. Google and Meta have signed deals for geothermal energy and Microsoft is dabbling in hydrogen fuel cells as backup power for data centres.

Making the grid more flexible is another way to ensure reliable supplies of energy. Tyler Norris of Duke University says electricity systems are designed for extremes in demand. On a hot and sunny morning in Texas, say, people will rush to switch on air-conditioning units. If data centres agree not to use grid power at peak times by tapping batteries or using onsite generators, that can allow more to be added to the grid without overburdening it.

Data-centre operators that do this could get priority in the queue for power from the grid. xai, owned by Elon Musk, took part in a flexibility programme for its data centre in Memphis. SemiAnalysis, a research outfit, argues that this helped it get faster access to electricity. The tech giants are providing support in other ways, too. Google has teamed up with ctc Global, a cable-maker, to help utilities and states upgrade transmission lines.

A final strategy is to go abroad. Data centre capacity is set to soar in the Gulf countries, where big sovereign-wealth funds are bankrolling developments. Spain, with its abundant solar power, is another popular destination. Malaysia had been Asia's data-centre hotspot, thanks in part to cheap energy, though a surcharge for data centres which came into force on July 1st may put off the hyperscalers.

Making the right choice is crucial. Building huge data centres can run into trouble. "Project Stargate", led by Openai, an ai startup, and SoftBank, a Japanese tech investor, is said to have hit setbacks after disagreements about power providers and site selection. Peter Freed, formerly at Meta and now a consultant, notes that building highly customised data centres in the middle of nowhere may prove a bad idea. "I worry about stranded-asset risk," he says. And as no one knows what the demand for ai will be over the next two years, even the most advanced ai model might struggle to give definitive advice. ■

To stay on top of the biggest stories in business and technology, sign up to the Bottom Line, our weekly subscriber-only newsletter.

Business | The cat that got the cream

Hello Kitty's owner is purring contentedly

Sanrio is becoming a powerhouse of licensing intellectual property

July 31st 2025

A show called "Hello Kitty and Friends Supercute Adventures" might be expected to feature the world-famous cat more prominently than one of her lesser-known companions. In fact in its most-watched episode, "Kuromi's Bad Day", Hello Kitty plays a supporting role, cheering up grumpy Kuromi, a rabbit dressed in hot pink, with milk and a doughnut. Nor is this an isolated relegation. In an annual poll of fans' favourite characters, Hello Kitty has won only once in the past decade.

Sanrio, the Japanese "emotional commerce" firm which owns Hello Kitty, has been diversifying. My Melody, a cheery white bunny, co-stars with Kuromi in a new Netflix series. It is part of a makeover of Sanrio that began in 2020 when its then 92-year-old founder handed control to his grandson,

31. Operating profit rose from ¥2.1bn ($20m) that year to ¥51.8bn in the year ending in March and the stock has risen 13-fold, nearly doubling over the past year.

Once reliant on toy sales, Sanrio has since turned to licensing intellectual property. This now makes up half of revenues. The company's long-term strategy envisions blanketing fans with Sanrio content to "deliver smiles to as many people as possible", using a wide cast of characters.

Sanrio's next task is conquering foreign markets, especially North America and Europe. Its share of revenue outside Japan generated by Hello Kitty has fallen from 90% in the 2010s to about half today, as her friends are taking more of the spotlight. The company's expanded cast list has a vital role to play in ventures including new in-person experiences, such as a café opened last year in California dedicated to Gudetama, a slothful egg yolk.

Sanrio faces stiff competition from more entrenched franchises as it seeks to expand, including Star Wars and Pokémon, another Japanese export. So some fear the recent craze for its shares is overdone. Perhaps a firm trading on emotional commerce has sent investors on a supercute adventure.■

To stay on top of the biggest stories in business and technology, sign up to the Bottom Line, our weekly subscriber-only newsletter.

Business | Schumpeter

Who will pay for the trillion-dollar AI boom?

A technological revolution meets a financial one

July 31st 2025

America's biggest technology companies are combining Silicon Valley returns with Ruhr Valley balance-sheets. Investors who bought shares in Alphabet, Meta and Microsoft a decade ago are sitting on eight times their money, excluding dividends. Spending on data centres means the firms possess property and equipment (accounting-speak for hard assets) worth more than 60% of their equity book value, up from 20% over the same period. Add the capital expenditure of these firms during the past year to that of Amazon and Oracle, two more tech giants, and the sum is greater than the outlay of all America's listed industrial companies combined. Jason Thomas of Carlyle, an investment firm, estimates that the spending boom was responsible for a third of America's economic growth during the most recent quarter.

This year companies will spend $400bn on the infrastructure needed to run artificial-intelligence (AI) models. Predictions of the eventual bill are uniformly enormous. Analysts at Morgan Stanley reckon $2.9trn will be spent on data centres and related infrastructure by the end of 2028; consultants at McKinsey put it at $6.7trn by 2030. Like a bad party at a good restaurant, nobody is quite sure who will pick up the tab.

Much of the burden will fall on big tech's bottom line. Since 2023 Alphabet, Meta and Microsoft have divided $800bn of operating cashflows roughly evenly between capex and shareholder returns. This goldilocks capital allocation, which combines a building boom with a trip to the bank, is unprecedented even among their own ranks. Amazon's shareholders are paying for huge capex bills but have been starved of returns; Apple investors have benefited from vast share buy-backs but are worried that the company's lack of investment means it is falling behind on AI.

But capex is growing faster than cashflows. Morgan Stanley's calculations indicate a $1.5trn "financing gap" between the two over the next three years. It could be bigger if advances in the technology escalate spending further and kill existing cash cows. Conversely, if companies are slower to adopt AI than consumers, big tech will struggle to earn a quick return on its investment; shareholders might then demand a greater portion of their earnings to compensate for this sluggish growth.

More certain than the size of the financing gap is the type of investors looking to fill it. The hot centre of the AI boom is moving from stockmarkets to debt markets. That is surprising since the attitude of the biggest tech firms to debt has been essentially German. They are much less beholden to their bankers than telecoms outfits were at the turn of the century, during the dotcom mania. Fortress balance-sheets are prized. Large bond issuances have been outweighed by even larger piles of cash. (If the "magnificent seven" tech firms pooled their liquid financial assets and formed a bank, it would be America's tenth-biggest.)

Slowly, this is changing. During the first half of the year investment-grade borrowing by tech firms was 70% higher than in the first six months of 2024. In April Alphabet issued bonds for the first time since 2020. Microsoft has reduced its cash pile but its finance leases—a type of debt mostly related to data centres—nearly tripled since 2023, to $46bn (a further $93bn of such liabilities are not yet on its balance-sheet). Meta is in talks to borrow around $30bn from private-credit lenders including Apollo, Brookfield and Carlyle. The market for debt securities backed by borrowing related to data centres, where liabilities are pooled and sliced up in a way similar to mortgage bonds, has grown from almost nothing in 2018 to around $50bn today.

The rush to borrow is more furious among big tech's challengers. CoreWeave, an ai cloud firm, has borrowed liberally from private-credit funds and bond investors to buy chips from Nvidia. Fluidstack, another cloud-computing startup, is also borrowing heavily, using its chips as collateral. SoftBank, a Japanese firm, is financing its share of a giant partnership with Openai, the maker of ChatGPT, with debt. "They don't actually have the money," wrote Elon Musk when the partnership was announced in January. After raising $5bn of debt earlier this year xai, Mr Musk's own startup, is reportedly borrowing $12bn to buy chips.

This means the technology revolution is increasingly coming into contact with a financial one. Those at the apex of Silicon Valley are not the only elites in the West who, after spending decades perched in the realm of ideas, have decided that the physical world is where it's at. Private-equity firms are refashioning themselves as lenders to the real economy. The resulting balance-sheet transformation has been, if anything, more dramatic than the one in Silicon Valley. Data centres produce large amounts of debt. This sits easily on the huge balance-sheets managed by these outfits, which are often funded by life-insurance policies. Like big tech, private markets are increasingly concentrated. Tech firms are raising capital because they think that the gains from AI will be concentrated among a few players. Investors are lending to them because they know the same thing is true on Wall Street.

This symbiotic escalation is, in some ways, an advert for American innovation. The country has both the world's best AI engineers and its most enthusiastic financial engineers. For some it is also a warning sign. Lenders may find themselves taking technology risk, as well as the default and interest-rate risks to which they are accustomed. The history of previous capital cycles should also make them nervous. Capex booms frequently lead to overbuilding, which leads to bankruptcies when returns fall. Equity investors can weather such a crash. The sorts of leveraged investors, such as banks and life insurers, who hold highly rated debt they believe to be safe, cannot. ■

Subscribers to The Economist can sign up to our Opinion newsletter, which brings together the best of our leaders, columns, guest essays and reader correspondence.

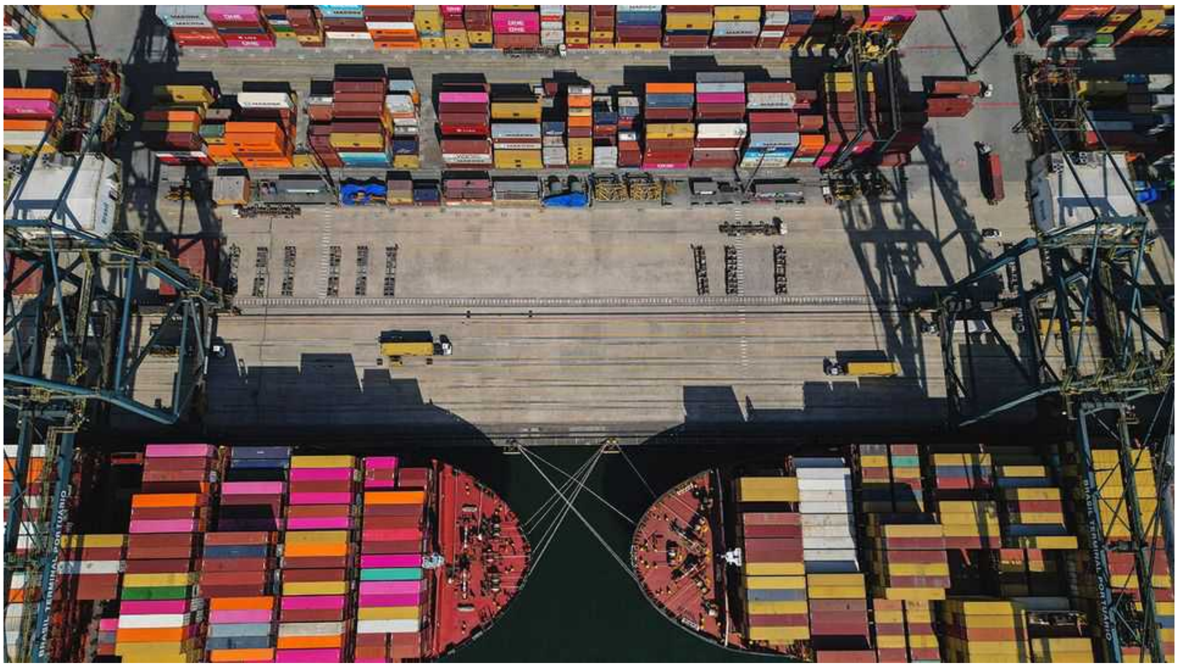
Finance & economics

Finance & economics | Pitching in

Who's feeling the pain of Trump's tariffs?

Foreign companies are sharing the load. For now

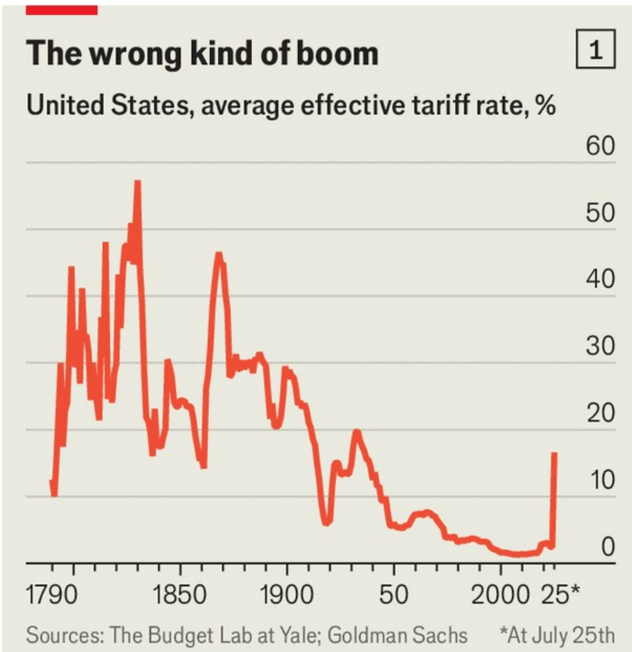
July 31st 2025



Editor's update: On July 27th America reached a trade deal with the European Union that includes a 15% tariff on most EU goods.

In the bygone age that was 2024, America charged levies averaging just 2% on its imports of goods. In the new era of trade wars, it now has an "effective" tariff of over 16%, the highest since the 1930s (see chart 1). Rates look set to go even higher. America has reached an agreement with the European Union and South Korea that will increase the duties charged on most of their products to 15%. President Donald Trump has threatened India with a tariff of 25%. And he has warned other countries of similar rough treatment on August 1st. The deadline "stands strong", he claimed on July 30th. As we published this, he seemed inclined to extend America's tariff truce with China. But that still leaves the world's second-largest economy facing levies of around 40% on sales to the world's largest.

Who pays for these tariffs, in all their infinite variety? Most economists reckon that ordinary Americans will lose out, as prices in shops rise. Mr Trump and his coterie, by contrast, blithely insist that the rest of the world will shoulder the load by cutting their selling prices. So far, the evidence is giving the know-nothings a glimmer of hope.



Mr Trump's critics in the economics profession have history and research on their side. Studies show that when a country imposes duties on its imports, its foreign suppliers often keep their prices roughly the same. The tariff is layered on top. So it was during the first Trump administration, which slapped tariffs on China and others. A study from 2019 found "complete pass-through of the tariffs into domestic prices of imported goods".

Some foreign firms are taking a similar stance in response to Mr Trump's new levies. In April Ferrari added up to 10% to the price of its cars. Britain's Ineos said it would charge more for its Grenadier off-roader. Canon, a camera-maker, has warned dealers to brace for price increases.

But the broader pattern is more benign. There is, for example, surprisingly little evidence so far of tariff "pass-through" into inflation. In June

America’s “core” consumer prices (ie, excluding food and energy) rose by 0.2% on the previous month, below the consensus estimate of 0.3%. Economists have found some evidence of tariff-induced price rises—in car parts, for instance—but they have had to look harder for it than they had expected.

What explains these surprising results? American firms, not consumers, may be paying for the trade war by accepting lower profits, suggests research by Deutsche Bank. Some firms also boosted inventories before the tariffs were implemented, allowing them to avoid raising their prices for now.

America’s foreign suppliers may also be sharing more of the load than they did in Mr Trump’s first term. Nintendo, a Japanese electronics firm, is keeping the American price of the Switch 2 games console at $449.99. Many Chinese manufacturers seem prepared to follow Nintendo and absorb duties: Fuling, a supplier of cutlery, says its clients expect it to shoulder “part of the increased tariff costs”. TIRTIR, a South Korean beauty brand popular with American Gen Zers, has signalled that it can absorb most of the tariffs. Games Workshop, a British manufacturer of war games, also seems resigned to taking the hit, warning investors that tariffs could reduce annual profits by £12m ($16m).

“We found tentative evidence that Korean auto exporters are shouldering the cost of higher US tariffs, at least for now,” wrote Kim Jin-Wook of Citigroup, a bank, in a recent note. The Bank of Japan tracks the prices of the country’s car exports to America. In yen terms, they have fallen by 26% in the past year. Some of that decline may reflect exchange-rate movements. An unchanged dollar price brings in fewer yen when the American currency is weak. But that only raises another question: why are Japan’s carmakers not raising their dollar prices more vigorously in response?

