

The Economist

Biden's Asian alliance-building

America's truancy epidemic

Prigozhin's Götterdämmerung

Of India, vultures and sanitation

AUGUST 26TH-SEPTEMBER 1ST 2023

XI'S FAILING MODEL

Why he won't fix China's economy





A MAP TO THE FUTURE



The future of space exploration is full of possibility. As innovation takes off, OMEGA is aiming for a sustainable tomorrow, where the path is clear in every direction. Continuing our proud legacy beyond Earth, we're now partnering with Privateer to keep track of the debris that currently surrounds our planet. By doing this, we can look confidently ahead, and ensure that nothing stops humanity from reaching the next frontier. Scan the code to learn more about the project.



PRIVAT EER

Ω
OMEGA



On the cover

China's economy is suffering because an increasingly autocratic government is making bad decisions: leader, page 9. Why economic remedies are politically unpalatable, page 58. What China's troubles mean for the rest of the world, page 61

Biden's Asian alliance-building
America's president is transforming his country's relationships in Asia: leader, page 11. Australia is America's new launch-pad. Some Australians are worried, page 27

America's truancy epidemic
Covid-19 has faded, but American children are still missing far too much school, page 19

Prigozhin's Götterdämmerung
A healthy country uses justice to restore order. Mr Putin uses violence instead, page 10. The Wagner boss's death shows today's Russia for what it is: a mafia state, page 39

Of India, vultures and sanitation The sudden demise of Indian vultures killed thousands of people: Graphic detail, page 77. Bindeshwar Pathak, social reformer and champion of proper toilets in India: obituary, page 78

→ The digital element of your subscription means that you can search our archive, read all of our daily journalism and listen to audio versions of our stories. Visit economist.com

The world this week

- 6 A summary of political and business news

Leaders

- 9 **Chinese growth**
Xi's broken model

- 10 **Yevgeny Prigozhin**
Götterdämmerung

- 10 **Extreme weather**
Fair warning

- 11 **Global alliances**
Mateship reinvented

- 12 **Thailand**
Thaksin's true colours

Letters

- 14 On trafficking children, electric cars, liberal values, narrow banking, Warren Buffett, Saudi customs

Briefing

- 16 **El Niño**
A problem child

United States

- 19 School attendance
20 Migrants in New York
21 The return of leprosy
21 Tram, a flesh-rotting drug
22 Throng of praise
23 Lexington Republicans debate



The Americas

- 24 Tax havens in trouble
26 A win for democracy



Asia

- 27 US-Australia relations
28 A new Thai government
29 Japan's porn industry
30 **Banyan** Trashing Muhammad Yunus



China

- 31 The decline of Mandarin
32 Biden mulls an old deal
33 Village football
34 **Chaguan** The lessons from Hong Kong



Middle East & Africa

- 35 Zimbabwe's election
36 Vox pops on Niger
37 Lebanon's tourism boom
37 Rehabilitating Iraqi jihadists
38 Palestinian wine-making



Free exchange Noah's Ark, round two. What if the boat-builder was an economist? Some biblical lessons for today's conservationists, page 65



► Contents continues overleaf

Europe

- 39** A jet falls in Russia
40 Ukraine's sour mood
41 Spain's many languages
41 Belgrade graffiti fight
42 Italian populism
44 Charlemagne Italian beaches

**Britain**

- 45** The low-wage economy
46 The British Museum
47 Bagehot "Cozzie lives"

**International**

- 49** Reassessing Obama's red line in Syria

**Business**

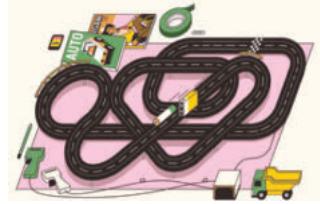
- 51** Corporate disruption
53 Arm's listing plans
53 The IPO revival
54 Tourism in Europe
55 America's steelmakers
56 Bartleby Mentoring
57 Schumpeter The Supreme Court and business

**Finance & economics**

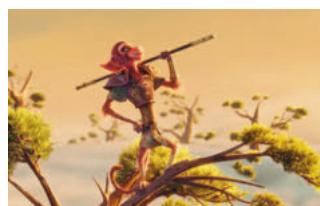
- 58** China's economic mess
61 China and the world
62 American growth
63 Goldman Sachs
64 Argentina's perma-crisis
65 Free exchange Noah's Ark

**Science & technology**

- 67** The race to build a superbattery

**Culture**

- 70** China's Monkey King
71 Four female philosophers
72 Ukrainian culture
73 America's top song
73 Africa's biggest fraudster
74 Back Story The casting wars

**Economic & financial indicators**

- 76** Statistics on 42 economies

Graphic detail

- 77** Why the death of Indian vultures killed thousands of people

Obituary

- 78** Bindeshwar Pathak, India's Toilet Man

The
Economist

Volume 448 Number 9360

Published since September 1843
 to take part in "a severe contest between
*intelligence, which presses forward,
 and an unworthy, timid ignorance
 obstructing our progress."*

Editorial offices in London and also:
 Amsterdam, Beijing, Berlin, Brussels, Chicago,
 Dakar, Dallas, Dubai, Johannesburg, Madrid,
 Mexico City, Moscow, Mumbai, New Delhi, New
 York, Paris, San Francisco, São Paulo, Seoul,
 Shanghai, Singapore, Tokyo, Washington DC

Subscription service

For our full range of subscription offers, including
 digital only or print and digital bundled, visit:
Economist.com/offers

If you are experiencing problems when trying to
 subscribe, please visit our Help pages at:
www.economist.com/help
 for troubleshooting advice.

To manage your account online, please visit
my.economist.com where you can also access our
 live chat service which is available 24/7. To call us,
 contact our dedicated service centre on:

North America: +1 888 815 0215
 Latin America & Mexico: +1 646 248 5983

**PEFC certified**

This copy of *The Economist*
 is printed on paper sourced
 from sustainably managed
 forests certified by PEFC
www.pefc.org

SAMSUNG



98" Neo QLED 8K | QLED
Supersize your Wow



Yevgeny Prigozhin, the leader of the Wagner Group of Russian-backed mercenaries, was presumed to have been killed when a private plane he was travelling in crashed north of Moscow. Two months ago Mr Prigozhin led a rebellion of his men, resulting in a short “march on Moscow” and skirmishes with Russian troops, because he was unhappy with the direction of the war in Ukraine. Vladimir Putin called him a traitor; it was said to be only a matter of time before the Russian president would exact his revenge.

The Biden administration gave approval for Denmark and the Netherlands to send **F-16s to Ukraine**, the first time America has allowed the transfer of the American-made fighter aircraft after months of entreaties from Kyiv. The jets will not be deployed for some time, as Ukrainian pilots need training to fly them.

President Volodymyr Zelensky said his country will use the jets “to keep Russian terrorists away from Ukrainian cities and villages”. His comments came after a Russian missile attack on a theatre in **Chernihiv**, a city in northern Ukraine, killed seven people and injured 144 others. Meanwhile Ukraine carried out more drone attacks on Russia.

Around half a million **Russian and Ukrainian troops** are now thought to have been killed or injured since the war in Ukraine began in February last year, according to American officials cited in the American press. The numbers have soared since last November, when America estimated that each side had suffered 100,000

dead or wounded. Now 120,000 Russian soldiers are believed to have died as well as 70,000 Ukrainian ones.

America, Britain and France condemned an assault on UN peacekeepers in the buffer zone that divides the Turkish-occupied north of **Cyprus** from the Greek-Cypriot south. Turkish-Cypriots injured three peacekeepers who had been trying to stop the unauthorised construction of a road and used bulldozers to smash UN vehicles.

The bodies of 18 suspected illegal migrants were found in a building scorched by **wildfires** in northern Greece, close to the Turkish border.

Thaksin times

Srettha Thavisin became **Thailand's** new prime minister. Mr Srettha comes from the populist Pheu Thai party, which came second in May's election. The candidate of the winning party, Move Forward, was prevented from getting the job by the conservative establishment. Mr Srettha's elevation was made possible by a deal with the army that allowed **Thaksin Shinawatra**, who was ousted as prime minister in a coup in 2006 and is connected with Pheu Thai, to return from exile. Mr Thaksin was promptly jailed for corruption, but is expected to be released soon. The day after being imprisoned he was sent to a hospital.

The prime minister of **Japan**, Kishida Fumio, and the president of **South Korea**, Yoon Suk-yeol, joined Joe Biden for a summit at Camp David. The three allies agreed to strengthen their security ties, such as by holding military exercises once a year. In a statement they condemned China's “dangerous and aggressive behaviour” in the South China Sea.

The new rapprochement between Japan and South Korea is being tested by Japan's decision to release treated radioactive water from the damaged

Fukushima nuclear plant into the sea. Japan's closest neighbours think it will harm fish, though the UN nuclear watchdog says it is safe. China has banned all Japanese seafood.

The UN mission in **Afghanistan** said that 218 officials from the armed forces, police and former government had been killed since the Taliban regained power in 2021.

The Republican presidential candidates held their first primary debate. Eight candidates took part, but not **Donald Trump**, who says he won't attend any of the party's debates because the “public knows who I am”. Mr Trump may also have been too busy preparing to surrender to the authorities in Atlanta on charges that he tried to overturn the presidential-election result in Georgia in 2020.