*Weighted average of Canada, Germany, Japan, Mexico, South Korea and Spain (local currency)
Sources: BEA; Destatis; National Institute of Statistics and Geography (INEGI); Spanish Statistical Office; Statistics Bureau of Japan; Statistics Canada; Statistics Korea; *The Economist*

More comprehensive data point in a similar direction. The Economist assembled a series on export prices from a number of America's largest trading partners, including Canada, Germany and South Korea. In the past exporters in these countries have been perfectly willing to raise prices: during the inflationary surge of 2021-22, they increased them by more than 15% over a 12-month span (see chart 2). Yet in the past year the average local-currency price of their exports has fallen by 3.6%. Nothing of the sort happened during Mr Trump's first trade war.

Some economists have noted a disconnect between what foreigners report and what American importers say they are paying. For instance, it is hard to find much evidence of plunging prices for Japanese car imports. Economists at Citi speculate that the time it takes to ship a foreign product to an American port may explain the puzzle. It "implies a lag between falling export prices and when US import-price data would capture the decline", they say.

Why might foreign suppliers be so forgiving? Some bosses worry more than before about the American consumer. With high inflation a recent memory, people already think that everything is too expensive. They have little tolerance for paying even higher prices. The opposite may be true of the foreign companies themselves. They are in a good financial position to withstand the tariffs. Aggregate margins of listed companies in emerging markets have become fatter over the past decade, increasing by over two percentage points. European firms have enjoyed similar gains. These companies can afford to take a small hit to profits, at least for now.

Before long America's economy is likely to feel the pain of the trade war more acutely. Although some Chinese firms may have lowered their prices, these cuts are not nearly deep enough to offset the huge rise in tariffs they now face, points out Deutsche Bank's research. In addition, foreign companies that have borne the costs until now may not be able to bear them for ever—especially if Mr Trump imposes even higher tariffs in the future. The president loves defying his adversaries, in the economics profession and beyond. But he is always his own worst enemy. ■

For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | EU-US trade deal

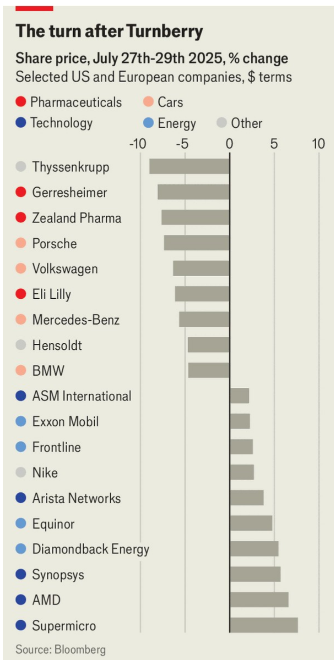
The trade deal with America shows the limits of the EU's power

The bloc opts for prudence over defiance

July 31st 2025

"To be free, you need to be feared," said Emmanuel Macron, the French president, on July 30th. "We were not feared enough." He was speaking three days after Ursula von der Leyen, the European Commission's boss, had agreed a one-sided trade deal with President Donald Trump at his Turnberry golf course in Scotland. The agreement entails higher tariffs on European goods without any retaliation in kind. This humbling asymmetry was quickly condemned by the continent's politicians and press. But the European Union (EU) had good reasons for its faint-heartedness. It had to make enough concessions to keep Mr Trump engaged in Europe, while limiting the damage to its own economy. For now, it seems to have accomplished that.

The ugliest part of the deal is a tariff of 15% on European exports to America. That is more than nine times higher than the rate in place before Mr Trump returned to office. But it could have been worse: earlier in July Mr Trump had threatened a tariff of 30%. The agreed rate is also good news for Europe's carmakers, which had previously faced a 25% levy. Indeed, the agreement may have the perverse consequence of favouring European car exporters over rival manufacturers in America, where they must pay hefty duties on parts and steel.



The EU's other big concession was cutting its own tariffs on American cars and other industrial goods to zero, as well as giving some farm and fishery products better access to the European market. The liberalisation affects about a quarter of America's exports to the EU, including cars and footwear; the rest already enter tariff-free.

America has also made a concession of sorts that will help its own businesses. A list of European goods deemed "strategic" will face the old, low tariffs that prevailed before Mr Trump's second term in office. These items include chipmaking equipment, natural resources and certain chemicals. The news lifted the share prices of European makers of these favoured products (see chart). The list could expand over time, giving Mr Trump a quiet way to ease the pain of his tariff madness.

The EU secured a few, subtler wins. It kept Mr Trump's hands off its value-added tax, which the American president hates, because he wrongly thinks it disadvantages his country's exporters. The deal said nothing about the EU's right to tax and regulate digital services, many of which are of American origin. Nor did the deal dictate how Europe deals with China. The two sides did promise to work together to remove various non-tariff barriers to their trade. They also committed to ring-fence the transatlantic metals market against the threat of "overcapacity" (read: China). But these promises are hardly new; the EU had worked on similar initiatives with the Biden administration.

The economic impact on Europe is unclear. Goldman Sachs reckons that the hit could be a hefty 0.4% of GDP. Others are more sanguine. The calculations depend partly on how America's other deals affect Europe's relative position. The damage must also be set against the benefits of the deal. It has reduced uncertainty, which should help businesses make plans. The reduced tariffs on American goods could help bring down inflation, which would lead to lower interest rates. The combined effect of all this could be zero.

The talks were also about more than just tariffs. The EU sees the deal as the starting point from which to improve relations with America. Especially on defence, Europe hopes to keep America engaged. In that spirit, Mr Trump said the EU promised to buy "vast amounts" of American weaponry. The EU denied this: it does not consider weapons part of the deal.

The handshake in Scotland is not the end of the saga. The two sides must first come to a common interpretation of what was agreed. On metals, they seem to differ on whether old tariffs or old quotas rule. On pharmaceuticals, the language is clearer that the 15% tariffs will apply. But Mr Trump remains exercised by drug prices. An investigation into American pharma imports is under way and could result in tariffs on drugs made abroad. Should America make new, more onerous demands, the EU may set aside caution and retaliate against the bully that does not fear it enough. In this negotiation, it has accepted the limits of its power. In the next round it might be Mr Trump's turn to learn his. ■

For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | Divided decision

Despite double dissent, Jerome Powell retains his hold on markets

A hawkish tilt changes rate-cut expectations

July 31st 2025

For all the power it wields over the global economy, the Federal Reserve projects remarkable cool. Whereas rate-setters at other central banks frequently disagree with each other over the direction of monetary policy, Fed policymakers tend to stick together. That serenity is now being ruptured, just as President Donald Trump ramps up his attacks on the Fed, and his tariffs put America's economy to the test. On July 30th two rate-setters, Christopher Waller and Michelle Bowman, voted against the majority decision to keep interest rates unchanged at 4.25-4.5%, preferring to cut them by a quarter of a percentage point instead. It is the first "double dissent" by governors on the Fed's board in more than 30 years.

The split was well-telegraphed. Mr Waller gave a speech entitled “The Case for Cutting Now” a fortnight ago; Ms Bowman gave a dovish-sounding speech in late June. Both sides have couched the debate in the tame language of macroeconomics. In that guise, the disagreement is simply over the wobbliness of the labour market. Mr Powell sees a relatively low unemployment rate and above-target inflation; the dissenters note that households are spending less and private job creation is soft.

Disagreements over the state of the economy are not unusual. But it is rare for these differing views to rise to the point of a public dissent. Mr Waller’s vote will not quell speculation that he could become a possible successor to Mr Powell when the chairman’s term ends in nine months’ time; the betting markets put his odds at 17%. The pithy title of Mr Waller’s intervention in July could easily be read as a bid to cut through to Mr Trump, who is a keen fan both of catchy slogans and lower interest rates.

Mr Waller and Ms Bowman were appointed in the first Trump administration (as was Mr Powell). She also dissented in 2024, although then it was to argue hawkishly that interest rates shouldn’t fall too fast—airing worries about too-high inflation that Mr Powell echoed after the latest policy meeting. For his part, the chairman went to great lengths to emphasise the civility and high-mindedness of the disagreement. July’s was “one of the better meetings” he said, where the case for faster cuts was “thoughtfully argued”.

Whatever jockeying might be going on, and whatever bluster emanates from the White House, investors still see Mr Powell as the boss. In recent months Mr Trump has flirted with the idea of sacking the chairman; maga types have sought to use cost overruns for an expensive renovation project at the Fed as an excuse to push out Mr Powell. Yet markets did not budge as the president made a rare trip to the central bank last week, supposedly to visit the construction site.

On July 30th, too, investors followed Mr Powell's lead. The chairman's remarks in a press conference after the decision had a slight hawkish tilt to them. He defended his wait-and-see approach and even entertained the provocative idea that the Fed could have responded to tariff inflation by actively raising rates. Treasury yields nudged up a little as he spoke, and stocks fell, accordingly.

Expectations for the next Fed meeting in September shifted, too. Ahead of the latest decision interest-rate traders had been pricing in a two-thirds chance of a cut in September (see chart). By the time Mr Powell finished speaking, they had shifted to less than half—double dissent notwithstanding.

For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | Dodging sanctions

Uncovering the secret food trade that corrupts Iran's neighbours

Oil and terrorism are not the country's only exports

July 31st 2025

In the small town of Al Aweer, about 20km east of Dubai's city centre, lorries full of fruit and vegetables approach, circle and pass each other, in a skilful dance. Think of it as a kind of bulk-trade ballet, set to a score of horns, beeps and roaring engines. At the back of warehouses, staff in branded polo shirts handle crates of fresh produce. At the front, wholesale shops entice customers from elsewhere in the United Arab Emirates (UAE) and beyond. The one-square-km market, already the largest such hub in the Middle East, plans to double in size to cater to the Gulf's expanding population. It is one symbol of the region's consumer appetites. It is also the secret theatre for smuggling on a grand scale—crushing local farmers, compromising supermarket supply chains and providing a lifeline to Iran.

The Islamic Republic, on the other side of the Gulf, is in a serious pickle. After its war with Israel, it is more isolated than ever. Its oil exports are still flowing, but it is struggling to collect the proceeds because America keeps cranking up sanctions on anyone helping it move money. Britain, France and Germany are threatening to restore their own embargoes unless it resumes nuclear negotiations in earnest. That is pushing Iran to find new ways to pay for the foreign goods it so desperately needs. Flooding the Gulf with fruit and veg is one of them. Iran now supplies nine out of ten cauliflowers, tomatoes and watermelons imported by the UAE, a near-monopoly built in just a few years.

That is a baffling phenomenon. Although Iran's food exports are not under direct sanctions, most shippers, banks and retailers think the country is too risky to bother dealing with. That should make it impossible for its farm trade to thrive. And there is another puzzle. If you visit supermarkets in Dubai, you will see few obvious signs of Iran's success. A paltry amount of shelf space is dedicated to Persian produce. So who is buying Iran's booming food exports? And where do the groceries end up?

To find out, The Economist has talked to a range of farmers, wholesalers and retailers, as well as clandestine traders in Iranian goods. To confirm what they told us, we gathered proprietary trade data and corroborated it with official figures. Our investigation suggests groceries from Iran are being flogged in secret and en masse to unknowing customers across the Gulf—including countries that profess to import none, such as Saudi Arabia. The intricate supply chain reveals conflicts of interest at the highest levels. Middlemen make fortunes; local farmers get squeezed. Iran made perhaps $4bn-5bn from such exports in 2024. And it is just getting started.

Blessed with a varied climate, fertile soil and ample sunlight, Iran has the natural endowments to be an agricultural powerhouse. The industry, which provides a living for 23m Iranians and 80% of their food, already accounts for a fifth of non-oil exports. The government subsidises water, fertilisers and energy until they are virtually free. It also bankrolls farmers so they can afford the nifty technology, such as hydroponics, to grow high-value produce. Iran's greenhouse cultivation has more than tripled in area since the early 2010s. Much of its modern irrigation equipment comes indirectly from Israel, a leader in the field. (It usually arrives as part of bigger packages of kit and services provided by companies based in friendlier countries, such as the Netherlands.) Lately a growing share of the equipment has also come from China and Russia.

The government bestows such largesse on farmers because their foreign sales are now so valuable to the country. Their exports are one of the few ways the country can obtain the imported goods it so desperately needs. Foreign currencies, such as dollars and dirhams, are vanishingly scarce and therefore exceedingly precious. Anything that eases this hard-currency constraint is worth lavishing with vast domestic resources.

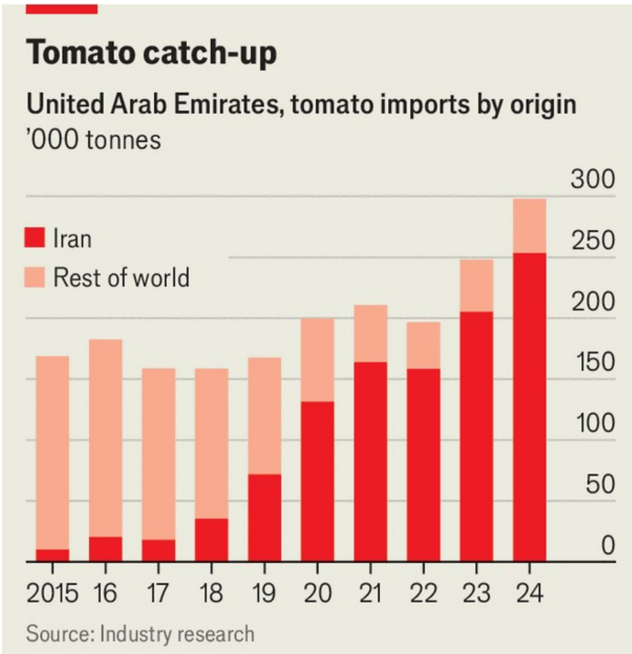
Neither Iran nor the UAE release up-to-date, detailed trade figures. But we managed to gather private data, based on customs reports from third countries, which provide a fresh and comprehensive picture. Although the source wishes to remain anonymous, The Economist has cross-checked its figures with partial statistics released by the United Nations and other official bodies. The numbers suggest Iran's strategy is proving wildly successful. It already dominates the market for 15 commodities in the UAE, from aubergines to melons. The story is similar, on a smaller scale, in Oman and Qatar. Volumes are soaring; quality is improving, too. Once limited to basic tomatoes on the vine, Iran now excels at the cherry variety, the trickiest kind. Sources say it is building strawberry farms which could crush the competition in two to three years.

To understand how Iran's produce gets to market, start at the farm gate. Unlike oil, which is pumped by a state-owned monopoly, the country's veggies are produced by 36,000 small growers. That output is bundled and stacked onto trailers, which are towed to Bandar Lengeh in the south of Iran. It is then loaded at dawn onto smallish ships, which ferry it to Sharjah, in the UAE's north. The journey takes only six hours. Transporting a container of fruit from Iran's farms to Emirati warehouses costs just 8,000 dirhams ($2,200). Shipping fruit from Egypt or Turkey costs four times as much.

Most of the Iranian produce coming into Sharjah is registered at customs. But then it has to be paid for. Doing so openly is hard, because Emirati banks are reluctant to process transactions involving Iran. The trade therefore relies on an informal payment system called hundi. It is run by tiny entities with offices across Dubai, which often feature "transportation", “goods” and “services” in their company names. In the UAE, their agents collect dirhams from food importers, which they pass on to exporters of appliances, auto parts and machinery that Iran desperately needs. These goods are then shipped across the Gulf to Iran. Foodstuffs, priced in Iranian rials, flow one way. Vital manufactured goods, priced in dirhams or dollars, flow in the opposite direction. But dirhams need never be exchanged for rials.

From Sharjah, local lorries pull the trailers to Al Aweer—which is where the real magic happens. The Gulf-wide trade in Iranian produce is run by the market’s wholesalers, according to interviews with direct witnesses. It is they who place orders with Iranian traders, find buyers in the UAE and beyond, and orchestrate logistics. They also feed intelligence back to Iran on the evolution of consumer demand, say two market participants. Emirati merchants are behind Iran’s novel push into strawberries, for example.

Wholesalers rarely import from Iran directly, preferring to source the goods via one or more intermediaries. That affords some deniability. In a message seen by The Economist, an executive at one such firm makes oblique references to his Iranian offerings, boasting about the big volumes he is able to secure. Most wholesalers of Iranian goods also hide their origin by mixing them with groceries from elsewhere. Camouflaging teams sometimes occupy a warehouse’s entire floor. One classic trick is to keep legitimate produce on the top layer of a box while swapping the rest for cheaper fruit. Sometimes the Iranian food is repackaged in fake versions of boxes from reputable brands, in the hope of deterring inspections.



These tactics shield wholesalers from unwanted scrutiny. Hiding Iranian fruit also helps them make a lot more money. On the day we visited one trader in Al Aweer, he had a container of cut-price Iranian broccoli just outside his office. In 2024, he said, an Iranian exporter offered him ten containers a day of tomatoes—equivalent to 200 tonnes—at the cost of 1 dirham per kg (including transport). Farmers in the UAE must typically charge 2 dirhams per kg to break even; Dutch supplies cost at least five times that. By pretending they are selling full boxes of this pricier fruit, without any cheap Iranian varieties in the mix, wholesalers inflate their margins.

The same goes for the supermarkets that buy their produce. Purchasing officers who turn a blind eye to the fraud often get a kickback from the wholesaler. It is not rare for managers of fruit-and-vegetable sections to do some blending themselves, too. They might mix Iranian tomatoes with Dutch varieties to make a bigger display. "Instead of 4-5 dirhams, they sell the lot for 20-25 dirhams" per kg, says an insider. There is a lot of money to be made. One local supermarket chain is known for flying its staff in business class and lodging them in five-star hotels. Other UAE supermarkets, which include the local franchises of European giants like Carrefour and Waitrose, try harder to root out the deception. That explains why many retailers replace their grocery chiefs nearly every year.

The UAE is also a base for shady re-exports. One insider reckons a third of the country's imports of Iranian veggies end up in other countries. Much of this produce is smuggled. Saudi Arabia, for example, has long blocked fruit imports from Iran, a regional rival subject to Western sanctions that are tricky to navigate. The kingdom's customs officers will reject an entire shipment if they find a lone box with Farsi writing or even Persian numbers. Its enforcers also require sanitary certificates for incoming cargo that specify where it is from. Yet fooling them is easy, says an Emirati trader who does it a lot. "We just put a sticker on the carton with a new origin: Azerbaijan, Turkey—anything but Iran." To launder Iranian produce, traders also re-use paperwork issued for legitimate shipments: Italian kiwis and Spanish broccoli are frequent covers.

This kind of fruit impersonation annoys bona fide exporters. Diplomats from various European countries have complained about it, to no avail. The crushing dominance of Iranian produce, facilitated by local firms, also makes a mockery of government plans to revive homegrown agriculture. In its national economic strategy, the UAE aims to top the Global Food Security Index—a benchmark by Economist Impact, our sister company—by 2051. Dubai is building a two-square-km "Food Tech Valley". Abu Dhabi is planning the world's largest indoor farm, to grow 10,000 tonnes of greens a year. Sharjah is sowing 1,400 hectares with wheat. Such flashy ventures, backed by a who's who of state funds and Western investors, are all meant to advance one goal: "enhancing local food production".

In reality, local farms are withering. The UAE counts 35,000 estates, some of them large. One vegetable grower in Al Ain, the country's farming hub, employs nearly 400 staff to cultivate an area equivalent to 100 football pitches. He says his production of tomatoes has plummeted because a glut in overall supply has dragged prices down. The government's laissez-faire approach, he says, is "destroying local farmers".

Emirati officials are aware of the problem. Their trade analysts have access to up-to-date data, says someone familiar with the country's government. Last year the economy ministry launched an anti-dumping investigation into mushrooms exported from Iran, according to a poster seen by The Economist. But the trade continues apace. Adding a layer of intrigue, some of Al Aweer's biggest wholesalers are controlled by people in power. Silal, an outfit founded to bolster food security during the covid-19 pandemic, belongs to ADQ, one of Abu Dhabi's sovereign-wealth funds. NRTC, a 50-year-old trader with 1,000 staff, is 41% owned by IHC, a conglomerate run by an Emirati royal.

Why would the UAE—and other Gulf countries—tolerate Iran's green invasion? Perhaps they hope cheap imports will keep inflation down. They may also think that appeasing Iran will reduce the chances it lashes out against them if Israel strikes again. Some even posit that some Gulf leaders are ready to sacrifice local farming to help save scarce groundwater in a notoriously dry part of the world. Whatever the reason, relying on Iran is hardly a safe choice. Should it be bombed again, trade may dwindle. More frequent droughts are making its output increasingly volatile anyway, exposing importers to price shocks. However tempting, bingeing on Iranian produce looks like a recipe for trouble. ■

For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | Meme stocks

A fresh retail-trading frenzy is reshaping financial markets

Blame apps and DORKs, not stimmies

July 31st 2025

Investors love an acronym. In recent months they have embraced the TACO (Trump Always Chickens Out) trade. They once swooned over the FAANG stocks (Facebook, Apple, Amazon, Netflix and Google). During Europe's sovereign-debt crisis of the 2010s traders fretted over the PIIGS (Portugal, Italy, Ireland, Greece and Spain). A good memory for acronyms takes a financial historian a long way.

The DORK stocks might be less familiar. They include Krispy Kreme (ticker: DNUT), Opendoor, Rocket Companies and Kohl's. The firms—a bakery chain, estate agent, mortgage provider and old-school retailer—have market valuations ranging between $650m and $31bn. One thing that binds them is the lack of love shown by hedge funds, which have been betting aggressively against all of them. Another is the abundance of enthusiasm shown by retail investors, who are snapping up the shares in the hope of squeezing the short-sellers and driving up the price. During July the price of Opendoor alone rose by over 500% before falling back. A new meme-stock frenzy has begun.

It mirrors the mania that sent the share prices of GameStop and AMC, a cinema chain, rocketing four years ago. Then, as now, the furious trading had little to do with financial performance. Speculative activity was once blamed on government stimulus cheques and low interest rates. But that story now looks less convincing. Perhaps the exuberance instead reflects changes in the investment technology available to retail investors.

Today's mania goes beyond meme stocks. Research by analysts at Goldman Sachs, a bank, suggests that speculative trading (in penny stocks, unprofitable firms and companies with the loftiest valuations) has climbed to levels seen only twice before: during the previous boom that peaked in 2021 and back when the dotcom bubble inflated in the late 1990s. Today's trading remains well below those peaks, but far above what was previously considered normal.

Other signs of fervour abound. Transactions in zero-day options, contracts favoured by day-traders that expire the same day, have surged in recent years. According to Cboe Global Markets, an exchange, a record 2.1m changed hands in the second quarter of 2025, up from 1.4m a year earlier. The exchange thinks retail investors account for at least half of such trading.

In 2020 and 2021 the combination of loose monetary and fiscal policy was often credited for the surge in speculation. Covid-era stimulus cheques (or "stimmies") delivered cash directly to budding retail traders just as everyone was forced to stay at home all day. Robin Greenwood, Toomas Laarits and Jeffrey Wurgler, three academics, tested the theory in 2023. They found that the handouts in both Hong Kong and America led to an abnormal boost in the price of stocks popular with retail investors.

That cannot be the explanation today. The last stimmies landed on American doorsteps four years ago. Monetary policy, meanwhile, has been tightened: the Federal Reserve's balance-sheet has shrunk and ten-year Treasury yields are above 4%. Researchers at the San Francisco Fed reckon Americans' pandemic-era savings were exhausted more than a year ago.

But even without the help of stimulus money, retail investors with a zeal for speculation continue to transform the markets. Such traders now account for about 20% of total American trading volume. That is down from around 24% at the 2021 peak, but well above the 10-16% of the 2010s.

The change has been driven not by government handouts, but by technology. App-based platforms have given individuals easy access to leverage and a wide range of securities to choose from. It is no surprise that the share price of Robinhood, among the largest of the new online brokers, has risen by 169% this year. Investing now appeals to a greater range of Americans. According to JPMorgan Chase, more of the bank's customers are transferring money to an investment account. The share of high-income customers doing so doubled between 2015 and 2023. For low-income customers, the share quadrupled.

Beyond greater speculation, the long-term consequences of a more retail-heavy market are not yet clear. Some investors fear it is already having a negative effect. Cliff Asness, founder of AQR, a quant fund, thinks it is perhaps the biggest contributor to declining market efficiency. “Technology, gamified 24/7 trading on your phone, and social media in particular are the biggest culprits,” he wrote in 2024.

The big test will come during the next serious downturn. When the S&P 500 swooned earlier this year, falling by more than 20%, retail traders dashed to buy the dip, and a rapid recovery followed. But the drop was a modest one by historical standards. In a deeper slump, paired with a recession, would the DORK-buyers and their brethren be so brave? Sooner or later, investors will find out. ■

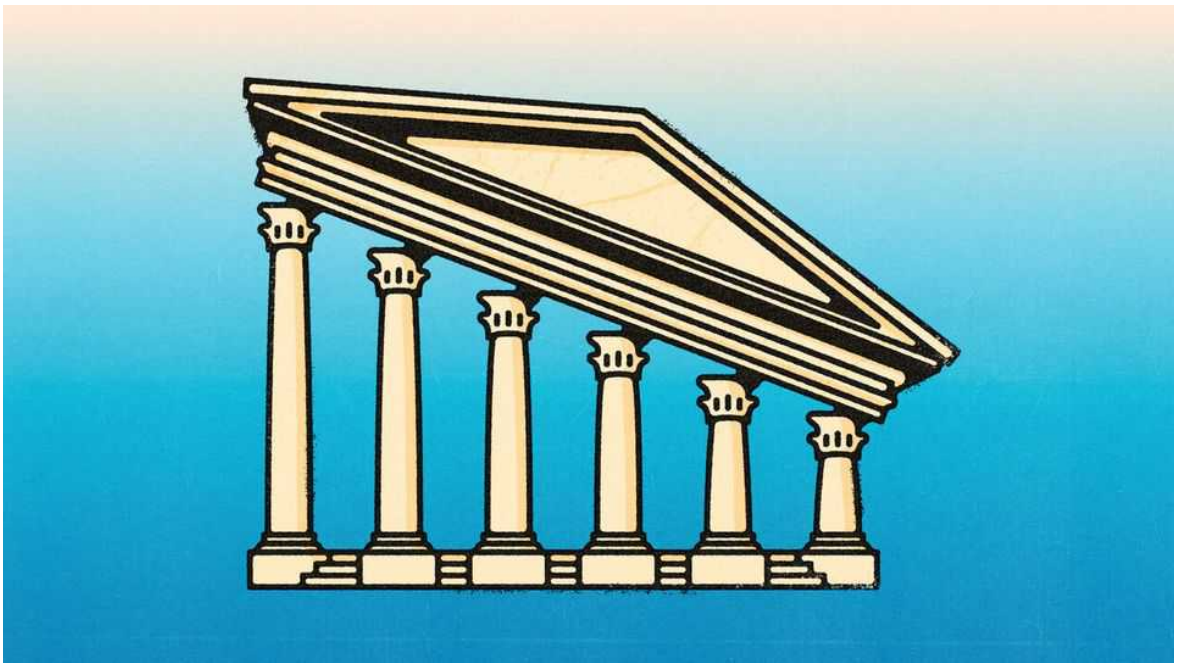
For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | Credit creators

The deeper reason for banking's retreat

Why bankers no longer play golf at 3pm

July 31st 2025



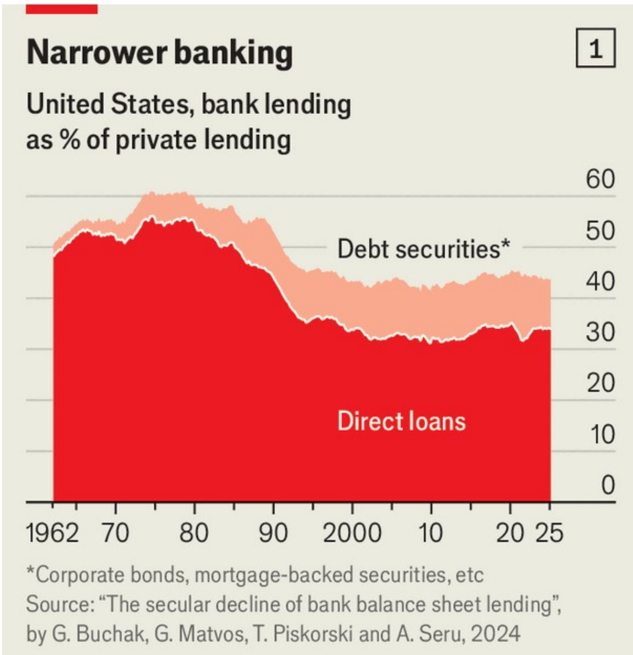
In an earnings call on July 15th, Jamie Dimon, the boss of JPMorgan Chase, made a familiar complaint. He rattled off a litany of burdensome, overlapping regulations: "SLR, G-SIFI, CCAR, Basel III, FSRT". He then called on regulators to draw "a deep breath", step back and take stock. Reform was necessary, he said, to "create more liquidity, more loans and a safer system."

Many people share his frustration. They argue that large commercial banks have been hobbled by regulatory red tape in the aftermath of the global financial crisis of 2007-09. As a regrettable but predictable consequence, these giants have pulled back from lending. That has left a vacuum increasingly filled by fintech upstarts and private credit—funds lent by asset managers, not banks.

This story is not entirely wrong. But it misses a longer arc in the history of credit. Since the 1960s direct lending by banks to firms and households has steadily declined. This shift began decades before the financial crisis and reflects deeper forces than overzealous regulation. Much of what is now blamed on recent policies is simply part of this slower-moving retreat.

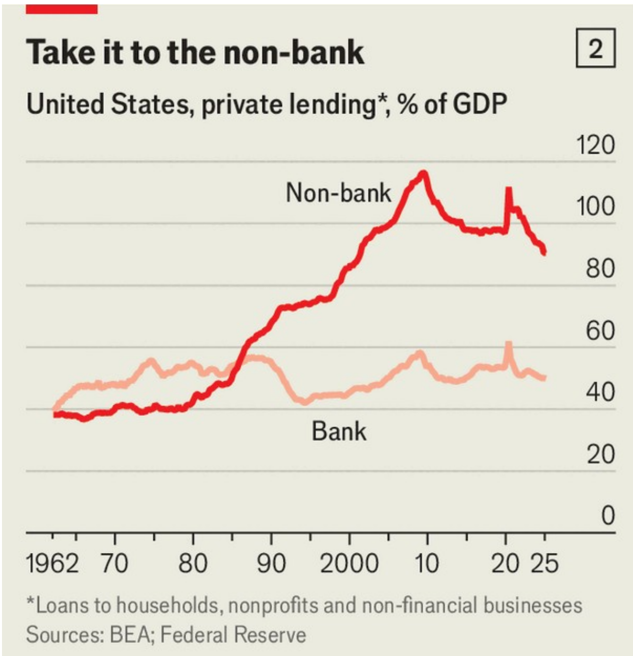
To understand this transformation, recall the traditional banking model, popularised in movies like “It’s a Wonderful Life”. Banks accepted deposits, promising to redeem them on demand, with interest. They lent to firms and households in the form of mortgages, small-business loans and consumer credit. The bank’s job was clear: safeguard deposits, evaluate creditworthiness and monitor borrowers. The path to profits was straightforward, too. Banks earned the spread between what they paid their depositors and what they earned on loans. People would joke about the “3-6-3 rule”: borrow at 3%, lend at 6%, hit the golf course by 3pm.