Bernardo Arévalo, a reformer who ran on an anti-corruption platform, won **Guatemala's** presidential election with a landslide, taking 61% of the vote. Mr Arévalo, the son of the country's first democratically elected president, presented himself as an outsider to the political elite.

In **Ecuador** the presidential election will now head to a run-off in October. The two candidates who will compete are Luisa González, a protégée of Rafael Correa, a former left-wing populist president, and Daniel Noboa, a 35-year-old who was polling in single digits shortly before the vote.

Unholy orders

Nicaragua's dictator, Daniel Ortega, intensified his crackdown on the Catholic church by seizing Central American University (UCA), a Jesuit-run college, and, a few days later, evicting six Jesuits from their residence in Managua, the capital. The church has drawn the regime's ire for criticising Mr Ortega's increasing political repression. Last year he imprisoned a prominent bishop on charges of treason.

The **BRICS** group of countries (Brazil, Russia, India, China and South Africa) invited six new nations to join them, including Iran and Saudi Arabia. Vladimir Putin did not attend the group's meeting in Johannesburg, South Africa's commercial capital, as he risked being arrested there under a warrant of the International Criminal Court. But he sent a message saying Russia was ready to pick up the slack from Ukraine as a global supplier of grain.

The African Union called on its members to refrain from any action that could legitimise the military junta which took power in **Niger** last month. The Economic Community of West African States rejected a proposal by the coup leaders to relinquish power in three years.

Zimbabwe held presidential and parliamentary elections amid fears that the result would once again be rigged in favour of President Emmerson Mnangagwa and the ruling Zanu-PF that has run the country since independence in 1980. The main challenger is Nelson Chamisa and his Citizens Coalition for Change.



India became the fourth country to carry out a landing on **the Moon**, and the first to land near its south pole. The Chandrayaan-3 mission landed a rover which will gather data from the lunar surface and try to establish whether craters in the area hold frozen water. India's success came a few days after a Russian spacecraft, Russia's first Moon mission in 47 years, crashed as it prepared to land.

Arm published a prospectus for its blockbuster IPO on the Nasdaq exchange next month. SoftBank, a Japanese tech conglomerate, bought the British chip designer in 2016 for \$3bn. It is expected to be worth between \$60bn and \$70bn when it makes its Nasdaq debut. Arm's chip architecture is used in 99% of the world's smartphones. Although that market has slowed, tech titans such as Amazon, Apple and Nvidia are reportedly interested in taking big stakes in the company.

Chips with everything

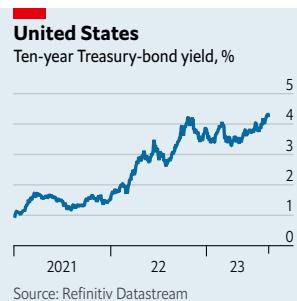
The superlatives came thick and fast when **Nvidia** released quarterly earnings. Revenue more than doubled at the maker of chips for AI, year on year, to \$13.5bn. Perhaps that is no surprise, given that just one of Nvidia's H100 chips can cost upwards of \$40,000. It is delighting investors by buying back \$25bn-worth of stock.

Britain's Competition and Markets Authority cleared **Broadcom's** proposed \$69bn takeover of **VMware**, a month after regulators in the EU gave their approval. America's Federal Trade Commission is still scrutinising the deal, which was announced 15 months ago. Separately, **Microsoft** submitted a restructured proposal for its takeover of **Activision Blizzard** to the CMA in the hope of getting the regulator's blessing, after it said it would block the deal.

Meta rolled out a web version of its **Threads** social-media platform. Threads was launched as an alternative to Twitter (now X) last month. Over 100m people signed up to the app in the first few days, but since that initial hullabaloo the number of active daily users has reportedly plummeted, to below 10m. It is still not available in the EU, probably because of the region's tough regulations on data privacy.

Markets reacted positively to **Zoom's** latest quarterly earnings, as it raised its forecast for

the full year. The video-conferencing company has been struggling to adapt to the end of the pandemic, when remote working caused its business to soar, though it is expanding its range of services through the use of artificial intelligence and has invested in Anthropic, an AI startup founded by former employees of OpenAI.



Investors eagerly awaited a speech by Jerome Powell, the chairman of the Federal Reserve, at the Jackson Hole symposium for clues about the future direction of interest rates. The yield on American ten-year **government bonds** hit a 16-year high, as markets continued to bet that favourable economic conditions will allow the Fed to keep rates around their current level.

China's central bank disappointed markets when it cut a key interest rate by a smaller

amount than had been expected. The People's Bank of China reduced the one-year loan prime rate by just a tenth of one percentage point and left the five-year rate unchanged. That led investors to surmise that the government is more interested in protecting bank profits than in stimulating the economy. A package of reforms from the country's securities regulator, such as extending market-trading hours, also failed to inspire.

Underlying profit at **BHP** for the 12 months ending June 30th fell to \$13.4bn, the lowest in three years. The mining company said that conditions in the iron-ore market for the rest of the year would depend in part on "how effectively China's stimulus policy is implemented".

China's economic woes are in part the result of an increasingly unstable property industry. Now **Evergrande**, a big developer which rattled markets two years ago when it defaulted on its debt, has filed for bankruptcy protection in New York to protect it from creditors in America. The company has over \$300bn in liabilities, a fraction of which is held by foreign investors. The news comes as fears

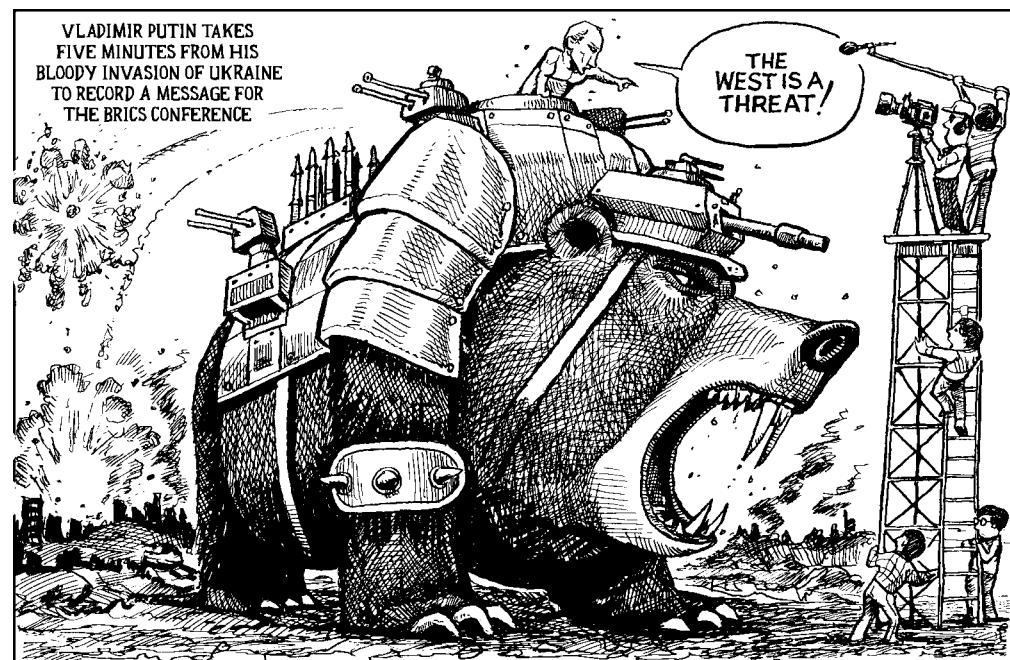
mount that Country Garden, another huge developer, is heading towards a default.

Mukesh Ambani seemed to have made a rare misstep when the IPO of his **Jio Financial Services** flopped on the Mumbai exchange. JFS was spun out of the Indian tycoon's Reliance Industries, and is the first demerger of a Reliance business in 20 years. But investors are not sure that it can compete against bigger, established non-banking financial companies.

Subway was rumoured to be on the verge of being sold to a private-equity firm for around \$10bn. The sandwich chain has been owned by its two founding families since 1965.

Will it work?

WeWork announced a stock swap of 40 of its existing shares for one new one in an attempt to lift its share price above \$1, the floor for listing on the New York Stock Exchange. The provider of shared working spaces has warned about its ability to continue as a going concern. Its stock dropped below \$1 in March and is now worth around 12 cents. The post-split shares will start trading on September 5th.



#ModernMBA



MAKE YOUR MOONSHOT

LESS OF A LONG SHOT

It's Time for the Business School of the Future
Network driven. Mobile first. Innovative tuition model.
Educating the next generation of business leaders.
Do you have what it takes?
[Apply now at quantic.edu](http://quantic.edu)

Selective Admission / Accredited / MBA and Executive MBA



Xi's failing model

China's economy is suffering because an increasingly autocratic government is making bad decisions

WHATEVER HAS gone wrong? After China rejoined the world economy in 1978, it became the most spectacular growth story in history. Farm reform, industrialisation and rising incomes lifted nearly 800m people out of extreme poverty. Having produced just a tenth as much as America in 1980, China's economy is now about three-quarters the size. Yet instead of roaring back after the government abandoned its "zero-covid" policy at the end of 2022, it is lurching from one ditch to the next.

The economy grew at an annualised rate of just 3.2% in the second quarter, a disappointment that looks even worse given that, by one prominent estimate, America's may be growing at almost 6%. House prices have fallen and property developers, who tend to sell houses before they are built, have hit the wall, scaring off buyers. Consumer spending, business investment and exports have all fallen short. And whereas much of the world battles inflation that is too high, China is suffering from the opposite problem: consumer prices fell in the year to July. Some analysts warn that China may enter a deflationary trap like Japan's in the 1990s (see Finance & economics section).

Yet in some ways Japanification is too mild a diagnosis of China's ills. A chronic shortfall in growth would be worse in China because its people are poorer. Japan's living standards were about 60% of America's by 1990; China's today are less than 20%. And, unlike Japan, China is also suffering from something more profound than weak demand and heavy debt. Many of its challenges stem from broader failures of its economic policymaking—which are getting worse as President Xi Jinping centralises power.

A decade or so ago China's technocrats were seen almost as savants. First they presided over an economic marvel. Then China was the only big economy to respond to the global financial crisis of 2007-09 with sufficient stimulatory force—some commentators went as far as to say that China had saved the world economy. In the 2010s, every time the economy wobbled, officials defied predictions of calamity by cheapening credit, building infrastructure or stimulating the property market.

During each episode, however, public and private debts mounted. So did doubts about the sustainability of the housing boom and whether new infrastructure was really needed. Today policymakers are in a bind. Wisely, they do not want more white elephants or to reflate the property bubble. Nor can they do enough of the more desirable kinds of stimulus, such as pension spending and handouts to poor households to boost consumption, because Mr Xi has disavowed "welfarism" and the government seeks an official deficit of only 3% of GDP.

As a result, the response to the slowdown has been lacklustre. Policymakers are not even willing to cut interest rates much. On August 21st they disappointed investors with an underwhelming cut of 0.1 percentage points in the one-year lending rate.

This feeble response to tumbling growth and inflation is the latest in a series of policy errors. China's foreign-policy swagger and its mercantilist industrial policy have aggravated an economic conflict with America. At home it has failed to deal ade-

quately with incentives to speculate on housing and a system in which developers have such huge obligations that they are systemically important. Starting in 2020 regulators tanked markets by cracking down on successful consumer-technology firms that were deemed too unruly and monopolistic. During the pandemic, officials bought time with lockdowns but failed to use it to vaccinate enough people for a controlled exit, and then were overwhelmed by the highly contagious Omicron variant.

Why does the government keep making mistakes? One reason is that short-term growth is no longer the priority of the Chinese Communist Party (CCP). The signs are that Mr Xi believes China must prepare for sustained economic and, potentially, military conflict with America. Today, therefore, he emphasises China's pursuit of national greatness, security and resilience. He is willing to make material sacrifices to achieve those goals, and to the extent he wants growth, it must be "high quality".

Yet even by Mr Xi's criteria, the CCP's decisions are flawed. The collapse of the zero-covid policy undermined Mr Xi's prestige. The attack on tech firms has scared off entrepreneurs. Should China fall into persistent deflation because the authorities refuse to boost consumption, debts will rise in real value and weigh more heavily on the economy. Above all, unless the CCP continues to raise living standards, it will weaken its grip on power and limit its ability to match America.

Mounting policy failures therefore look less like a new, self-sacrificing focus on national security, than plain bad decision-making. They have coincided with Mr Xi's centralisation of power and his replacement of technocrats with loyalists in top jobs. China used to tolerate debate about its economy, but today it cajoles analysts into fake optimism. Recently it has stopped publishing unflattering data on youth unemployment and consumer confidence. The top ranks of government still contain plenty of talent, but it is naive to expect a bureaucracy to produce rational analysis or inventive ideas when the message from the top is that loyalty matters above all. Instead, decisions are increasingly governed by an ideology that fuses a left-wing suspicion of rich entrepreneurs with a right-wing reluctance to hand money to the idle poor.

The fact that China's problems start at the top means they will persist. They may even worsen, as clumsy policymakers confront the economy's mounting challenges. The population is ageing rapidly. America is increasingly hostile, and is trying to choke the parts of China's economy, like chipmaking, that it sees as strategically significant. The more China catches up with America, the harder the gap will be to close further, because centralised economies are better at emulation than at innovation.

Liberals' predictions about China have often betrayed wishful thinking. In the 2000s Western leaders mistakenly believed that trade, markets and growth would boost democracy and individual liberty. But China is now testing the reverse relationship: whether more autocracy damages the economy. The evidence is mounting that it does—and that after four decades of fast growth China is entering a period of disappointment. ■



Benighted Russia

Prigozhin's Götterdämmerung

A healthy country uses justice to restore order. Mr Putin uses violence instead

AS WE PUBLISHED this editorial, it was not certain that Yevgeny Prigozhin's private jet was shot down by Russian air-defences, or that the mutineer and mercenary boss was on board. But everyone believes that it was and that his death was a punishment of spectacular ruthlessness ordered by Russia's president, Vladimir Putin. And that is the way Mr Putin likes it.

If Mr Prigozhin is confirmed dead, Mr Putin will emerge stronger (see Europe section). For the moment at least, he will have seen off the biggest immediate threat to his 23-year rule. But the death also exposes the growing weakness of the system he created. Mr Putin has pretensions to being the tsar of a great power, but in reality his rotting empire runs as never before on lies, bribery and repression. And, as this killing shows, Russia's ultimate authority is terror.

Mr Prigozhin's Embraer jet came down in the Tver region north-west of Moscow on August 23rd. He and other commanders of the Wagner mercenary group were listed among the ten passengers on the flight manifest. Mr Prigozhin was a violent man. He grew rich from working in the kleptocracy that surrounded Mr Putin. He recruited convicts from Russia's jails to fight in Ukraine and sent them to their deaths. His men are accused of crimes against humanity, especially in Africa, where Wagner makes much of its money.

None of that appeared to bother Mr Putin who, on the contrary, rewarded Mr Prigozhin with new business and extra responsibilities. But everything changed in June when, as a protest at the prospect of his men being absorbed into the regular army, he marched Wagner troops to within 200km of Moscow. Lacking the foresight to prevent the mutiny or the strength to crush it, Mr Putin was humiliated. So he cut a deal and Mr Prigozhin called off the mutiny.

The downing of the jet suggests that Mr Putin has reneged—and emerged on top. The wonder is that Mr Prigozhin did not see



it coming. For as long as the Wagner boss was alive, he remained a source of instability. His death and Mr Putin's apparent disregard for everyone else on the aircraft serve as a public example to any other would-be tsars of where treachery leads in the mafia world that the Kremlin has built.

The elimination of Mr Prigozhin will also strengthen Mr Putin's control over Russia's army, which conspicuously failed to stop the mutineers in June. It is surely no coincidence that on the same day the plane came down, General Sergei Surovikin, who was suspected of supporting Wagner's mutiny in June, was formally sacked. Meanwhile, Valery Gerasimov, the chief of the general staff, and Sergei Shoigu, the minister of defence, two Putin loyalists who were the butt of Mr Prigozhin's scorn for their graft and incompetence, remain in office.

Wagner forces may grumble. Some are in Belarus, where the despot Alexander Lukashenko will be looking over his shoulder. There is talk of a second march on Moscow, but Wagnerites are more likely to choose wealth and self-preservation than loyalty to a dead commander. Meanwhile, Russia's positions in Africa are cemented by corruption, not principle.

For all that, Mr Prigozhin's death marks the further decay of the Russian state. Mr Putin is a supreme example of why never-ending one-man rule is so ruinous. The more power is concentrated, the more Mr Putin and his obsessions, whims and resentments become the face of Russia itself.

The killing of Mr Prigozhin extends that dismal pattern. After mutinies challenge the state's monopoly of the use of force, a healthy country restores order using the justice system. Mr Putin prefers ostentatious violence instead. Yet this will not restore order so much as reimpose the balance of terror. It further distances Russia from the rule of law and the institutions that every modern country depends on for competent and steady government. It leaves Russia in a miserable state. ■

Extreme weather

Fair warning

El Niño will bring chaotic weather to large parts of the world. The time to prepare is now

CALIFORNIA RARELY sees the types of hurricanes and storms that routinely pummel Florida, Louisiana and Texas. But on August 20th tropical storm Hilary slammed into it from the south. Unprecedented amounts of rain pelted downtown Los Angeles and flooded the state's arid valleys. Without missing a beat, forecasts then shifted from drenching to baking, as a heat dome fastened itself over much of the southern United States all the way up to the Great Lakes.

Barely a day has gone by this summer without news of some extreme weather somewhere in the world. Although weather is always breaking records, that raises fears of what it will be like

when the climate warms further. To add to the alarm, America's National Oceanographic and Atmospheric Administration announced the arrival of El Niño, a climate pattern that shows up every two to seven years and raises global temperatures.