The mid-afternoon golfers once ruled the world of credit. In 1974 nearly 55% of private lending in America was held on banks’ balance-sheets as direct loans. But that world had disappeared well before the financial crisis struck. By the beginning of this century, this form of credit accounted for less than 35% of private lending, where its share remains to this day (see chart 1).



In place of the traditional bank loan is a growing stack of debt-linked securities. These include mortgage-backed bonds, corporate paper and loans to private-credit firms. Banks still collect deposits from households and most still originate loans. But instead of holding these credits on their balance-sheet, they sell them on, while buying slices of securities at market prices from other lenders.

In doing so, they have gradually ceded the role of credit provision to others. Even as banks' size in the economy has grown—their assets have risen from 60% of GDP in 1960 to 94% today—their contribution to lending has stayed flat, at around half (see chart 2).



Households and firms instead borrow from a litany of other lenders and guarantors who package and sell the debt to banks. Big companies have increasingly switched to public bond markets for debt financing. Small businesses have turned to fintech and online lenders. Buy-out firms have turned to private credit. Households still rely on banks for mortgages, but these sit on the banks' balance-sheets only after being repackaged and securitised by government agencies.

Why the change? The kind of regulatory impositions highlighted by Mr Dimon have certainly played a part. Recent policy, for example, explains why banks have surrendered much of private-equity lending to other institutions, according to research by Sergey Chernenko of Purdue University and his co-authors. Regulators require banks to hold more capital when making direct loans to firms than they do when buying securities backed by similar loans.

But the shift has deeper origins, as documented in research by Greg Buchak of Stanford University and others. Technological developments, ranging from securitisation software to FICO scores, led to the development of new financial instruments and alternative securities markets. Before 1980 the corporate-bond market was less mature; Fannie Mae, a government-sponsored enterprise, had yet to sell any mortgage-backed securities; and no one needed to understand collateralised loan obligations (which slice up loans and apportion them to investors according to their risk appetites). Today such institutions are entrenched parts of the financial system. Savers, too, began to act differently. They gravitated away from bank deposits towards pensions and money-market funds that channelled their savings into credit markets.

To the characters from "It's a Wonderful Life?", today's banks would be a mix of the familiar and the strange. Now, as then, banks use deposits to hold debt-related assets. And now, as then, creditworthiness matters. Losses still hit the balance-sheet whether a household defaults on a mortgage the bank made itself or on one buried in a securitised pool.

But today's banks are less dominant. And it is not just that their lending is taking different, indirect forms. Nina Boyarchenko and Leonardo Elias of the New York Fed, who trace credit flows through layers of intermediaries, find that net bank lending to households has fallen by about a quarter over the past 50 years.

Is the bankers' retreat a bad thing? One inconvenient consequence is also faintly ironic. In the old days policymakers could keep the financial system stable by policing a finite number of familiar, marble-floored institutions. Now, as banks play a smaller role and credit easily migrates elsewhere, policymakers must cast a wider net in their pursuit of financial stability. A phenomenon often blamed on regulation may have complicated regulators' lives.

More happily, banks have become less fragile—less dependent on the unstable alchemy of funding long, opaque, illiquid loans with short, runnable deposits. Rather than holding entire portfolios of mortgages, banks can now hold the safer slices of securitised debt, which get paid first when things go wrong. The riskier slices can be pushed to investors with longer horizons (such as insurance companies) or greater risk appetite (such as hedge funds). Some research suggests that credit booms led by non-bank lenders tend to be less destabilising than other expansions. They are associated with a lower risk of GDP crashes than bank-led booms, according to Ms Boyarchenko and Mr Elias.

The transformation of banking also sheds light on the industry's defining characteristics. Academics have long debated whether banking's edge lies on the liability side of the business (in issuing sticky, low-cost deposits) or on the asset side (in originating, monitoring and collecting loans). The fact that banks have grown so large, while ceding much of their lending business to others, could help resolve that debate. It suggests the secret of their success lies in courting depositors not marshalling borrowers.

The good news for bankers is that a modern version of the 3-6-3 rule still applies. Banks can still borrow cheaply. Indeed, they now pay depositors closer to 0.5% rather than the 3% of old. They lend, or rather invest, in a broad mix of securities yielding anywhere from 1% to 10%. And as for the 3pm tee time? That, too, has shifted: Stanford researchers say the most popular midweek golf slot is now 4pm. ■

For more expert analysis of the biggest stories in economics, finance and markets, sign up to Money Talks, our weekly subscriber-only newsletter.

Finance & economics | Buttonwood

Japan’s dealmaking machine revs up

Private equity is enjoying a renaissance in an unlikely place

July 31st 2025

The corporate raiders of the private-equity (PE) industry have been memorably compared to invading barbarians. But the industry is more usefully described as a machine, which converts investors’ money into deals, deals into profitable divestments (or “exits”), and exits into investor returns. When running well, this contraption gathers a momentum of its own. Profitable exits generate handsome returns, which tempt investors to pump in more capital, enabling further dealmaking.

Unfortunately, private equity is not running well in America. Funds are struggling to exit profitably. Deal volumes have slumped. And new capital has become harder to raise: it could fall in 2025 for the third year in a row.

What was once a dominant and successful model has become sluggish and unreliable, like one of Detroit's infamous gas-guzzlers from the 1970s.

Across the Pacific, though, is a machine roaring back to life. In Japan the number of private-equity deals has doubled since 2019, and their value has tripled. Mergers and acquisitions reached a record $232bn in the first half of 2025. Western raiders such as Ares, Carlyle and Apollo are opening new offices in Tokyo, or expanding old ones. Japanese PE is having a "major renaissance", proclaimed bigwigs at KKR, another titan, last year.

Three things explain the contrast between the world's biggest PE market and its hottest one. First is value. Like Detroit's disappointing cars in the 1970s, American firms are not especially affordable. The enterprise value of American listed companies is 11 times their operating profit (less depreciation and amortisation). In Japan, the median firm costs only seven times its operating profits.

Japanese firms are cheap partly because their managers tend to squander shareholders' capital. Many companies have giant cash hoards and plenty of inessential assets sitting around. But that drawback is also an opportunity. In America, tuning up companies' operations is hard work. In Japan simple rationalisations would reap massive returns. The median listed firm holds cash worth 21% of its total assets, compared with 8% for American public companies.

The second flaw in American PE is that money pumped in often cannot get out. Many deals were struck in 2020-21 when interest rates were low. The industry has struggled to adapt to tighter monetary policy, just as Detroit struggled to adapt to tighter fuel-efficiency standards. Higher interest rates have reduced the value of the bought-out companies. They have also raised the cost of financing the deals. Yet many funds, having made lofty promises to investors, are now unwilling to sell at diminished valuations, for fear of realising losses. That has created an exit backlog for American PE funds, which have become slower to pay investors.

In Japan, by contrast, the pipes are less clogged. Exits are 68% above the 2019-23 average, according to Bain (although they remain short of the highs of a decade ago). Big-ticket listings, such as the 2023 sale of Kokusai

Electric, a maker of chip tools that is backed by KKR, have increased confidence. Japan's low interest rates have helped, too.

The third trend favouring Japan is surprising: deglobalisation. The rise of protectionism is rattling Japan's many exporters. But Japanese PE has one big advantage over its American counterpart: it benefits from the retreat from China. As the risk of doing deals in the People's Republic has grown, global PE funds have shuffled their Asia allocations away from China towards its biggest neighbours, Japan and India. China's appeal may improve if its stockmarket continues to rally. But fear that Chinese investments could attract bad press or fall on the wrong side of a geopolitical dust-up has made many PE investors skittish. Greater scrutiny of Chinese investments has fuelled the trend towards markets like Japan, says Jim Verbeeten of Bain.

The contrast between America and Japan may not last for ever. If American interest rates fall, its PE industry could recover, just as Japan's progress could sputter if the country's central bank resumes raising rates. Recalcitrant managers in Japanese firms could still frustrate PE's ambitions. Efforts in America to bring PE to the masses may let the industry sell assets to risk-happy retail investors, clearing the pipes. But for now, Japan's dealmaking machine looks as cheap, nimble and reliable as a trusty Corolla or a Civic, while American PE remains a bit of a clunker.■

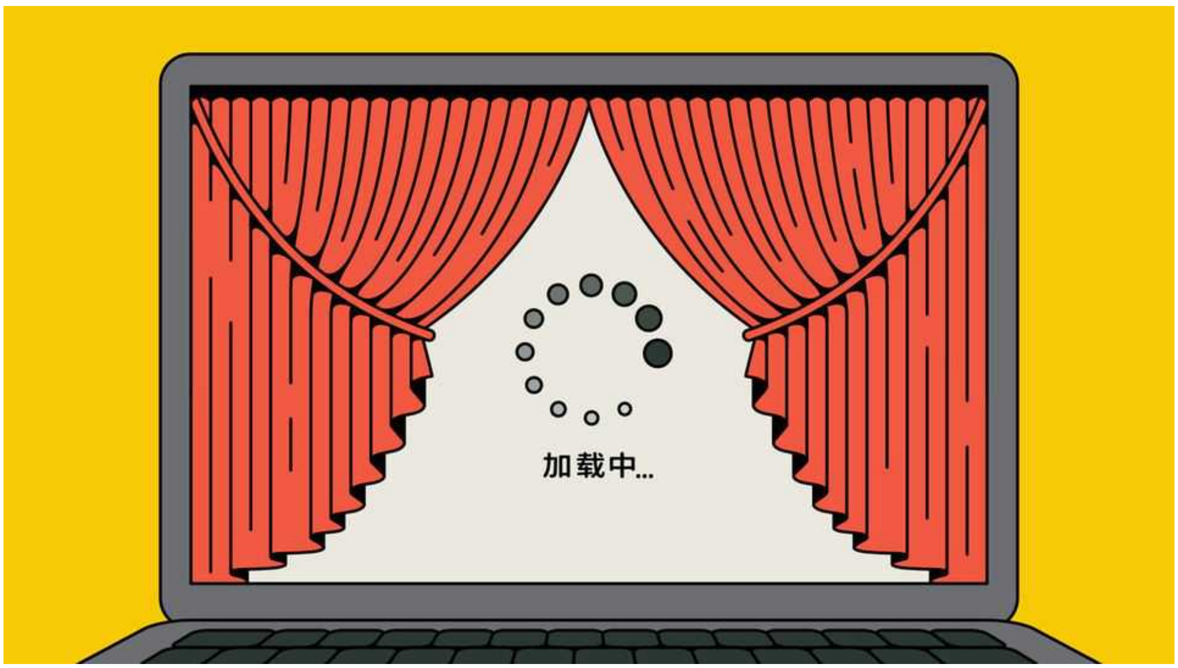
Science & technology

Science & technology | Unleash the dragon

China has top-flight AI models. But it is struggling to run them

Trump's U-turn on chip-export controls could be a boon

July 31st 2025



Six months ago DeepSeek, a Chinese artificial-intelligence (AI) firm, wowed the world with the v3 model and its successors. For the first time, a country other than America—and one that America had cut off from the supply of top-of-the-range semiconductor chips—was producing open-source models that rivalled those designed in Silicon Valley.

Despite the restrictions, Chinese firms kept training world-beating AI models—Kimi K2, unveiled in July by Moonshot AI, a Beijing-based lab founded by an alumnus of Google and Meta, rose straight to the top of the global leaderboards. With more parameters, as the connections between a model's artificial neurons are called, than any open-source equivalent, Kimi

K2 outperformed its Western rivals ChatGPT 4.1 on tests of coding ability and Claude 4 Opus on tests of science knowledge.

But for models to really impress, they need to be used. This is where chip restrictions have bitten the hardest. Shortages have affected the data centres AI labs need to run their systems once trained. Slowdowns, usage limits and dropped connections are becoming common. “We’ve heard your feedback—Kimi K2 is SLOOOOOOOOOOOOW,” Moonshot posted on X a few days after the launch. DeepSeek, meanwhile, has delayed the launch of its latest AI model to avoid similar performance issues, according to a report from the Information. And so both companies were given cause to celebrate two weeks ago, when the White House reversed its latest export controls, once again allowing Nvidia to sell its H20 chips in China. Making these available to tech companies there will remove the hurdles currently slowing their growth.

China is fertile ground for an AI boom: the country has millions of science and engineering graduates, spare grid capacity, the political will to build data centres as fast as concrete can be poured, and access to all the West’s public data sources and more of its own. It lacks a home-grown source of computing power, however, a fundamental constraint that has so far shaped the development of its industry.

In the past few months Chinese firms have found many ways to work round American restrictions. Banned chips worth $1bn have entered the country since April and domestic companies, such as Huawei, have developed chips to match Nvidia’s top-end offering in some respects (though at smaller volumes). A relentless focus on efficiency has also led to breakthroughs.

Limited access to chips also explains another feature of the Chinese AI sector that has baffled outsiders: the devotion to open-source releases. DeepSeek v3 and Kimi K2 are both available through third-party hosting services such as Hugging Face, based in New York, as well as to download and run on users’ own hardware. That helps ensure that, even if the company lacks the computing power to serve customers directly, support for its models is still available elsewhere. And the open-source releases serve as an end-run round hardware bans: if DeepSeek cannot easily acquire Nvidia chips, Hugging Face can.

Not all Chinese firms have been equally affected by the restrictions. On Friday Alibaba released the latest model in its Qwen3 family, an open-source reasoning model called Qwen3-235B-A22B-Thinking-2507. The release brings Qwen, and Chinese AI in general, level with not just the best open-source AI models, but the best AI models full stop.

Alibaba's system is around a quarter the size of K2, requiring commensurately less computing power to run, and, unlike DeepSeek and Moonshot, Alibaba has substantial cloud infrastructure behind it to keep the models working. Making models faster and more efficient to use is clearly the new game in the Chinese AI sector: on Monday another lab, Z.ai, released two models, called GLM-4.5 and 4.5 Air, explicitly touting their speed and efficiency.

But the canny workarounds and impressive models can stretch a resource constraint only so far. And since April, one limitation has bitten harder than any others: the loss of Nvidia's H20 chips.

Successful AI companies must be able to do two things: train models and then run them, a process known as inference. The best-funded Chinese labs have continued to launch training runs of comparable scale to their Western peers. But inference has proved trickier. Whereas training data centres need monolithic clusters of top-end chips, inference is best performed by chips that balance power, energy efficiency and the ability to move data at speed. Until April, the H20 was the chip of choice.

Worse, though a training run is an upfront expense that can be recouped as revenue over the lifetime of the model, a company that loses money during inference has no opportunity to make it up. That means access to chips for inference, not training, is the bottleneck limiting the growth of China's AI industry.

In response, the Trump administration has sent mixed signals. Its AI action plan, published in early July, doubled down on some chip controls, emphasising that denying adversaries access to "advanced AI compute" is a matter of both geostrategic competition and national security, and calling for novel approaches to enforcing export controls. At the same time, it has lifted the ban on H20 exports, arguing that it would be better for Chinese AI to rely on American companies for all their technology needs, including inference, than to develop an equivalent domestic capacity.

In the short term, such an easing will be cold comfort to China. Nvidia's own supply constraints mean it will be unable to meet the country's demand for chips until the last quarter of the year at the earliest. That means models which lean on efficient output and the ability to run on phones and laptops directly will continue to be prioritised for now. But if American exports pick up once more, then China's AI sector could, at long last, start 2026 much less constrained. ■

Curious about the world? To enjoy our mind-expanding science coverage, sign up to Simply Science, our weekly subscriber-only newsletter.

Science & technology | Gotta catch ‘em all

Scientists want to sequence all animals, fungi and plants on Earth

But international regulation and precarious funding threaten their efforts

July 31st 2025

The Darwin Tree of Life (DToL) project aims to sequence the genomes of all animals, fungi and plants found in Great Britain and Ireland—some 35,000 in total. That is a colossal undertaking whose first phase is almost complete. Speaking at a meeting of evolutionary biologists held in Beijing on July 23rd, Peter Holland of the University of Oxford told scientists that he and his colleagues had already collected nearly 8,000 species. By December, he added, they hope to have sequenced 3,000 of them (the current count is 2,034).

Collecting high-quality genomes is useful for several purposes. Monitoring conservation, for example. DToL’s genome of the pine hoverfly, a critically endangered organism and Britain's rarest native insect, has been used to evaluate the level of inbreeding in populations grown in captivity and reintroduced to the wild. Similar analyses have been performed on the genomes of the Eurasian otter and the chequered skipper butterfly. Such measures allow scientists to assess whether they need to introduce new individuals into a population to widen the gene pool.

There are also medical applications: researchers are now looking for ways to make use of DToL's genome of the scour worm, a livestock parasite, to generate a vaccine. In the future, Dr Holland predicts, researchers will find the instructions for how to build new useful compounds, from antimicrobials to venoms (which are often good starting materials for new drugs), hidden in the genome sequences of other organisms. Such work is already under way at Kew Gardens in London, one of the DToL members, which is looking specifically for new medicinal compounds in newly sequenced fungi.

The project has, in other words, been a momentous success. "Honestly, we're all jealous of Peter," says Scott Edwards, a biologist at Harvard University, who studies the evolution of birds. But beyond collecting samples and generating genomes—which are shared freely online—DToL has another function. It is the largest contributor to the Earth Biogenome Project (EBP), a mission to sequence all known eukaryotic life on Earth, meaning all life with complex cells. As a member of this international network, DToL has had a chance not only to build protocols for high-throughput sample collection and genome sequencing, but to share them. Many are now in use around the world.

Of the roughly 1.5m known eukaryotic species that inhabit Earth, DToL's 3,000 genomes are but a fraction. Yet the British project's progress shows that the EBP's grand vision is attainable. Genomic hotspots—in the case of DToL, a woodland in Oxford called Wytham Woods—can provide many of the needed species over a small area. And improvements in sequencing technology mean high-quality genomes can now be generated rapidly and at scale. DToL's next big test will be its second phase, in which the team plans to tackle the remaining species in Great Britain and Ireland.

DToL is one of 61 contributors to the EBP. Other participating projects harvest genomes from everything from iconic African animals to microscopic algae. With so many hands on deck, Harris Lewin from the Arizona State University, who leads the EBP, says he is confident that the grand project will reach the goals of its first phase—10,000 genomes—in 2026 or early 2027. He hopes to see all known eukaryotes sequenced by 2035.

But there are challenges ahead. Funding remains uncertain; DToL, for example, has yet to secure support for its second phase. And sample collection will probably become harder as the lowest-hanging fruit around the world gets picked. Many projects that have so far relied on museum specimens have reached the point where they will now need to go sampling in the wild, says Zhang Guojie from Zhejiang University in China, who helped conceive the EBP and now contributes genomes mainly from birds and primates.

Wild sampling comes not only with the logistical problems of getting to and from remote locations, but also additional layers of bureaucracy. Such samples are subject to the Nagoya protocol, an international treaty that asserts each country's right to negotiate access to the genetic resources of organisms found on their territory. Scientists have to obtain permits and sign benefit-sharing agreements before samples can be collected abroad, hurdles erected as countermeasures to the centuries of rich countries extracting value from the biodiversity of poorer ones.

Though noble in intent, the protocol also creates mountains of confusing bureaucracy for scientists, both in the countries providing samples and those receiving them. "Researchers around the world end up dealing with heavy burdens they have not been prepared for," says Aysegul Sirakaya, an independent legal consultant based in Sweden, who specialises in legal questions surrounding the benefit-sharing of biological resources.

Yet Dr Zhang is still optimistic that, once connections are forged, work can progress quickly. "We have established a group of networks, in Indonesia, in India, in Brazil, lots of those countries where it is very difficult to get access to data or samples," he says. His team now teaches local scientists, who are exempt from Nagoya restrictions, how to do genomic sequencing and data analysis; other teams have developed mobile gene-sequencers that can be used in places where no such facilities exist. There are plenty of good reasons for optimism. Through a combination of bureaucratic and experimental innovation, the EBP’s teams are steadily making progress towards their towering goal. ■

Curious about the world? To enjoy our mind-expanding science coverage, sign up to Simply Science, our weekly subscriber-only newsletter.

Science & technology | Galaxy brains

How to build a ship for interstellar travel

Winners of a design competition include conjoined Ferris wheels and a 58km-long cylinder

July 31st 2025

THE USS Enterprise they are not. One looks like a magic-marker pen, except that it is 58km long. The second, a pair of conjoined Ferris wheels. And the third, a giant jellyfish. They are, nevertheless, the winners of what may be the world’s first serious (or, at least, semi-serious) competition to design a ship to boldly go where no one has gone before, and settle a planet circling another star.

These three designs, chosen from around 100 entries that resembled everything from rugby balls to caddis-fly larvae, are those the competition’s organisers thought most likely to be able to make the journey intact, and without the crew (or their distant descendants) murdering each other. As the rules required the use of only existing or “near-future” technology, no light-speed travel or suspended animation was permitted. In other words, the journey would take centuries, and passengers were not allowed to sleep through it.

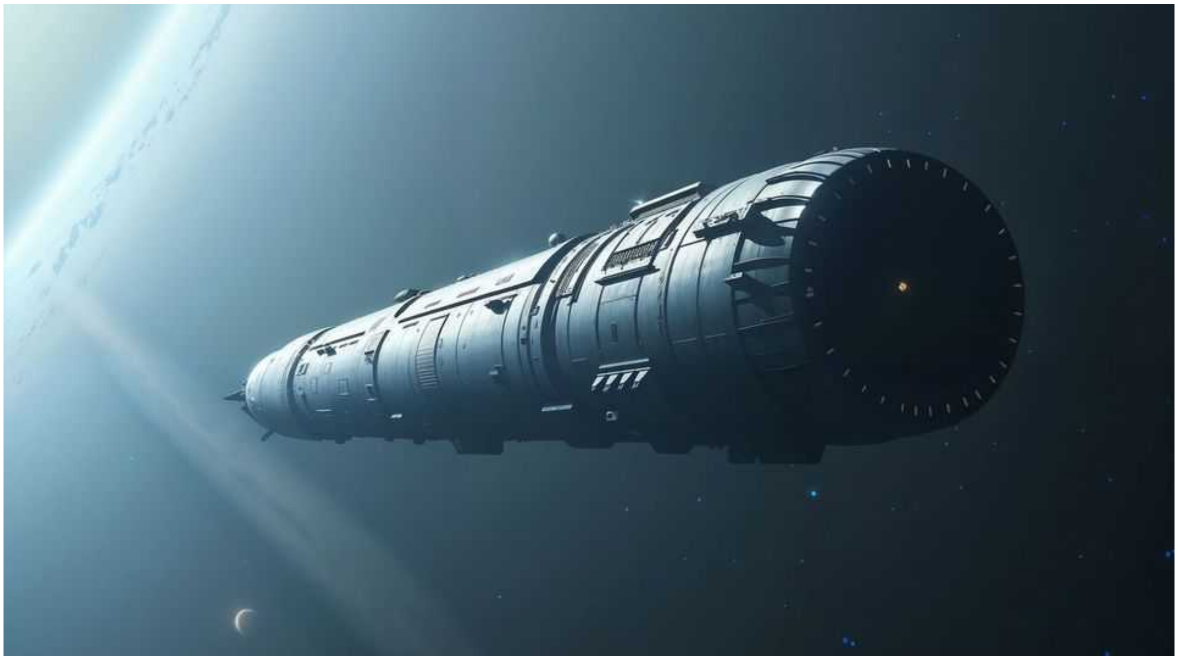
The organisers themselves are a group called the Initiative for Interstellar Studies (I4IS), an international band of enthusiasts led by Andreas Hein. Dr Hein is a professor of space-systems engineering at the University of Luxembourg, and the others have day jobs ranging from physics to science-fiction writing. Fittingly, their nerve-centre is an office in the headquarters of the British Interplanetary Society, an organisation whose objective of developing space travel looked equally eccentric when it was set up in 1933, but which proved to be right in the end.

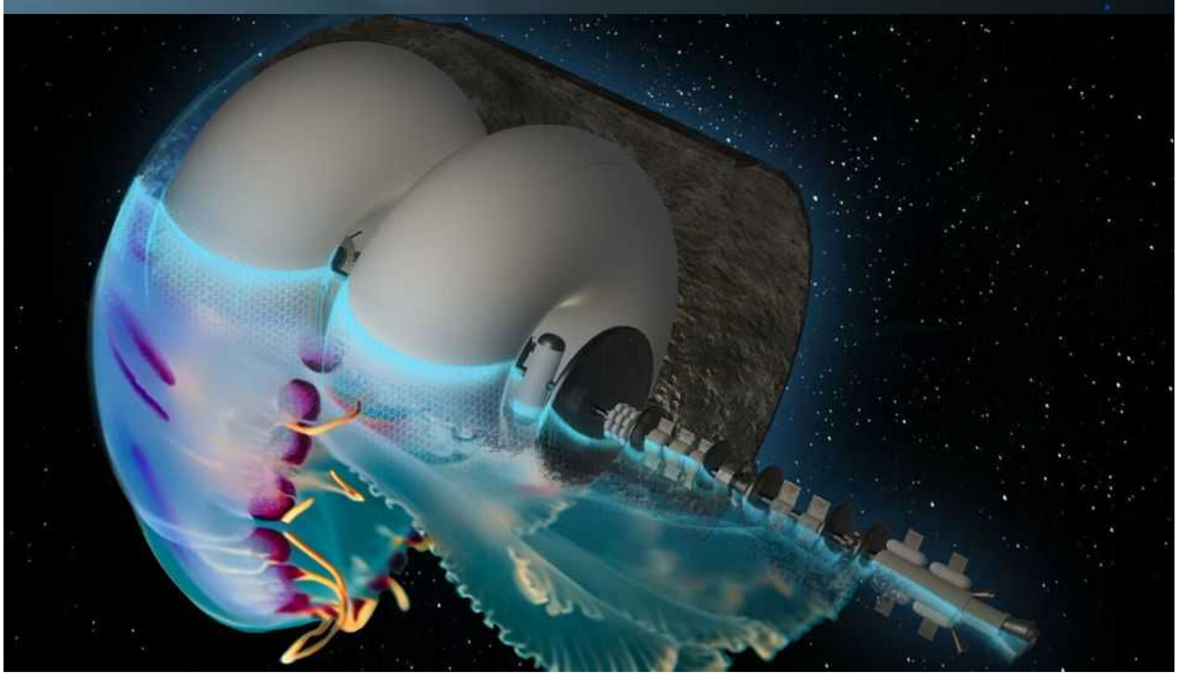
The winning designs, too, hark back to the 20th century. The magic marker, called Chrysalis, is mostly a fuel tank with a 3km-long cylinder inside. Inspired by the ideas of Gerard O’Neill, who published plans for cylinder-based habitats in 1974, the crew of Chrysalis would live and work on the inner surfaces of a set of concentric cylinders, experiencing Earth-like gravity as these rotated round a central axis. To stop the system yawing about, team Chrysalis have built it out of contra-rotating sections.

The jellyfish, Proximum to its friends, relies on a pair of Stanford tori, donut-shaped spacecraft also devised in the 1970s, and also designed to generate gravity through rotation. Its designers have buried these 1.6km-diameter structures in a highly sculpted and modified asteroid (the bell of the jellyfish) to protect the living quarters from radiation and space dust. Unlike Chrysalis, Proximum would not carry all its fuel with it, but would get what it needed by making stops on the journey at refuelling stations sent out in advance.

Hyperion, meanwhile (pictured above), is a 500-metre-diameter version of the twin-wheel space station seen in “2001: A Space Odyssey”. Its living space is a series of six “neighbourhoods”, three in each rim. Although outlining a fuel supply was, surprisingly, not part of the competition’s brief, attaching a Chrysalis-like tank to it would not be that hard.

All three designs are fitted out with housing, factories, offices, hospitals, schools, sports arenas, public meeting spaces and, of course, farms. Power comes from fusion reactors. And propulsion is provided by yet-to-be-developed devices bearing names such as direct-fusion drives and nuclear-pulse engines. Dilithium crystals, however, were not included.





When it comes to the proposed social arrangements, however, things are much less clear. To predict how future generations would hold up under the journey's strain, the Proximum proposal invokes Strauss-Howe generational theory (which apparently holds that history unfolds in a recurring cycle of "turnings", each roughly 20-25 years long and associated with four different generational archetypes: prophet, nomad, hero, artist). The inhabitants of Chrysalis would rely on something called liquid sociocracy governance to maintain order. And those of Hyperion would enjoy "an economic system rooted in rational resource management and collective development over profit".

If all this social engineering doesn't help keep the peace, there is always artificial intelligence. As Team Proximum puts it, "We can expect the living passengers to never be the most intelligent or capable of the sentient beings on board."

The upshot, some hybrid between a Marxist paradise and Thomas More's "Utopia", might hold out for a generation or two, while things were run by the idealistic pioneers and their children. Whether it would last any longer is moot. A thousand people—I4IS's suggested initial crew size—is a lot to coop up in an enclosed space. Social fragmentation seems likely, especially in the absence of any external threat to encourage unity.

Arguably the most serious failure to address reality, though, is lack of consideration of the Darwinian imperative to reproduce. Some teams have rules intended to control and equalise reproductive output. But they are less clear about who does the enforcing, and by what means. This is, however, an imagined future in which earlier economic growth and technological progress has created the ability to build such ships in the first place. Maybe, in a world of such abundance, the current trend for small families will have become an uncontested norm. Maybe. ■

Curious about the world? To enjoy our mind-expanding science coverage, sign up to Simply Science, our weekly subscriber-only newsletter.

Science & technology | Well informed

Can you overcome an allergy?

Treatment is improving, even for the most dangerous

July 31st 2025

ALLERGIES Are on the rise. Every year more people clog up in springtime or succumb to itchy eyes in the presence of pets. In America the share of children with food allergies rose from 3.4% in 1997 to 5.8% in 2021, and there were similar increases elsewhere. But treatments allowing people to manage their allergies—even the most dangerous ones—are becoming increasingly effective, accessible and safe.

Allergies arise when the immune system gets confused. Normally tasked with protecting the body from pathogens, in people with allergies it also reacts to harmless irritants, or allergens. In overactive immune systems, proteins responsible for recognising dangerous invading parasites, known as immunoglobulin E (IgE) antibodies, start to become sensitive to allergens, too.

This can cause them to raise the alarm each time they come into contact with the allergen, which prompts the body to produce a signalling chemical known as histamine. When the body is under threat from a parasite, histamine can help expel it by producing mucus and provoking coughing. But for people with allergies, the response can go overboard, causing allergic symptoms such as wheezing and hives. In the worst case, histamine can provoke a whole-body reaction known as anaphylactic shock, which can block the airways and cause suffocation.

Desensitisation is possible. A family of treatments known as immunotherapies work by repeatedly exposing the body to tiny and gradually increasing amounts of allergen. For common allergens, such as pollen and dust mites, immunotherapy—in the form of drops, shots or tablets—is now common, and highly effective for most people.

Progress has been slower for food allergies, in part because they carry a higher risk of anaphylaxis. The outlook has started to brighten. In 2020 America's Food and Drug Administration approved the first oral immunotherapy for children with peanut allergy, a powder containing peanut protein. Children who take the powder with food react less, but the increased dosage must be given under medical supervision to avoid reactions and children should still follow a strict peanut-free diet.

Options that could allow patients to increase their tolerance more safely are on their way. Companies are developing immunotherapies based on small fragments of allergen proteins called peptides. These seem to increase tolerance to the allergens without setting off harmful immune reactions.

Another avenue is blocking IgE antibodies. In a trial in 2024, 79 of 118 people with allergies to several foods were able to ingest 600mg of their allergens after taking a monoclonal antibody called omalizumab for 16 to 20 weeks, compared with only five of the 59 participants in the control group. As patients must keep taking omalizumab to feel its effects, some researchers hope to prescribe it to patients while building their tolerance through regular or peptide immunotherapy.