As a consequence, there is a good chance that this will be the hottest year on record; and that 2024 will be hotter still, with temperatures approaching 1.4°C above pre-industrial levels. Some tropical regions will suffer damaging floods, and others will suffer droughts, with worrying consequences for food supplies and the spread of disease. As with climate change itself, the time to prepare for the coming upheaval of El Niño is now. ►

► On current forecasts, this El Niño is likely to be a strong one. The last such cycle was in 2014-16, and was ruinous in the countries it hit hardest. Droughts led South African food production to fall to a 20-year low and ignited one of Indonesia's worst-ever spates of wildfires. At the same time warmer and wetter weather fuelled disease across South America, including the worst outbreak of infections from the Zika virus in 65 years.

One reason the effects of this El Niño are likely to be severe is that they will be felt on top of more global warming. Although it is only just getting going—El Niños are named after the Baby Jesus because they tend to peak around Christmas—it has already contributed to the closure of the world's largest fishery, as anchovies have fled the coastal waters of Peru. It has also rocked the global rice market, as India has pre-emptively banned most exports of its crop.

Humanitarian agencies have warned about the threats to food security and sanitation and from outbreaks of disease including malaria, dengue and cholera in large parts of Africa and South America. South-East Asia is likely to see excessively hot and dry weather. Widespread fires in Indonesia could affect air quality across Asia.

Frightening as these dangers are, it is possible to prepare for some of them before they strike. Helpfully, El Niños offer some predictability. No two are exactly the same, but their cyclical nature reveals patterns of hot and dry and excessively wet weather. Seasonal forecasts are much more reliable than they were in 2014-16. These can help steer funds in order to improve water infrastructure pre-emptively, for example, or to reinforce buildings in regions likely to be hit by storms—rather than after disas-



ter has struck. By wisely building resilience before an El Niño, you can minimise the damage and hence the spending on emergency help and repairs.

Some aid agencies are indeed using better forecasts to start planning ahead. The International Federation of the Red Cross and Red Crescent, for instance, now runs anticipatory programmes in 17 countries, and aims for a quarter of its disaster-relief funding to be spent in advance by 2025. The World Health Organisation has begun working with the World Meteorological Organisation so that it can successfully predict where best to allocate medical supplies and personnel.

This is just a tiny fraction of the aid that is needed. Only 1% of disaster funding raised through UN appeals between 2014 and 2017 was allocated in advance, despite one in five events being highly predictable. Natural disasters were estimated to have affected 185m people worldwide last year, but fewer than 4m were helped through anticipatory measures.

The trouble is that many of the countries which will bear the brunt of the effects of El Niño are still reeling from previous disasters. Some of those are linked to past episodes of extreme droughts and floods, others to the lingering effects of covid-19 and the spike in food prices caused by the war in Ukraine. It is a reminder of the difficulties of dealing with climate change: stresses come thick and fast without giving governments and societies enough time to recover. Yet that only strengthens the case for helping countries that cannot afford to pay for their own preparations. Whoever foots the bill, it is a false economy to skimp on spending today when there is a known chance of disaster tomorrow. ■

Global alliances

Mateship reinvented

Joe Biden is transforming America's alliances in Asia

THE RIVALRY between great powers involves much jostling over alliances. What does this mean in practice and who is winning? The past month has provided a chance to examine two competing alliance-building efforts. One is the push, led by China, to create a bloc of emerging economies that acts as a counterweight to the West. This was the aim of the BRICS summit held this week in Johannesburg, attended by Narendra Modi and Xi Jinping, the leaders of India and China. The other is America's strengthening of its defence network in the Pacific (see Asia section). Of the two efforts, America's is more convincing.

The gathering of the BRICS brought together Brazil, Russia, India, China and South Africa. The stated goals were to expand the club's membership and deepen its capabilities in areas such as development lending and financial payments. The event showed a widespread appetite for a less Western world order: six countries were invited to join the BRICS starting in January 2024, including Argentina, Iran and Saudi Arabia. But it also showed how such a disparate group will struggle to be effective.

If the aim is to project common values, it hardly helped that Vladimir Putin had to address the summit by video-link—for fear that the South African hosts would have to enforce a global arrest warrant against him for war crimes. As the group expands,

tensions may rise: India fears its influence will be diluted, giving more sway to China. Defence co-operation is probably out of the question. The effort to create a common financial infrastructure (let alone share a currency) looks too ambitious for countries with very different economies and politics. Rather than a body capable of acting widely and consistently in a coordinated way, building global norms and institutions, the BRICS may end up with a significant but more limited role. Its members may cooperate on narrow issues where they agree, such as rich countries' obligations in the energy transition, and sometimes act together to attack or try to block Western-led initiatives.

Contrast that with America's alliance-building. The war in Ukraine has reinvigorated NATO, which has expanded its membership to include Finland and probably Sweden. President Joe Biden has also been working in Asia to counter China. On August 18th he hosted a summit at Camp David with the leaders of Japan and South Korea who, putting aside their old bitterness, agreed to intensify ballistic-missile co-operation and establish a military hotline. Earlier Mr Biden struck deals to let America use more military bases in the Philippines and Papua New Guinea.

Meanwhile, the "unbreakable" defence relationship with Australia is deepening, following the AUKUS agreement struck ►

► in March, amid a flurry of equipment deals and military exercises. Should war break out with China, the Aussies seem the most willing to fight at America's side. Australian land, sea and air bases are expanding to receive more American forces. Under the AUKUS deal, Australia is gaining its own long-range weapons, such as nuclear-powered (but not nuclear-armed) submarines to be developed jointly with America and Britain. The three partners want to work on other military technologies, from hypersonic missiles to underwater drones.

Taken together the "latticework" of security agreements, shows how America's long-heralded pivot to Asia is accelerating. Mr Biden is proving that America and its allies can deter China (and Russia). More could be done. Congress should agree to sell Virginia-class submarines to Australia in the 2030s as a step to acquiring the AUKUS subs in the 2040s, and to expand submarine-building capacity. It should waive fiddly restrictions, such as the International Traffic in Arms Regulations (ITAR), to make the partners' defence co-operation seamless.

These plans still have weaknesses. Mr Biden's protectionism prevents America from offering an economic counterweight to China, the largest trading partner for most Asian economies. He shows no sign of joining CPTPP, a trade pact whose precursor was negotiated by Barack Obama and ditched by Donald Trump. While China complains about an "Asian NATO", there is no mutual commitment by America and its Asian allies to defend each other, let alone go to war over Taiwan. Australia's government, if it is to sustain bipartisan public support, must also be more candid about the costs of the alliance.

Last, if Mr Trump becomes president in 2024, Mr Biden's rejuvenation of America's security alliances could yet be undone. All the more reason for America and its allies to keep advancing at speed. The more they can lock into place, and the more Congress can demonstrate that the vision for Asian security is bipartisan, the better for all. The past month shows that America's network of friendships and alliances is alive and kicking, and that creating competing alternatives will be hard. ■

Thailand's new government

Thaksin Shinawatra shows his true colours

A grubby political compromise with the army has enraged Thai voters

ON THE FACE of it, the deal struck this week between Thailand's military establishment and its second-biggest party, Pheu Thai, represents progress. The new coalition will end nine years of military-dominated government in South-East Asia's oldest democracy. Under the influence of Pheu Thai's de facto leader, Thaksin Shinawatra, a populist tycoon and former prime minister who returned this week from a long exile, the new government should be less incompetent than its army-run predecessor. Democratically, too, Pheu Thai seems an improvement, having come a close second in the general election in May.

But that would be to gloss what has really happened. The deal is not a win for Thai democracy so much as for the monarcho-military elite's latest effort to stifle it. The elite is out to foil the election's actual winner, a reformist party called Move Forward which is popular because it promises to break their grip on power. In helping to sabotage Move Forward, by doing a deal with the army establishment that his party had promised to shun, Mr Thaksin has revealed that he is no friend of Thai democracy but rather an instrument of the status quo.

The details are damning (see Asia section). In return for betraying Move Forward—once its comrade in the fight to restore democracy—Pheu Thai could at least have minimised the establishment's hand in its new coalition. It appears instead to have used up its leverage on securing Mr Thaksin's return. He has been arrested and jailed on long-standing corruption charges, but is expected to receive a royal pardon shortly. His party will go into government with some of the establishment's most unapologetic stooges—cheerleaders for the coups that ended Mr Thaksin's government in 2006 and his sister's in 2014. Meanwhile, even as Mr Thaksin awaits release from jail, Thailand's rightful next leader, Move Forward's Pita Limjaroenrat, could face imprisonment on trumped-up charges.

In the short term, Mr Thaksin's dealmaking should bring sta-

bility to an economy that has fared miserably under military rule. As recently as 2005 to 2009, Thailand's economy, the second-biggest in South-East Asia, enjoyed the highest foreign direct investment of any of its regional peers, reflecting Thailand's status as a manufacturing hub, particularly of electronics and vehicle parts. But over the past five years investment inflows have lagged behind those of neighbours such as Indonesia and Vietnam. Under the premiership of Pheu Thai's Srettha Thavisin, another mogul with a populist touch, the new government should improve on that dire record. It will also have a strong incentive to maintain its disparate 11-party coalition—though not one that Thaksinists should find reassuring. If the government founders, new elections will be held in which Move Forward could do even better than in May.

That reflects the depth of Thais' unhappiness with the establishment politics that Mr Thaksin is helping perpetuate. Launched by liberal activists only three years ago, Move Forward did surprisingly well across the country, including in Pheu Thai's rural strongholds. If it had Thailand's best interests at heart, the Thaksin party would take on some of Move Forward's liberal reforms, including trustbusting and scrapping the country's absurd *lèse-majesté* laws. But that is not likely for a government cobbled together to stave off change.

Thailand's best longer-term hope is that the reformist forces Move Forward has unleashed become too powerful to deny. In a way, Mr Thaksin has made this likelier. His grubby compromise has enraged pro-democracy activists, leading to rowdy protests outside Pheu Thai's headquarters. Move Forward's leaders must now do their part, by striving to ensure the opposition remains peaceful and united. They have already performed wonders, inspiring Thais with the promise of a better future. If they can hold together, despite the establishment's provocations, they will probably be able to honour that promise in the end. ■



We put our clients



Our clients rated us “#1 in Investor Satisfaction with Full-Service Wealth Management Firms” in the J.D. Power 2023 U.S. Full-Service Investor Satisfaction Study. Our approach to wealth management means personalized guidance to help you navigate complex needs and 24/7 access to live support with experienced representatives. All with the low costs and transparent pricing you expect from Schwab. And a Satisfaction Guarantee to back it up.



[Schwab.com/wealthmanagement](https://www.schwab.com/wealthmanagement)

charles
SCHWAB

Own your tomorrow.

Charles Schwab received the highest score in the J.D. Power 2023 U.S. Full-Service Investor Satisfaction Study, which measures investor satisfaction with full-service investment firms. Visit jdpower.com/awards for more details. The J.D. Power 2023 U.S. Full-Service Investor Satisfaction Study is independently conducted, and the participating firms do not pay to participate. Use of study results in promotional materials is subject to a license fee.

If you are not completely satisfied for any reason, at your request Charles Schwab & Co., Inc. (“Schwab”) or Charles Schwab Bank, SSB (“Schwab Bank”), as applicable, will refund any eligible fee related to your concern. Refund requests must be received within 90 days of the date the fee was charged. Schwab reserves the right to change or terminate the guarantee at any time. Go to schwab.com/satisfaction to learn what's included and how it works.

Asset minimums apply to work with a dedicated investment consultant.

© 2023 Charles Schwab & Co. All rights reserved. Member SIPC. (0523-35MM) ADP121110-00

Child victims of trafficking

The notion that "Sound of Freedom", a film about an anti-sex-trafficking activist, is not realistic because the children depicted in it are too young is wrong, skewed and disappointing ("The sound of free cashflow", August 12th). As the human-rights advocate who broke open the Jeffrey Epstein child sex-trafficking case and risked my life in Mexico, Florida and elsewhere, I can assure you that children younger than the child actress depicted in the film are abducted, exploited and sold for sex, labour and organ-harvesting on a daily basis.

A case in point was a field assignment I reported for the *Financial Times* in 2014 during the fiasco surrounding the Deferred Action for Childhood Arrivals programme. In this case, hundreds of Central American children as young as nine were potential victims of the human-trafficking cartels working in Calexico and Imperial, towns in California. Had it not been for the extraordinary work of several Border Patrol and Immigration and Customs Enforcement officials, many of these children would have been trafficked for sex in the United States.

As it stands the Mexican and Colombian cartels work closely with the US-based cartel, MS13, to traffic children from Central and South America to the United States. "Sound of Freedom" has only skimmed the surface, and it misguidedly identifies the problem as being mostly outside the jurisdiction of the United States. The real problem lies inside the United States, which is where the largest percentage of the world's paedophiles live and operate child-porn networks, and where traffickers make huge profits from abducting and selling children for sex.

The focus of your article should have been how law-enforcement officials need to stop this evil and lucrative crime against our children.

CONCHITA SARNOFF
Washington, DC

Sizing up electric cars

The argument that slimmer cars are more virtuous than obese vehicles is irrelevant to the transition to electric vehicles (Schumpeter, August 12th). To win over consumers, EVs must outshine their gas-guzzling counterparts in all aspects: emissions, life-cycle cost, performance, range, availability of charging points and the all-important vroom factor. Simply hoping that Hummer enthusiasts will switch to electric Minis is wishful thinking. They are more likely to be swayed by an even more badass yet cleaner electric Hummer.

Schumpeter's concern that bigger batteries increase EV prices overlooks the historical trend of industries often seeing costs come down as they innovate and scale up. Market imbalances in battery metals may indeed lead to short-term increases in prices, but this will encourage more investments in new chemistries and capacity build-up, further supporting the long price-reduction trend.

Furthermore, the opportunity to charge EVs during low demand or excess production from renewable sources offers a significant benefit for the grid, not a strain. With smart charging solutions, EVs can help decarbonise not only transportation but also electricity generation, allowing a higher penetration of renewables in our energy mix.

FABRIZIO NASTRI
Paris

Liberal values and prosperity

In reporting that Western values are steadily diverging from the rest of the world's, you find that "people's principles were expected to align as countries got richer" ("Thinking for themselves", August 12th). This belief was held only by those who suffered from the illusion that liberal values were the result of prosperity, when the fact may be that prosperity is the result of liberal values. Moreover, the rise of individual responsibil-

ity following the Protestant Reformation sparked a Counter-Reformation in Europe. So why is it a surprise that the extreme individualism of the West, especially since the 1980s, has resulted in groupism and tribalism not only in the West but around the world?

PRABHU GUPTARA
Cambridge, Cambridgeshire

"Conservatives resist change", you say ("Authoritarians are on the march", August 12th). The reality is more nuanced. Conservatives don't resist change per se, they resist many of the consequences that often accompany it, such as uncertainty and instability, and place an emphasis on maintaining personal freedom and responsibility. Conservatives recognise that change is inevitable. Indeed, resistance to change can put the very values that conservatism aims to conserve in jeopardy.

Michael Oakeshott spoke of keeping the ship afloat; change may be necessary if one wants to be pragmatic. Edmund Burke was against the French revolution, but more sympathetic to the American cause. It's not about resisting change, it's about how you approach it, and what the consequences of change will mean.

JOSEPH MURRAY
Newcastle-under-Lyme,
Staffordshire

Do we need banks?

I'm not sure what part of David Apgar's piece on narrow banking was the most entertaining (*By Invitation*, August 12th). The idea that the "Chicago Plan" was conceived with "the Depression fresh in mind" must be viewed as quite original. However, almost equally amusing was Mr Apgar's suggestion that bank lending "fuels credit to enterprising businesses", when he realises that the problem with Silicon Valley Bank was that it had invested an awful lot of money in notes issued by the Federal Reserve, supposedly also to fuel commerce (and thus revealing the mockery underlying quantitative easing).

None of this has anything to do with supporting "enterprising businesses" that increase prosperity. Banking is doing something else. Banks should go out and make money from the people who deposit money, assuming that they will keep it safe. Instead, they are admonished to multiply paying services offered to those who trust them, and still go bankrupt. Do we need the banks or do the banks need us? And if the latter, then why do we need the banks?

DAVID WARBURTON
Berlin

The sage of Omaha

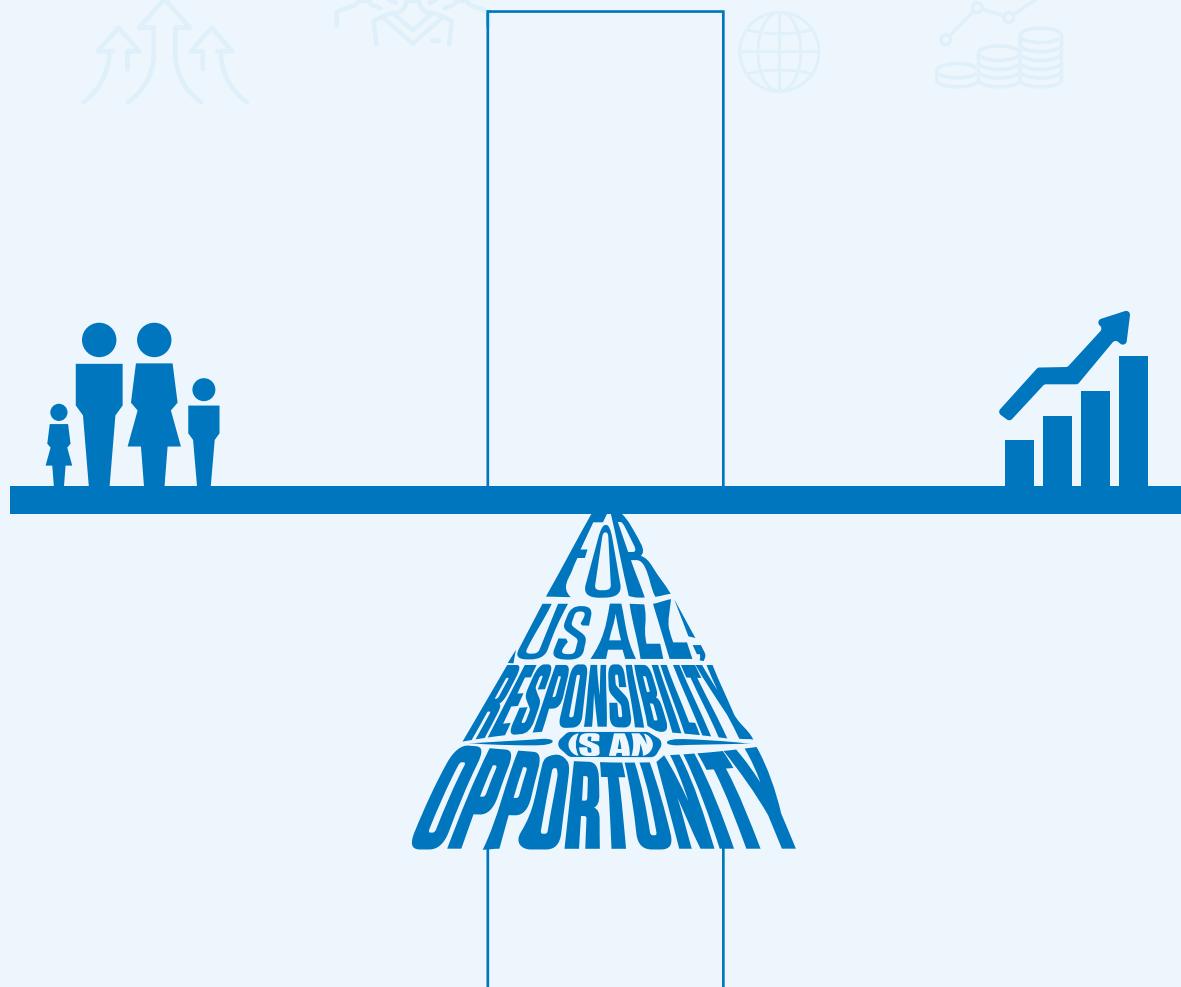
Everyone sees all the perks that chief executives get, but forget the challenges they face on a daily basis ("The overstretched CEO", July 29th). Uneasy lies the head that wears the crown and shoulders all the responsibility. I am reminded of this advice from Warren Buffett: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