The burst of innovation is particularly good news for allergic adults. Because the immune system becomes less flexible with age, adults are harder to treat than children and are often excluded from immunotherapy trials. This, too, is changing. The omalizumab trial from 2024 included a small number of adults, and in April an adult-only trial showed that standard oral immunotherapy, done carefully over months, could build patients up to a dose of four daily peanuts. ■

Curious about the world? To enjoy our mind-expanding science coverage, sign up to Simply Science, our weekly subscriber-only newsletter.

Culture

Culture | Telling it Strait

Blockades, blackouts and bullets: China invades Taiwan on screen

“Zero Day Attack”, a TV series, is terrifying audiences in Taiwan

July 31st 2025

On an island in the Kinmen archipelago, in the Taiwan Strait, Taiwanese soldiers are marching through a dark tunnel. “The enemy is landing,” one of their number says. As they emerge onto a gloomy beach, they begin to notice hordes of fighters from the Chinese People’s Liberation Army (pla) camouflaged in the shadows. Lights flash in the darkness; the sound of machine-gun fire pierces the air.

“Zero Day Attack”, a ten-episode drama, makes its debut on Taiwanese tv on August 2nd. It is the first mainstream film or TV show made in the country to imagine how China might try to annex the island, making its broadcast a cultural milestone. (The show will be released in Japan later in the month, but international distribution has yet to be announced.)

Taiwan’s screenwriters have avoided depicting a cross-strait war, considering the subject too contentious. But Cheng Hsin-mei, the showrunner of “Zero Day Attack”, is concerned, having observed the Chinese Communist Party’s crackdown in Hong Kong in recent years. “We want to bring awareness while we have the freedom to create,” she says. “We could lose our freedom in the future.”

Ever since the Kuomintang (KMT) fled to Taiwan in 1949 after losing the Chinese civil war, China’s leaders have threatened to retake the island. At first, this did not seem realistic, as China did not have much firepower. Then, after China began to open up and reform its economy in 1978, Taiwanese began investing in China: the resulting economic intertwinement encouraged many Taiwanese to think a war with China was improbable. Most Taiwanese are still blasé about the Chinese threat. But Russia’s invasion of Ukraine—not to mention China’s recent military exercises in the Taiwan Strait—have convinced some that conflict could happen.

Puma Shen, a member of Taiwan’s parliament who acted as a consultant on “Zero Day Attack”, says the show reflects such shifting attitudes. In 2021, when he co-founded the Kuma Academy, a non-governmental organisation which teaches civil defence, many Taiwanese were critical of such efforts and denied that Taiwan needed a “pre-war mentality”. Now, however, increasing numbers are signing up for workshops on topics such as information warfare and evacuation planning.

Taiwan’s government, too, wants to up the ante. Last year a new policy on conscription came into effect, extending the term from four months to 12. This year Lai Ching-te, the president, announced plans to increase defence spending to over 3% of GDP, up from 2.5%.

So how does “Zero Day Attack” envisage an attack unfolding? It begins with a Chinese spy plane disappearing in waters near Taiwan. Under the guise of a search-and-rescue mission, China deploys aeroplanes and ships and starts to enact a blockade. Taiwan’s outgoing president tells the president-elect that an American aircraft-carrier is nearby and the Americans will help if he gives the word, but she is reluctant to take him up on the offer, fearing that any intervention would escalate the conflict. Such worries about appearing the provocateur echo real officials' concerns when it comes to handling China's military manoeuvres.

"Zero Day Attack" underscores that a Chinese attack on Taiwan will involve a range of weapons, not all of them ballistic. There are blackouts. Phone signal becomes patchy; the island sees its biggest internet outage ever, one which lasts for more than a day. News stations temporarily go off air. The aim is to create chaos and undermine any sense of social cohesion. Jets are often seen flying overhead and tanks are on the streets. Many Taiwanese start to flee from the island.

Particularly effective is China's information warfare. Doctored videos circulate on social media, spreading fake news about a missile strike. Pro-China influencers start agitating online and presenting Taiwan's democracy as a sham. China's government infiltrates criminal gangs, using them to create havoc on the streets.

China proposes a peace agreement, which stipulates that Taiwan accept the policy of "one country, two systems"—the model of governance China imposes on Hong Kong, which supposedly allows for autonomy but in practice leaves Hong Kong at the mercy of the Communist Party. Some politicians, desperate for resolution, support the agreement.

Each episode of "Zero Day Attack" is directed by a leading Taiwanese film-maker and looks at the events from a particular perspective. One episode follows the president-elect; another focuses on the tv stations; still others explore how rich Taiwanese or working-class people would be affected. The result is a scorching depiction of how war would shake society.

As you might expect for a drama about a loaded geopolitical subject, "Zero Day Attack" has not had zero problems in production. Some consider the show to be propaganda for the ruling Democratic Progressive Party, which firmly rejects China's claim to the island. Politicians in the KMT, which favours more cordial ties with China, have pointed out that Taiwan's culture ministry had invested in the series (though the ministry does this for many local productions). Another of the show's main investors is Robert Tsao, a billionaire founder of a semiconductor company, who has also given money to civilian-defence initiatives including the Kuma Academy. Both Mr Tsao and Mr Shen have been labelled "separatists" by China.

Ms Cheng says some Taiwanese talent agents refused to put forward their actors for the show for fear that they would get blacklisted in China—which would be bad for business, given that China has the world's biggest tv and film audience. So Ms Cheng sought out people who were not worried about being banned. One of the show's China-backed rabble-rousers, Big John, is played by Chapman To, an actor from Hong Kong turned Taiwanese immigrant. He was a vocal supporter of Hong Kong's democracy movement in 2014, which caused Chinese audiences to boycott his films and production companies to refuse to work with him.

What is most intriguing is that the series is not nearly as apocalyptic as the original 17-minute trailer, released last year, promised. It imagined "Total Chaos. Shortages of supplies, complete interruption of water, electricity and telecommunication." These things do not transpire in the finished show. Ms Cheng says the trailer was designed to be terrifying as a hook to get audiences interested. Mr Shen, the consultant, denies that alarming scenes were cut because of political pressure. Lo Ging-zim, one of the directors, has been adamant that "Not a single word of the script had been modified by the government."

Yet Yen Chen-shen, a political scientist at National Chengchi University, who was not involved in the project, reckons the Taiwanese government may well have pressed the film-makers to tone down some of the story's scariest parts. Officials he knows want the public to be prepared for an invasion, but they do not want to petrify them.

"Zero Day Attack" is not without its artistic flaws. America is portrayed as a staunch ally—a description few would apply to the current administration. China-backed characters, such as Big John, are generally portrayed as cartoonish spies and gangsters. Many people in China, Taiwan and the Chinese diaspora do not want to see Taiwanese people mistreated but nonetheless believe that, because of their shared culture, Taiwan ought to be part of China. How that might be achieved, given the overwhelming opposition of Taiwanese people to being ruled by the Communist Party, is a tricky question. Still, the series could have portrayed Taiwanese who favour unification more sympathetically.

"Zero Day Attack" arrives on screen months after the pLA rehearsed an amphibious invasion and naval blockades, as well as disrupting supply lines and bombing energy facilities. No one knows whether China will one day make good on its threats. But after watching this show, no one can claim not to have been warned. ■

For more on the latest books, films, TV shows, albums and controversies, sign up to Plot Twist, our weekly subscriber-only newsletter

Culture | She’s the tops

With a four-octave range, Cleo Laine could sing everything—and did

The “First Lady of Jazz” died on July 24th, aged 97

July 31st 2025

She was cool; she was clever; she was chic. Dame Cleo Laine, a virtuosic singer, glided across British tv screens in the 1960s and 1970s, a symbol of the free-spirited mood of the age. The four-octave range of her voice stretched from husky contralto depths up to glittering top notes that operatic sopranos would have struggled to reach. She sang just about everything from Shakespeare to standards; her repertoire spanned avant-garde theatre, Broadway musicals, jazz classics, pop tunes and the witty, subtle songs that her husband—John Dankworth, a jazz saxophonist, bandleader and composer—wrote for her. Now that voice is finally silent. Dame Cleo died, aged 97, on July 24th.

Where had this marvel sprung from? Although an aura of cosmopolitan glamour surrounded her, Dame Cleo grew up in Southall, a district in London's western suburbs. Her father, Alexander Campbell, was a Jamaican veteran of the first world war who loved to sing. His daughter recalled that he dressed like Anthony Eden, a famously dapper prime minister in the 1950s. Her mother, Minnie Bullock, was a farmer's daughter from Wiltshire who fiercely defended her mixed-race family.

Clementine—Cleo, the snappier stage name, came later—left school early. In 1951 she auditioned for a singer's job with the Johnny Dankworth Seven, a jazz ensemble. It was a warm summer's day, but she wore a borrowed fur coat and sang "Embraceable You" and "It's Only a Paper Moon". Dankworth was astonished to hear not another mimic of the day's chart-toppers but "a finished article, who sung like herself". He offered the novice a salary of £6 a week (£165, or $220, today). She held out for £7, and got it.

They married in 1958, after Dame Cleo had divorced her first husband and started to embark on solo projects. She took dramatic roles at the Royal Court Theatre—the hub of London's experimental theatre scene—and, in 1961, sang in Kurt Weill's and Bertolt Brecht's musical satire "The Seven Deadly Sins". Lotte Lenya, Weill's widow and the role's originator, jealously refused to let Dame Cleo record it.

She smashed through musical borders, not only leading British jazz into the mainstream, earning the moniker the "First Lady of Jazz", but forging alliances all over the musical map. "Shakespeare and All That Jazz" (1964) perfectly matches Dankworth's stylish verse settings to Dame Cleo's agile delivery. She performed Arnold Schoenberg's demanding song-cycle, "Pierrot Lunaire", and took a lead in a hit production of Jerome Kern's musical "Show Boat". In 1973 she conquered Carnegie Hall with a solo show; a decade later another performance there won her a Grammy award. A critic at the New York Times pouted that the Brits had been hoarding "one of their national treasures".

Musical partnerships followed with Ray Charles, Tony Bennett and Frank Sinatra. Stephen Sondheim's grown-up, bittersweet songs fitted her mature voice like the smoothest of gloves: her renditions rank among the best.

She had two children with Dankworth and both went on to become successful musicians: Jacqui Dankworth as a singer and Alec Dankworth as a bassist. The couple also built and oversaw a theatre and arts centre, The Stables, at their home in Buckinghamshire. In its performance programme and education schemes it formed—and still forms—an embodiment of the pair's creed that "all music" matters. Only quality, not genre, counts. Dame Cleo told students to find their own style, as she had: "Don't ever copy."

She became Dame Cleo in 1997. Well into the 21st century that smoky, sultry contralto still beguiled, even if the topmost notes now edged down a rung or two. Dankworth died in 2010, but Dame Cleo announced his death only after that evening's performance at The Stables. The show, as always, went on. In his memory she sang Sonnet 18—"Shall I compare thee to a summer's day?"—from the Shakespeare album. Listen to that track and you hear her voice climb thrillingly at the line's end, as she vows that "Thy eternal summer shall not fade." Hers never did. ■

For more on the latest books, films, TV shows, albums and controversies, sign up to Plot Twist, our weekly subscriber-only newsletter

Culture | World in a dish

The humble tomato salad holds lessons for how to eat well

An exquisite Italian iteration proves that even simple dishes can be sublime

July 31st 2025

The fruit is arrayed on a wooden board, where shades of red jostle with yellows, oranges and flecks of green. After you lift a fork to your lips, a varied, almost confusing range of flavours follows, from tantalisingly sour and bitter, through umami, to succulently sweet.

The dish in question is a tomato salad: often considered mundane, but here transformed into something memorable. Tomatoes are ubiquitous at this time of year when, in the northern hemisphere, they are most abundant and tasty. This particular tomato salad is served at Quintosapore, a farm in central Italy. Its deliciousness points to three culinary tenets.

The first is obvious: local produce is best. Tomatoes plucked straight from the vine, where they have been ripened by the Umbrian sun, are sweeter and juicier than those picked from a supermarket shelf, which have often been harvested prematurely and ripened artificially.

The second tenet is the importance of variety. A tomato salad with one type of tomato is bland; a salad prepared with a dozen varieties is surprising. There are around 160 types of tomato grown at Quintosapore, for the farm is also an experimental nursery: Nicola and Alessandro Giuggioli, the brothers who run it, have been fascinated by plants since they were young. “Other kids collected stamps,” says Alessandro. “We collected seeds.”

Cultivating multiple strains of a foodstuff certainly broadens the range of gastronomic possibilities—some tomatoes are earthy in flavour, others are tart—but there are practical as well as palatable benefits to this approach. It limits the danger of a disease or pest latching onto a single, popular variety and endangering the supply of an entire species.

Last comes the vital role of garnishes, which add both colour and complexity to a dish. Part of what makes this salad so exceptional are the three varieties of basil that are added along with huacatay, a herb also known as Peruvian black mint. Chewing it releases a range of aromatic compounds

—including several that are found in other herbs such as tarragon and basil —which deepen the flavour of the tomatoes.

Italy produced almost 1.2m tonnes of tomatoes in 2024. (In Europe, it is second only to Spain.) But the country's love affair with the fruit is relatively new. Native to South America, tomatoes were for centuries thought to be poisonous. It was not until the 19th century that Italians started using them widely in their cooking.

The country has made up for lost time. Along with olive oil and garlic, the tomato is now a staple ingredient in Italian cuisine: it features in a plethora of dishes, from spaghetti all'amatriciana to insalata caprese. More than any other nation, Italians know that, as the food writer Laurie Colwin put it: "A world without tomatoes is like a string quartet without violins." ■

Culture | Colonial legacies

Who was Cecil Rhodes?

A new biography describes the businessman and imperialist behind the global protest movement

July 31st 2025

UNTIL TEN years ago Cecil Rhodes was just one white British imperialist among many. Then, in 2015, Chumani Maxwele, a young black South African, gave a "poo shower" to Rhodes's statue at the University of Cape Town, built on land Rhodes bequeathed. In doing so Mr Maxwele set off a global campaign called "Rhodes Must Fall". The Cape Town statue did come down but others, notably one at Oriel College, Oxford, remain standing.

For many campaigners, Rhodes has become a symbol of all that was evil about the British Empire. Given his vexed legacy, and the scant understanding most have of what he actually did, Rhodes is a good candidate for a clear-eyed biography. William Kelleher Storey, a professor of history at Millsaps College, Mississippi, has produced just that.

The author is plain from the outset that his subject was a white supremacist and a believer in the greatness of the British Empire. Mr Storey makes no excuses for Rhodes, but notes that bigotry was not a minority sport in his day.

He was born in 1853, the fifth son of a clergyman. Aged 17, he travelled to what is today South Africa, mostly because his older brother, Herbert, was already there. The two started work as farmers but were also quickly drawn into the diamond-mining boom around Kimberley. The accidental death of his swashbuckling brother in 1879 was a bitter blow to Rhodes.

Helped by some dodgy financial trickery, Rhodes went on to establish a diamond monopoly for his company, De Beers, which is still one of the world's largest producers. He also became a big investor in gold mines in the region. From an early age he was rich enough to buy out business rivals and buy off political foes.

He clearly favoured white over black employees. Black miners were subjected to horribly invasive, demeaning searches once they reached the end of their contracts. Yet, as Mr Storey also notes, his businesses generally paid black miners more than most white miners were earning in Britain at the time.

In 1880 Rhodes decided to enter politics in the British Cape Colony, with the overt goal of protecting his business monopoly and his wealth. He became the Cape's prime minister in 1890. Black Africans were less badly treated in Rhodes's Cape colony than in the Boer republics (which practised slavery decades after the British abolished it), or in the Congo Free State ruled by Belgium's King Leopold II (whose overseers severed the hands of forced labourers who did not harvest enough rubber).