ASHISH VAID
Former president of the Indian Merchants Chamber
Mumbai

Getting past Saudi customs

Your article on smuggling banned products into Iran reminded me of the problems encountered by foreign embassies in Saudi Arabia when the importation of alcohol was prohibited ("Iran's bizarre contraband", July 22nd). Import papers had to be crafted so as not to raise alarms. As a result the British embassy was informed by Saudi customs that "your consignment of pianos is leaking". The Australian embassy imported Swan lager as "black duck soup".

ROGER HARTLEY
Sydney



Our conviction is that responsibility is an opportunity to shape and share solutions that serve people, businesses and communities



www.infosys.com/about/esg.html



A problem child

PISCO

El Niño and global warming are mixing in alarming and unpredictable ways

AFTER YEARS of praying for more rain, Californians unexpectedly found themselves wishing for less this week, when tropical storm Hilary blew in from Mexico on August 21st. Rainfall records were smashed in Los Angeles and San Diego. Death Valley, farther inland, was deluged with as much rain in a day as it normally receives in a year. Inundated roads completely cut off the nearby city of Palm Springs (pictured) for a time.

Hurricanes and tropical storms hit California only very rarely: none had even come close since 1997, and the previous one to make landfall was in 1939. Most of the few that have reached the state, however, including Hilary, have coincided with El Niño, a weather pattern that temporarily raises global temperatures while redistributing heat and moisture around the world.

Meteorologists predict that the current El Niño, which began in June, will be a strong one—perhaps as severe as the one that ended in 2016, which helped make that year the hottest ever recorded. If they are right, the record is almost certain to fall this year or next. “We are in uncharted wa-

ters,” says Maarten van Aalst, director of the Dutch meteorological agency and former head of the Red Cross Red Crescent Climate Centre. “We have never had an El Niño on top of so much global warming, so we don’t know what is going to happen.”

El Niños form and eventually dissipate owing to interactions between the trade winds that blow to the south of the equator and the ocean beneath them. The resulting accumulations of hotter- or colder-than-average water and high or low pressure in the atmosphere affect temperatures, winds and rainfall. Most of the time, the trade winds blow warm water from the central Pacific westward, towards Australia and Asia. That movement, in turn, helps draw cooler water up from the depths in the eastern Pacific, near South America. But every two-to-seven years, conditions conspire to create a vast pool of warmer-than-average surface water all the way across the Pacific, as far as South America.

Peruvian fishermen named this phenomenon after baby Jesus (*el niño jesus* in Spanish) because it tends to reach its peak around Christmas. It is of more than pass-

ing interest to them: the vast shimmering shoals of *anchovetas* on which their livelihood depends prefer colder water, and so vanish when El Niño appears.

In recent weeks small fishing boats in the port of Pisco have been unloading species rarely found nearby: butterfish, sierra, sardines. Meanwhile, the industrial fishing fleet, which relies on *anchovetas*, languishes in the harbour. Farther down the waterfront, factories that normally grind its catch into fishmeal are shuttered. No smoke billows from their chimneys; no fishy odour lingers in the air. An industry with exports of \$2bn a year has been brought to a standstill.

The hiatus has contributed to an economic contraction in Peru and is likely to keep global fishmeal prices high for much of the year. That, in turn, will raise costs for the fish farms and livestock businesses around the world that use the stuff as feed. But those are only the beginnings of El Niño’s impacts.

The tropical Pacific is so immense that the warming of its surface by an extra degree or two is enough to supercharge the global climate. More water evaporates, which warms the upper atmosphere and fuels tropical thunderstorms. Convection carries this additional energy to colder regions to the north and south, on either side of the equator. The spinning of the Earth spreads the energy east and west, as well. The net result is a vast redistribution of heat and moisture. In climate jargon, El Niño is a prime example of the “teleconnec-►

tion" of the world's weather systems.

No two El Niños are the same, but some general patterns exist. Broadly speaking, the Amazon Basin, Australia, the Indian subcontinent, the Sahel, South-East Asia and southern Africa often suffer drier conditions; Central and East Asia, the Horn of Africa, the southern cone of South America and the southern United States tend to get wetter (see map). Sometimes, the consequences can be devastating. A relatively mild El Niño in 2018-19 helped to fuel some of the worst wildfires in Australia's history. The exceptionally strong El Niño of 2014-16 brought droughts and floods that left some 60m people around the world short of food, drove huge outbreaks of Zika virus across South America and bleached 29% of Australia's Great Barrier Reef.

At times, the changes in the weather can also bring benefits. This year rains in Argentina are expected to increase grain production, breaking a long drought. El Niño years typically yield milder Atlantic hurricane seasons, reducing damage to property and crops (though that may not hold this year because of unusually hot waters in the North Atlantic). El Niño's impacts are hugely varied, too, going far beyond fisheries and agriculture. In 2015 production at a lithium plant in northern Chile that accounted for 30% of the world's output was disrupted by heavy rain. The ensuing jitters in the lithium market were not something forecasters had predicted.

Such diversity makes it hard to assess whether the overall effect of El Niño is positive or negative for the world economy. A study by researchers at the International Monetary Fund published in 2016 found that El Niño had little effect one way or the other. But a paper published earlier this year in *Science* by Christopher Callahan of Stanford University and Justin Mankin of Dartmouth College finds that the El Niño cycles of 1982-83 and 1997-98 permanently reduced global GDP by \$4.1tn and \$5.7tn respectively. The first cycle, however, coincided with a period when the Federal Reserve, America's central bank, was raising

interest rates; the second with the Asian financial crisis. In both periods, in other words, as El Niño unfolded, other completely unrelated factors were also curbing economic growth in emerging markets. Disaggregating the impact of these different events is extremely difficult.

All analyses, however, agree that poor countries are hit harder by El Niño than rich ones. Even in the IMF study that found little overall impact, big costs in the developing world were offset by higher agricultural yields in the United States in particular. Inflation, meanwhile, rose almost everywhere as commodity prices jumped.

ENSO ON ENSO ON

The more severe the El Niño, naturally, the bigger the impact. According to the latest forecast from NOAA, the American government's meteorological agency, there is a 66% chance that the current one will be "strong". The assessment rests on the rise in surface temperatures above the norm within a specific area of the Pacific known as "Niño 3.4". A 1.5°C rise constitutes a strong event; more than 2°C counts as "very strong", on a par with the biggest El Niños of the past century. The previous El Niño, in 2018-19, peaked inside Niño 3.4 at 0.9°C. A climatologist calls it a "little futz of an El Niño". The one before that, in 2014-16, spanned two winters and peaked at 2.6°C (see chart on next page). Global average temperatures reached successive records in 2015 and 2016. According to Michelle L'Heureux, who co-ordinates NOAA's El Niño forecast updates, there is a 30% chance that this year's will end up just as mighty.

Three factors are likely to compound this El Niño, bringing new extremes. First, it arrives right on the heels of three consecutive years of La Niña, the inverse of El Niño, when winds propel warm Pacific water more strongly than usual westward, towards Asia, temporarily reducing global temperatures. The wind patterns that dominate during La Niña tend to push heat deeper into the ocean. Some of that heat resurfaces during subsequent El Niños.

Three straight years of La Niña mean there is more heat to be released.

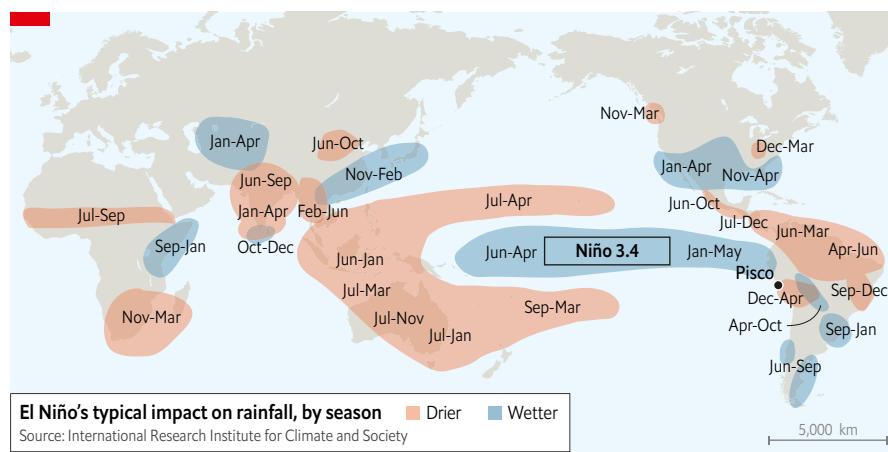
But it is not just La Niña that has been storing heat in the world's oceans. So has global warming. For decades researchers have been taking the temperature not only at the surface but also at depths of up to 2,000 metres. Since the 1990s these deeper waters have been running an ever-rising fever. Some climate researchers are wondering whether the off-the-charts surface temperatures observed in the past month or so around the world's oceans could be linked to this pelagic flu.

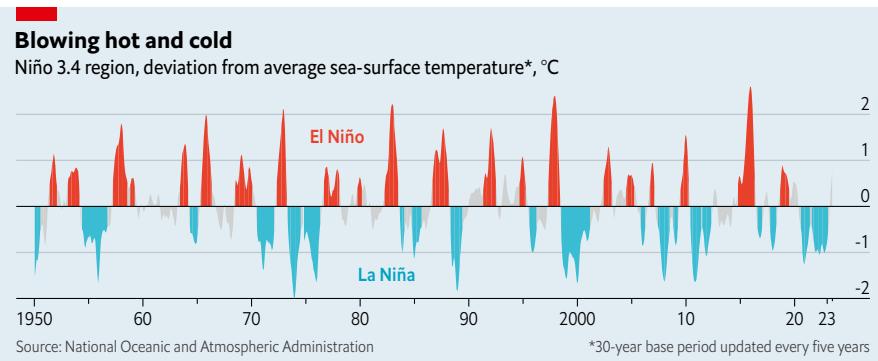
Although El Niño does cause surface temperatures to rise outside the Niño 3.4 region, that usually does not happen until much later in the year. A possible explanation of the early surge in temperatures is that some of the heat accumulated in the deep ocean is starting to resurface. "Perhaps we're beginning to see some of that redistribution of heat now manifesting itself," says Piers Forster of the University of Leeds in Britain.

The theory that shifting thermal dynamics within the oceans may be intensifying this El Niño is not yet proved, but there is no question that global warming more broadly is set to make El Niños worse. "As climate change unfolds, the impacts for a given El Niño are not the same, they're bigger," says Adam Scaife of the Met Office, Britain's meteorological agency. Global warming means the air is more charged with water, rainfall fluctuations are increasing, "and therefore, a given El Niño with the same strength as we had in the past can dump more water or cause a bigger drought." Whereas the "triple dip" La Niña masked some warming, making temperatures cooler than they would otherwise have been, an El Niño will amplify it.

"I am confident that 2024 will be unprecedented in terms of global temperatures," says Dr Scaife. Currently, the planet is 1.26°C warmer than before the invention of the steam engine. As a rule of thumb, climatologists say, every degree of warming in the Niño 3.4 region during an El Niño temporarily adds 0.07°C to global average temperatures. A strong or very strong event could therefore push the total rise in the average temperature to 1.4°C.

That means that the regions that often suffer drought and wildfires during El Niño—Australia, Indonesia and parts of the Amazon Basin—are at heightened risk. In Australia alone, even the weak El Niño of 2019 helped to incinerate 240,000 square kilometres of bush, killing nearly 500 people, destroying thousands of homes and wiping out A\$5bn (\$3.5bn) of crops and livestock. This year's El Niño is likely to be compounded by the positive phase of the Indian Ocean Dipole (IOD), a weather pattern characterised by fluctuating surface temperatures in the Indian Ocean that fur-





ther accentuates dry conditions in Australia and Indonesia. Three years of heavy rains under La Niña, meanwhile, have boosted plant growth. Lingering moisture in the soil and plants may offer some protection. But if all that vegetation dries out, it will fuel fiercer blazes. To make matters worse, heavy rain and shortening winters have shrunk the window to carry out controlled burns, which are used to reduce the amount of fire-prone vegetation. New South Wales, Australia's most populous state, has conducted only 20% of its scheduled burn this year, according to Greg Mullins, a former fire commissioner.

Dipolar disorder

The IOD can also reinforce the wet conditions that El Niño typically brings to east Africa. On the face of things, that should be a positive after years of drought. But the rainfall is likely to be excessive, and might flood farmland and damage the roads used to bring crops to market. "We are on watch," says Laura Harrison of the Climate Hazards Centre at the University of California, Santa Barbara.

Disasters of this sort will also create havoc in agricultural markets. As it is, India's government has declared a ban on exports of certain types of rice, in anticipation of drier-than-usual conditions while the current crop is growing. The ban affects about half of India's annual exports, which in total account for 40% of the global trade in rice by volume. It has sent world rice prices to their highest level since 2011.

The outlook for the rice market may get worse before it gets better. El Niños have in the past driven down rice yields: in 2015-16 South-East Asia's crop declined by 15m tonnes, 7% of global stocks. The spectre of potential shortages has prompted panic-buying among Asian governments since the beginning of the year. Indonesia, for example, has been snaffling up rice from Vietnam, the third-largest exporter after India and Thailand.

Wheat, too, could be in for a wild ride. Australia produces 12-15% of the global crop and yields can halve in El Niño years. "Given the precarious situation of the wheat market, with the Russia-Ukraine

war and other things, that Australian wheat crop is a very important one, and one we're watching closely," says Paul Hughes of S&P Global Commodity Insights, a research firm.

Palm oil is another vulnerable product. A drought in Indonesia and Malaysia, the two biggest exporters, would diminish yields. S&P Global reckons that Malaysian exports could fall by 10% if the incipient El Niño is mild and double that if it is severe. After Russia's invasion of Ukraine last year, palm oil helped make up for a dearth of sunflower oil, 75% of which is normally produced by the two adversaries. El Niño will thus come as a second blow to the already stretched market for edible oils.

Another likely outcome of a strong El Niño is an increase in disease. Viruses replicate more quickly in vectors like mosquitoes as temperatures rise. Mosquitoes also bite more in the heat. Heavy rainfall creates more places for insects to breed, as can droughts, as people collect more water in accessible receptacles. Research collated by the World Health Organisation found that the dry conditions associated with El Niños across two decades boosted malaria cases in Colombia and Venezuela by more



Not what they wanted for Christmas

than a third. A strong El Niño in 1997-98 was associated with big malaria epidemics in Ethiopia, Kenya and Uganda. This year heavy rains and floods exacerbated Peru's worst-ever outbreak of dengue, overwhelming hospitals in the north.

Flooding can result in poor sanitation, causing an increase in diarrhoeal diseases. The displacement and overcrowding that occurs after disaster strikes makes such outbreaks worse. If the Horn of Africa is indeed drenched by rain, a surge in cholera cases is likely.

Malnutrition exacerbates vulnerability to disease, particularly in the very young or very old. Save the Children, a charity, claims that the disruption brought by the El Niño of 2015-16 left an additional 6m children worldwide undernourished, three times the number affected in the same way by covid-19. And the pandemic has left health services overstretched and weakened. The Bill and Melinda Gates Foundation, a health charity, estimates that covid led to the biggest sustained decline in immunisation rates in 30 years, prompting a surge in outbreaks of preventable illnesses such as measles.

The fact that many of these ill-effects are foreseeable does at least mean that governments and aid agencies can try to prepare for them. Since 2015 the humanitarian community has increasingly been incorporating seasonal forecasts into their planning, explains Andrew Kruczakiewicz, a climate forecaster at Columbia University and the Red Cross. In Honduras, for instance, the Red Cross activated an emergency protocol at the end of June based on the El Niño forecast issued by NOAA. It is distributing cash and kits to sanitise water to places at risk of drought.

But careful preparation only gets you so far, especially in poor countries with weak institutions and widespread corruption. Since the last strong El Niño, Peru has shuffled through six presidents. Precious little of the \$14bn set aside for rebuilding and climate-proofing had been invested before floods and landslides hit the same areas again this year.