Nonetheless, Rhodes made dreadful, racist political decisions in office. Through dubious deals with native African kings, and helped by troops equipped with Maxim guns, his British South Africa Company managed to take over big chunks of what became Northern and Southern Rhodesia (today's Zambia and Zimbabwe). Once again, Rhodes deliberately favoured white farmers in the new colonies, setting strict limits on black ownership of land.

One of Rhodes's worst mistakes as prime minister was to become too closely involved in provocations against the Boer republic of the Transvaal, culminating in the disastrous Jameson Raid of 1895-96 which attempted to overthrow the government. It foreshadowed the outbreak of the second Boer war just three years later. The subsequent absorption of the Boer republics into South Africa ultimately led to the apartheid system, as the new country gained a critical mass of citizens adamantly opposed to letting any black people vote. The end of the Boer war in 1902 coincided with Rhodes's death, aged 48.

His bequests were many and munificent. Along with benefactions to Cape Town University, Rhodes gave the huge sum of £100,000 ($500,000 at the time, equivalent to almost $20m today) to Oriel, his old college. He also set up the famous Rhodes scholarships at Oxford University, with the explicit provision in his will that no applicant should be disqualified "on account of his race or religious opinion". Some of the loudest proponents of the "Rhodes Must Fall" campaign have been Rhodes scholars from Africa.

Rhodes predicted that what he built would last. In a baleful sort of way, Mr Storey says, this is true. Many in the "Rhodes Must Fall" campaign link South Africa's inequities to Rhodes's racially restrictive policies. The African National Congress's Freedom Charter of 1955 "did not mention him by name, but it amounted to nothing less than a call for the rooting out of the legacy of Cecil Rhodes", since it was his "colonialist achievements that presented so many obstacles to those who sought a country based on equality, including equal access to land, mines and housing". Rhodes believed his reputation would remain "fresh with the praise of posterity". Today it carries a whiff of faeces. ■

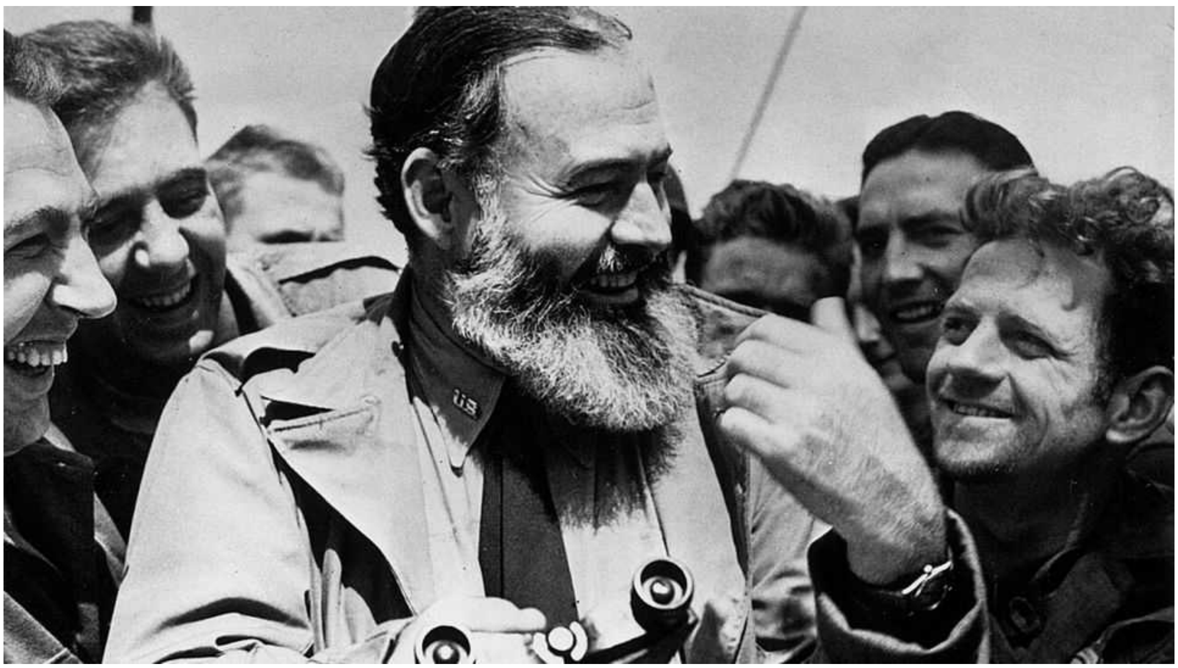
For more on the latest books, films, TV shows, albums and controversies, sign up to Plot Twist, our weekly subscriber-only newsletter

Culture | #1 Also Rises

Hemingway remains the most famous 20th-century American novelist

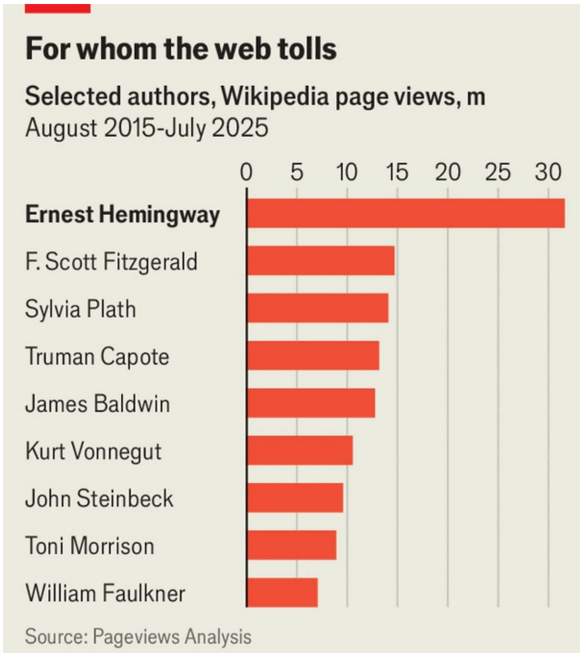
A much-imitated style, celebrity fans and a life-turned-myth all help

July 31st 2025



IN the early 1920s Ernest Hemingway was a little-known journalist slumming around Europe and getting into absinthe-fuelled scrapes. Then, a century ago, in 1925, he published "In Our Time", a book of short stories; in July of that year he started working on "The Sun Also Rises", his first novel, which fictionalised his antics. It became the most celebrated book about the "Lost Generation" in post-war Europe.

Hemingway became famous in the same way one of his characters described going bankrupt: "gradually and then suddenly". Eight other novels and novellas followed, as did Pulitzer and Nobel prizes. He remains the most famous American novelist of his century, judged by mentions in Google's corpus of books. His Wikipedia page also gets more views than those of his contemporaries, including [F. Scott Fitzgerald]() and John Steinbeck (see chart). Why?



There are three reasons. First, nobody had written like him before. A short clean sentence is a fine thing. But if the writer has his story straight and his words true he can go long and hard as a bull after a picador and to hell with big words and adverbs and commas. He also knew what to leave out, as he explained: "If a writer of prose knows enough of what he is writing about he may omit things that he knows and the reader, if the writer is writing truly enough, will have a feeling of those things as strongly as though the writer had stated them." This lean style influenced writers of fiction—notably Norman Mailer, Cormac McCarthy and Raymond Carver—as well as journalists. Joan Didion's spareness reads like sober Hemingway.

Second, his heroes attracted famous admirers. He defined courage as "grace under pressure": martially, for the soldier Frederic Henry in "A Farewell to Arms"; physically, for the fisherman Santiago in "The Old Man and the Sea"; or sportingly, for the titular cuckolded character in "The Short Happy Life of Francis Macomber", who becomes a fearless hunter. In 1955 John F. Kennedy asked for Hemingway's permission to use this definition in "Profiles in Courage", which won the Pulitzer prize for biography.

John McCain’s favourite novel was “For Whom the Bell Tolls” (1940), about the Spanish civil war, which he quoted in a posthumous book: “The world is a fine place and worth the fighting for and I hate very much to leave it.” Barack Obama, a fan of the same novel, mentioned it in his eulogy to McCain. Less credibly, Donald Trump has dubbed himself the “Hemingway of 140 characters”.

Third, and perhaps most important, Hemingway’s life became legend. He married four times, drank hard, feuded with rivals, was wounded in the first world war, reported on the Omaha Beach landings in the second, ran with the bulls in Spain and survived a plane crash in Africa. But beneath the bravado his ego was fragile; he sometimes swapped gender roles in bed and suffered from depression. He was one of seven in his family to commit suicide. That has provided ample material for biographies and documentaries, including a six-hour series by Ken Burns in 2021.

But adaptations of his work are scarce. Fitzgerald and Steinbeck enjoy higher ratings and more reviews on Goodreads, a website. Perhaps Hemingway’s stoical heroes—and hints of sexism and racism, at least in the voices of some characters—are becoming old-fashioned. If so, he may end up like Lord Byron and Oscar Wilde: read keenly by a few, read about by many. ■

For more on the latest books, films, TV shows, albums and controversies, sign up to Plot Twist, our weekly subscriber-only newsletter

Culture | Playing the long game

Can Test cricket survive a sticky wicket?

A journalist goes out to bat for the five-day format

July 31st 2025

FANS OF EVERY sport claim their passion is more than a game, but few argue it has an edifying social role. "Cricket? It civilises people," purred Robert Mugabe, then Zimbabwe's dictator, as he sought to use it to build "a nation of gentlemen". Since its inception in 1877 Test cricket, the original multi-day format, has been associated with propriety and moral instruction.

Much of that is the result of the sport's origins in Victorian England, according to Tim Wigmore, a journalist (and occasional contributor to The Economist). In a comprehensive history of Test cricket, he explains how posh the game used to be. Matches played over five working afternoons put the sport out of reach of the working class. Those who played for a wage were "players"; those who did not were "gentlemen".

Today the format endures because of other qualities. It is a punishing game that requires skill, self-control and strategy. Mr Wigmore likens it to an epic novel that continues to draw in fresh readers. He spends pages expounding on batting techniques (such as the leg glance), but also the role of cricket in political protests (including against Mugabe's regime). In that way, the book is a fitting tribute to Test cricket: like the format, it is a slow burn that periodically crackles into life.

The biggest Tests can attract massive audiences: at least 90m people in India streamed this year's first match against England. But many aficionados worry the format is being usurped by Twenty20 (T20), played in three and a half hours, which is increasingly popular. T20 leagues have been set up around the world, from America to Afghanistan. The Indian Premier League, the glitziest competition, trails only America's National Football League and England's Premier League in terms of revenue generated per match.

The most pressing concern for Test cricket is participation. As T20 has become cricket's global calling card, the five-day version remains an exclusive club. Entry has been limited to just 12 countries because of worries about competitiveness. But there is still a great disparity. The newest entrants, Afghanistan, Bangladesh and Ireland, have played just 78 matches over the past decade; India, England and Australia have played 261.

Those countries—known as the "Big Three"—are home to the biggest fanbases and economies, which bring them lucrative broadcasting deals. The other teams do not sell enough tickets to make hosting Tests worth it: countries outside the Big Three lose, on average, $500,000 per series. Players from the West Indies regularly abscond from international duty to play more lucrative T20 tournaments.

Yet existential concerns about Test cricket are not new. There has been handwringing about its future almost since its inception. In 1911 people worried that commercialisation risked polluting it. In the 1970s the rise of one-day internationals, another truncated format, made traditionalists choke on their strawberries.

In some respects, the five-day format is better than ever. Many players are adopting the aggressive batting used in T20, improving the spectacle. Most still consider Tests the pinnacle of cricket, producing feats of endurance that T20 cannot. Even youngsters who watch T20 today may gravitate towards the longer version in time, just as those who listen to pop music can come to enjoy opera later in life.

Nonetheless Mr Wigmore worries that the format is being "hollowed out" in many countries. He proposes a pooled Test fund that would compensate countries more fairly, and help prevent player flight to T20. The sport's governing body is already changing tactics. In 2019 it launched the World Test Championship, turning every bilateral series into a qualifying event with a winner-takes-all final every two years. More recently, officials have mooted a tiered system with promotion and relegation as a way to infuse greater competition into the sport's lower ranks. Creating a more level playing-field for the smaller nations would be much better than the current sticky wicket. ■

For more on the latest books, films, TV shows, albums and controversies, sign up to Plot Twist, our weekly subscriber-only newsletter

Economic & financial indicators

- Economic data, commodities and markets

Economic data, commodities and markets

July 31st 2025

Economic data

1 of 2

	Gross domestic product % change on year ago: latest		quarter*	2025†	Consumer prices % change on year ago: latest		2025†	Unemployment rate %	
United States	2.0	Q2	3.0	0.9	2.7	Jun	2.8	4.1	Jun
China	5.2	Q2	4.5	4.7	0.1	Jun	-0.3	5.0	Jun‡§
Japan	1.7	Q1	-0.2	0.6	3.2	Jun	3.1	2.5	May
Britain	1.3	Q1	3.0	1.0	3.6	Jun	3.7	4.7	Apr††
Canada	2.3	Q1	2.2	1.0	1.9	Jun	2.1	6.9	Jun
Euro area	1.4	Q2	0.4	1.2	2.0	Jun	2.0	6.3	May
Austria	-0.5	Q1	0.6‡	0.1	3.2	Jun	2.9	5.3	May
Belgium	1.1	Q2	1.0	1.0	2.6	Jul	3.0	6.5	May
France	0.7	Q2	1.2	0.6	0.9	Jul	0.9	7.1	May
Germany	0.4	Q2	-0.4	0.3	2.0	Jun	2.1	3.7	May
Greece	1.8	Q1	0.2	2.2	3.6	Jun	2.7	7.9	May
Italy	0.4	Q2	-0.3	0.6	1.8	Jun	1.9	6.5	May
Netherlands	1.5	Q2	0.4	1.3	2.8	Jun	3.4	3.8	Jun
Spain	2.8	Q2	3.0	2.6	2.7	Jul	2.2	10.8	May
Czech Republic	2.4	Q1	2.8	2.2	2.9	Jun	2.4	2.5	Q1‡
Denmark	2.6	Q1	-5.0	2.6	1.9	Jun	1.8	2.9	Jun
Norway	-0.4	Q1	-0.3	1.3	3.0	Jun	2.3	4.9	May‡‡
Poland	3.2	Q1	2.8	3.0	4.1	Jun	3.9	5.2	Jun§
Russia	1.4	Q1	-2.3	0.9	9.4	Jun	8.7	2.2	Jun§
Sweden	1.0	Q2	0.4	1.8	0.7	Jun	2.3	9.4	Jun§
Switzerland	2.0	Q1	2.1	1.3	0.1	Jun	0.1	2.9	Jun
Turkey	2.0	Q1	4.0	2.8	35.0	Jun	33.8	8.5	Jun§
Australia	1.3	Q1	0.8	1.7	2.1	Q2	2.1	4.3	Jun
Hong Kong	3.1	Q1	7.9	1.9	1.5	Jun	1.5	3.5	Jun‡‡
India	7.4	Q1	9.8	6.2	2.1	Jun	3.9	7.5	Jun
Indonesia	4.9	Q1	4.8	4.7	1.9	Jun	1.5	4.8	Feb§
Malaysia	4.5	Q2	6.2	4.0	1.1	Jun	1.8	3.0	May§
Pakistan	4.8	2025**	na	3.0	3.2	Jun	4.8	6.3	2021
Philippines	5.4	Q1	4.9	6.4	1.4	Jun	1.5	4.1	Q2§
Singapore	4.3	Q2	5.6	1.9	0.8	Jun	0.8	2.1	Q2
South Korea	0.6	Q2	2.4	0.6	2.2	Jun	2.0	2.8	Jun§
Taiwan	5.5	Q1	7.2	3.8	1.4	Jun	1.9	3.3	Jun
Thailand	3.1	Q1	2.8	1.8	-0.2	Jun	0.2	0.8	Jun§
Argentina	5.8	Q1	3.4	5.6	39.4	Jun	39.7	7.9	Q1§
Brazil	2.9	Q1	5.7	2.2	5.4	Jun	5.1	6.2	May§‡‡
Chile	2.3	Q1	2.8	2.8	4.1	Jun	4.3	8.9	Jun§‡‡
Colombia	2.7	Q1	3.2	2.3	4.8	Jun	4.9	9.0	May§
Mexico	0.1	Q2	2.8	-0.2	4.3	Jun	3.9	2.6	Jun
Peru	3.9	Q1	5.1	2.8	1.7	Jun	1.8	7.6	Jun§
Egypt	4.8	Q1	-23.0	4.1	14.9	Jun	15.9	6.3	Q1§
Israel	1.4	Q1	3.5	3.0	3.3	Jun	3.0	2.7	Jun
Saudi Arabia	2.0	2024	na	4.4	2.3	Jun	2.6	2.8	Q1
South Africa	0.8	Q1	0.4	1.0	3.0	Jun	3.1	32.9	Q1§

Source: Haver Analytics *% change on previous quarter, annual rate †The Economist Intelligence Unit estimate/forecast §Not seasonally adjusted ‡New series **Year ending June ††Latest 3 months ‡‡3-month moving average Note: Euro-area consumer prices are harmonised

Economic data

2 of 2

	Current-account balance % of GDP, 2025†	Budget balance % of GDP, 2025†	Interest rates 10-yr gov't bonds latest, %	change on year ago, bp	Currency units per $ Jul 30th	% change on year ago
United States	-3.7	-5.9	4.4	23.0	-	
China	1.7	-5.9	1.6 §§	-29.0	7.18	1.0
Japan	4.5	-3.4	1.6	55.0	149	3.8
Britain	-2.9	-4.5	4.6	48.0	0.75	4.0
Canada	-0.5	-1.9	3.5	26.0	1.38	nil
Euro area	3.0	-3.3	2.7	37.0	0.87	5.7
Austria	2.2	-4.5	3.0	19.0	0.87	5.7
Belgium	-0.1	-4.7	3.2	30.0	0.87	5.7
France	-0.1	-5.7	3.4	31.0	0.87	5.7
Germany	5.3	-2.7	2.7	37.0	0.87	5.7
Greece	-5.9	-0.2	3.4	3.0	0.87	5.7
Italy	0.9	-3.6	3.5	-17.0	0.87	5.7
Netherlands	7.9	-2.4	2.9	25.0	0.87	5.7
Spain	2.3	-3.2	3.2	-2.0	0.87	5.7
Czech Republic	0.3	-2.4	4.3	63.0	21.4	9.8
Denmark	12.9	1.6	2.6	21.0	6.50	6.3
Norway	14.1	9.4	4.0	52.0	10.3	6.9
Poland	0.2	-6.1	5.5	-4.0	3.72	6.7
Russia	2.0	-2.7	14.0	-186	80.9	6.9
Sweden	5.8	-1.4	2.5	44.0	9.72	11.0
Switzerland	6.7	0.7	0.4	-12.0	0.81	9.9
Turkey	-1.7	-3.7	29.6	317	40.6	-18.5
Australia	-1.2	-1.8	4.3	-6.0	1.55	-1.3
Hong Kong	11.5	-5.4	3.0	-15.0	7.85	-0.5
India	-0.5	-4.4	6.4	-57.0	87.4	-4.2
Indonesia	-0.9	-3.3	6.5	-37.0	16,390	-0.6
Malaysia	1.8	-3.9	3.4	-37.0	4.24	9.0
Pakistan	-1.4	-5.2	11.9 †††	-214	283	-1.5
Philippines	-3.3	-5.4	6.2	-4.0	57.6	1.8
Singapore	14.4	0.2	2.1	-85.0	1.29	3.9
South Korea	3.5	-2.4	2.8	-25.0	1,383	0.2
Taiwan	14.9	0.6	1.4	-28.0	29.7	10.7
Thailand	1.8	-5.8	2.1	-48.0	32.5	10.8
Argentina	-2.3	0.4	na	na	1,293	-27.9
Brazil	-2.4	-8.1	14.0	196	5.60	0.5
Chile	-1.9	-2.0	5.6	-55.0	977	-2.1
Colombia	-2.6	-7.2	11.9	130	4,184	-2.5
Mexico	-0.2	-3.5	9.4	-37.0	18.8	-0.3
Peru	2.1	-2.8	6.2	-78.0	3.57	4.8
Egypt	-4.6	-7.5	na	na	48.7	-0.5
Israel	3.1	-5.3	4.3	-64.0	3.38	11.0
Saudi Arabia	-1.8	-2.9	na	na	3.75	nil
South Africa	-1.6	-4.9	9.8	30.0	17.9	2.2

Source: Haver Analytics §§5-year yield †††Dollar-denominated bonds

Markets

In local currency	Index Jul 30th	% change on: one week	Dec 31st 2024
United States S&P 500	6,362.9	0.1	8.2
United States NAS Comp	21,129.7	0.5	9.4
China Shanghai Comp	3,615.7	0.9	7.9
China Shenzhen Comp	2,205.8	1.3	12.7
Japan Nikkei 225	40,654.7	-1.3	1.9
Japan Topix	2,920.2	-0.2	4.9
Britain FTSE 100	9,136.9	0.8	11.8
Canada S&P TSX	27,370.0	-0.2	10.7
Euro area EURO STOXX 50	5,393.2	0.9	10.2
France CAC 40	7,862.0	0.1	6.5
Germany DAX*	24,262.2	0.1	21.9
Italy FTSE/MIB	41,637.7	2.3	21.8
Netherlands AEX	909.4	0.1	3.5
Spain IBEX 35	14,380.6	2.2	24.0
Poland WIG	108,896.7	0.9	36.8
Russia RTS, $ terms	1,049.5	-8.0	17.5
Switzerland SMI	11,932.0	-1.2	2.9
Turkey BIST	10,619.0	0.3	8.0
Australia All Ord.	9,015.4	0.2	7.1
Hong Kong Hang Seng	25,176.9	-1.4	25.5
India BSE	81,481.9	-1.5	4.3
Indonesia IDX	7,549.9	1.1	6.6
Malaysia KLSE	1,524.5	-0.3	-7.2
Pakistan KSE	138,412.3	-0.6	20.2
Singapore STI	4,219.4	-0.3	11.4
South Korea KOSPI	3,254.5	2.2	35.6
Taiwan TWI	23,461.7	0.6	1.9
Thailand SET	1,244.1	2.0	-11.1
Argentina MERV	2,306,756.0	10.7	-9.0
Brazil BVSP*	133,989.8	-1.0	11.4
Mexico IPC	57,395.9	1.6	15.9
Egypt EGX 30	33,859.7	-0.8	13.9
Israel TA-125	3,086.7	-2.1	27.2
Saudi Arabia Tadawul	10,914.4	-0.6	-9.3
South Africa JSE AS	99,314.7	-0.9	18.1
World, dev'd MSCI	4,095.6	-0.5	10.5
Emerging markets MSCI	1,252.5	-1.0	16.5

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 31st 2024
Investment grade	93	95
High-yield	349	324

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research *Total return index

Commodities

The Economist **commodity-price index**

2020=100	Jul 22nd	Jul 29th*	% change on month	year
Dollar Index				
All items	133.8	132.6	1.3	4.0
Food	144.4	143.8	nil	3.3
Industrials				
All	125.1	123.4	2.5	4.7
Non-food agriculturals	125.4	126.0	2.6	-6.7
Metals	125.0	122.7	2.5	8.2
Sterling Index				
All items	127.3	127.8	4.2	0.1
Euro Index				
All items	130.4	131.5	3.5	-2.4
Gold				
$ per oz	3,428.3	3,330.0	-0.4	39.3
Brent				
$ per barrel	68.7	72.6	8.1	-7.6

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ *Provisional

Obituary

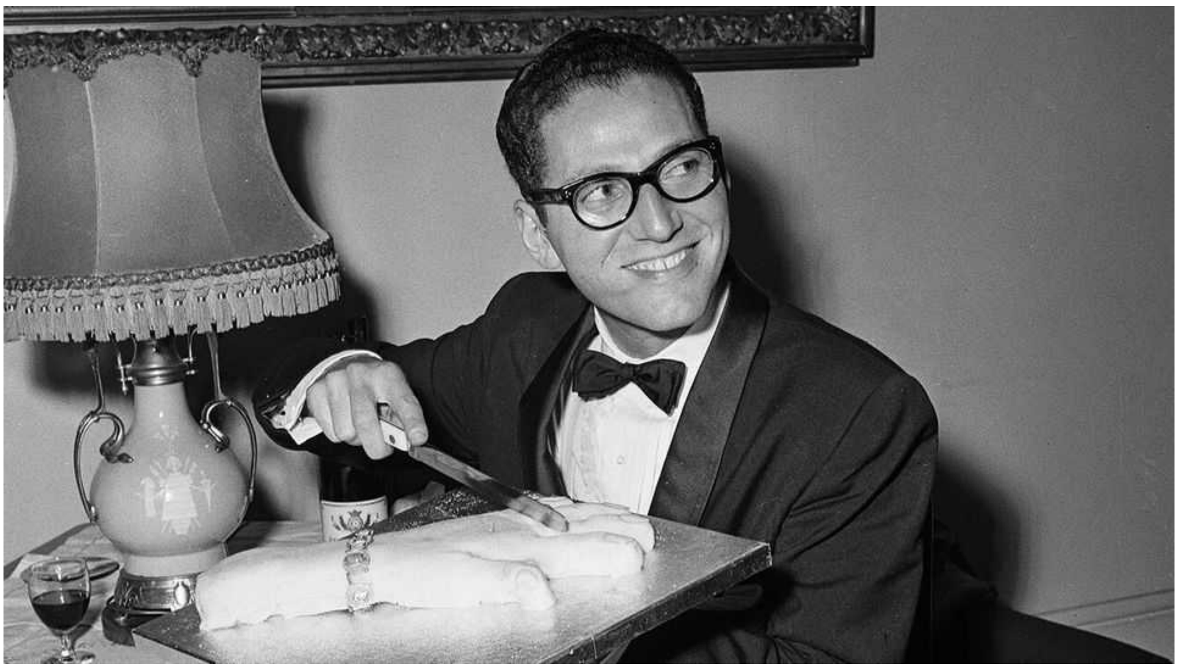
- Tom Lehrer found matter worth roasting everywhere he looked

Obituary | Time to transubstantiate!

Tom Lehrer found matter worth roasting everywhere he looked

America's best modern satirist died on July 26th, aged 97

July 31st 2025



When he suddenly stopped, and the output dropped, he was presumed dead. No, Tom Lehrer replied. Just having fun commuting between the coasts, teaching maths for a quarter of the year, ie the winter, at the University of California in sunny Santa Cruz, and spending the rest of the time in Cambridge, Massachusetts, being lazy. Never having to shovel snow; never having to see snow. And, being said to be dead, avoiding junk mail.

Yet how famous he had been in the 1950s and most of the 1960s! He had sold his entire first song collection, recorded and mailed out by himself, and about half a million of those that came afterwards. The word spread like herpes. One album reached No.18 on the Billboard chart. Oh fame! Oh accolades! He had toured the world and packed out Carnegie Hall. Yes, they really panted to see a clean-cut Harvard graduate in horn-rimmed glasses pounding at a piano and singing: sometimes stern, sometimes morose, but often joyose, as he twisted in the knife.

Anything could be his victim; nothing was sacred. In his love songs lovers told the truth, begging for agility while they still had facility, and admitting "I will hate you, when you are old and gray". Nostalgia for "My Home Town" was shredded when the son of the mayor was an arsonist and the lovely girl next door now charged a fee "for what she used to give for free". "National Brotherhood Week" was a fine idea; everyone should love their neighbour, even him, though he was Jewish ("and everybody hates the Jews"):

As for spring, everyone loved it; he did himself, dearly. Skittles and beer, sunshine, all right with the world, and he and his sweetheart walking out each Sunday, "Poisoning Pigeons in The Park".

Yet shadows fell across this pretty landscape. One was pollution, with "the halibuts and the sturgeons being wiped out by detergeons". The other was war. World War III was as vivid in the 1950s as the world war just past. He had spent a brief time at Los Alamos, "where the scenery's attractive and the air is radioactive", doing not much. In 1955-57 he was at the National Security Agency, aka No Such Agency, to do his army service, having waited til the world was calm first. It could not stay calm for long. A soldier told his mom he was off to drop the Bomb, "so don't wait up for me", but reassured her he would return "when the war is over, an hour and a half from now". The blessing of a nuclear war, however, was that everyone would burn, fry or bake together, so there would be no more grieving: "We Will All Go Together When We Go!"

And go where? Any institution that thought it knew ought to market itself in a modern way. Hence his most controversial song, "The Vatican Rag", set indeed to ragtime:

He liked it when he touched a nerve; more so when he severed a limb. His audiences did not have to applaud or agree with him, just laugh at his songs. Though he campaigned for George McGovern, he was more universalist than of the political left. But as the left splintered in the early 1960s, and as Vietnam got too serious for his songs, it was harder to write. He disliked the grammatical sloppiness of the counter-culture, and even more their air of moral superiority. “We are the folksong army, every one of us cares. We all hate poverty, war and injustice, unlike the rest of you squares.” Rather than anger, his deepest emotion was chagrin.

So he stopped, though with a flurry in the mid-1960s when he wrote songs for various TV shows. And he went back to being what he truly was, a studious mathematician let dangerously loose on a keyboard.

His childhood had been a breeze of maths and music, with a preference for Broadway shows. He entered Harvard at 15 and graduated at 18, the sort of student who brought books of logical puzzles to dinner in hall, and, on the piano in his room, liked to play Rachmaninov with his left hand in one key and his right a semitone lower, making his friends grimace. He seemed bound for a glittering mathematical career, but then the songs erupted, written for friends but spreading by word of mouth, until he was famous. He wrote each one in a trice and performed, increasingly, in night clubs. By contrast his PhD, on the concept of the mode, vaguely occupied him for 15 years before he abandoned it.

Maths still infiltrated his songs. In “New Math” he pilloried a modernised teaching system, “so very simple, that only a child can do it!” Another favourite skewered Nikolai Lobachevsky, the “inventor” of hyperbolic geometry, whose secret was “Plagiarise! Let no one else’s work evade your eyes!” Maths influenced the songs in subtler ways, too, appealing to his love of pattern, rhyming and making things fit. These too were puzzles to solve.

Did he ever have hopes of extending the frontier of scientific knowledge? Noooooo, unless you counted his Gilbert & Sullivan setting of the entire periodic table. He would rather retract it, if anything. He still taught maths, along with musical theatre, and that was his career. He had never wanted attention from people applauding his singing in the dark. His solitary, strictly private life made him happy; to fame he was indifferent. In 2020 he told everyone they could help themselves to his song rights. As for him, he returned to his puzzle books, as if he had never strayed. ■

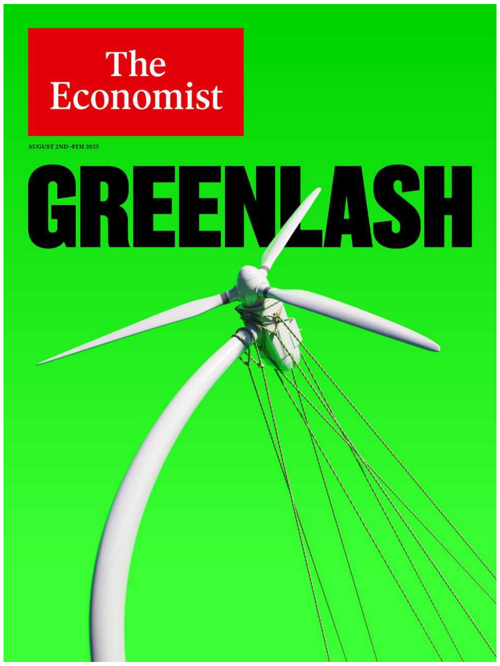

The Economist
AUGUST 2ND–8TH 2025
GREENLASH

Table of Contents