More climate-related disasters will probably only deepen popular discontent and dysfunctional politics in Peru, further eroding the government's capacity to respond. In fact, oscillations in the climate have spurred the rise and fall of civilisations in South America for thousands of years. El Niño, writes author Brian Fagan, "can destroy the people's faith in the legitimacy of their leaders and in the foundations of their society". Fempellic, a legendary ruler of an ancient Peruvian kingdom, provides a salutary example. According to myth, after sustained, unseasonable rains laid waste to crops, his people decided he was to blame. So they tied him up and tossed him into the sea. ■



School attendance

Absent-minded

WASHINGTON DC

Covid-19 has faded, but American children are still missing far too much school

TWO HUNDRED and fifty years ago, Thomas Jefferson wrote one of the first bills calling for universal, publicly funded education. He wanted all the children in his state of Virginia to attend classes. Not everyone was convinced. His bill never passed, and it took over 100 years for school to become compulsory across the whole of America.

For most of the past century, attendance grew. Then the covid-19 pandemic happened. For the best part of two years, children were forced to learn at home, staring at laptops. As they start the 2023-24 school year, a terrifying proportion still seem barely to be back.

According to a study published in early August, in the 2021-22 academic year 28% of schoolchildren missed at least three and a half weeks of school. The study, conducted by Thomas Dee, an education professor at Stanford University, found that "chronic absenteeism", defined as when an enrolled pupil misses 10% of the school year, almost

doubled overall between 2018-19 and 2021-22. It went up in all 40 states in the study as well as in the District of Columbia. In Alaska, the state with the highest rate of chronic absenteeism, nearly half of all pupils missed enough school to be counted.

That so many children were kept out of school in the 2021-2022 school year, during which the Omicron variant of covid-19 rampaged throughout the population, is hardly surprising. Yet there are reasons to think absenteeism has persisted even as the virus has receded. In Connecticut, one

of just two states which have already released data for the 2022-23 school year, the proportion of children absent fell by just three percentage points from the year before, to 21%. (In 2018-19 the rate was just 10%). A similar pattern holds in Massachusetts, the other state to release data. And it is true of England and Australia too, suggesting that America is far from alone.

Explaining this is tricky. Students skip school for many reasons: lack of transport, poverty, the weather. But these are unlikely to have worsened of late. A more plausible explanation for the lasting rise is that, having experienced remote learning, some students—and perhaps their parents—no longer think it essential or even worthwhile to sit in a classroom. "It's the same thing as in the workplace," says a teacher in New Orleans. "Once you've gone down to only being there two or three days a week, coming back all five is hard." His classrooms are especially empty on Fridays, he says, so he avoids scheduling the most important lessons then.

After the pandemic, people "started catering to their mental-health needs", says Tieshia Robinson, a principal at Chicago Collegiate, a public charter school in the city. For parents, that might mean allowing children who are unhappy at school to skip days. Pupils have also grown used to staying at home at the slightest sign of physical illness, says Greg Frostad of New Mexico's ►►

→ Also in this section

20 Migrants in New York

21 The return of leprosy

21 Tranq, a flesh-rotting drug

22 Throng of praise

23 Lexington: Republicans debate

▶ education department. Recently, covid-19 has returned, and protocols still require pupils to stay at home for five days after testing positive.

This alarming absenteeism is coinciding with falls in enrolment. In a separate study released in February, Dr Dee found that public-school enrolment fell between autumn 2019 and autumn 2021 by 2.5% (about 1.2m pupils). Some of this is because the number of school-age children in America is shrinking, and a small part reflects a shift to private schools. But much seems to be the result of families opting out of school entirely. Private school attendance increased by 4%; homeschooling rose by 30%. Exactly what that means for the quality of tuition children are receiving is unclear. Some states insist on strict rules for homeschooled children; but some barely check on them at all.

Attending school in person is important. Studies show that even after adjusting for poverty levels and race, children who skip more school get significantly worse grades. One published by the Institute of Labour Economics, a German think-tank, by three American academics, found that missing ten maths classes reduced the chance of a high school student graduating on time by 8%. Schools also connect pupils to important services. In Baltimore, schoolchildren can get free meals or be fitted for glasses through school; and their parents can be hooked up with social services. Educators can also spot if a child is being neglected or abused. Pupils develop social skills in school, take part in after-school programmes and learn sports.

What will it take to coax kids back into classrooms? Skipping school frequently is illegal and in many states parents can face fines or even jail. On August 15th Missouri's state supreme court upheld a law that permits jail time for parents if their children are truant. But there is little evidence that criminalising truancy prevents much of it. And because chronic absenteeism is powerfully correlated with disadvantage, enforcing such laws would hurt the poorest families. In Washington, DC, three-fifths of pupils who were eligible for government assistance were truant.

Instead, many schools are trying to solve some of the problems that keep children away. In New Mexico many pupils missed whole days of school to travel long distances for medical appointments, says Mr Frostad. So some of the state's schools teamed up with federal health clinics. "Now [pupils] can be seen in 30 minutes and then be back to class," he says. Sometimes pupils are forced to miss school because they have been suspended or expelled. Administrators are now reconsidering disciplinary policies. If a pupil has vandalised school property, for example, school officials can require that the child

clean it up instead of being sent home.

Chicago Collegiate is encouraging attendance by giving pupils individual rewards and by holding class pizza parties. In Baltimore 58% of pupils miss at least 10% of the school year. The mayor, Brandon Scott, plans to award a trophy to the school with the most improved attendance rate. The state of New Mexico offers competitive grants to schools to encourage new attendance initiatives.

Teachers and school staff are also going to pupils' homes to urge them to attend regularly. In Baltimore Mr Scott is planning to join the city's school leaders this year on visits to missing pupils' homes. He has also brought back older tactics: sending truant officers to search for kids on the streets. During the 2022-23 school year, Mr Scott's office cracked down on "squeegee boys"—kids who washed car windows for cash at intersections—after a 14-year-old boy shot and killed a 48-year-old man who had confronted a group with a baseball bat. Vans picked the kids up and hauled them to school.

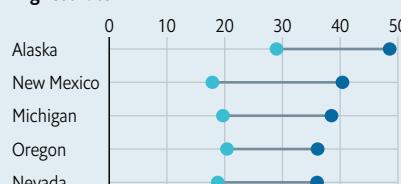
There are few easy fixes, though some look for them. In Chicago, at the start of this year, the schools inspector-general accused several schools of misreporting truant (or entirely missing) children as having transferred to other schools to mask absenteeism. Almost half of pupils in the city were reported absent in 2021-22. Most teachers, however, are simply trying to adapt. "Our youngsters, the competition for their attention has never been more difficult," sighs a teacher in a New York City middle school. The challenge, he says, is to "make kids gravitate to school". Mass education needs mass. ■

Bricks in the wall

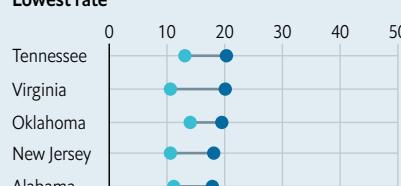
United States, state-school pupils absent for 10% or more of the academic year, % of total

● 2018-19 ● 2021-22

Highest rate



Lowest rate



Source: "Higher chronic absenteeism threatens academic recovery from the covid-19 pandemic", by T. S. Dee, Aug 2023

Migrants in New York City

Breaking point

NEW YORK

Eric Adams struggles with the obligation to house newcomers

THE TENT CITY in the parking lot of Creedmoor Psychiatric Centre in Queens is far from ideal. The neighbourhood, 15 miles (24km) outside Manhattan, is mostly residential and is served by a solitary bus line. But because of the influx of migrants the tents are badly needed. It opened on August 15th and within a week the 1,000-bed facility was nearly full. Another shelter site, on Randall's Island, between Manhattan and Queens, along with one soon to open at Floyd Bennett Field, a helicopter base in Brooklyn, will add 5,500 beds for migrants.

Over 110,000 people are housed in New York City's homeless shelter system. Of those, 53% are asylum seekers. For over a year they have arrived in the Big Apple on buses, shipped by Texan politicians, or of their own accord, coming by plane, train, car and bus. In the week ending on August 20th, 3,100 arrived. New York's "right to shelter" mandate, in place since a lawsuit was settled in 1981, means that anyone without a roof to sleep under is entitled to one from the city.

"We've been forced to play an unsustainable game of 'whack-a-mole', opening site after site as asylum seekers continue to arrive by the thousands," said Eric Adams, the city's mayor, on August 21st. Earlier this month many people were forced to sleep for days on the pavement outside the Roosevelt Hotel, the city's largest intake centre. Mr Adams says there is "no more room". The state attorney-general is looking into allegations that DocGo, a medical services provider hired by the city, mishandled migrants in its care.

Housing huddled masses is not cheap. It will cost \$4bn a year over three years: about 6% of what the city takes in tax, or roughly equivalent to the combined spending on the city's fire and sanitation departments. Sheltering a single family costs around \$380 a night, says Murad Awawdeh, of the New York Immigration Coalition, a refugees' rights organisation. Renting an apartment costs a fifth of that.

New York City is unique in having assumed this obligation. Other cities, like Chicago and Philadelphia, are also struggling to help migrants, but neither has a legal requirement to house them (or the staggering numbers New York does). Only Massachusetts has anything remotely similar. It, too, is seeing an influx of arrivals; its governor has declared a state of emergency. ►

Some migrants have been bussed to the suburbs on the city's dime. But Kathy Hochul, the governor of New York state, is not a fan of moving migrants around. "Putting someone in a hotel on a dark, lonely road in upstate New York and telling them they're supposed to survive is not compassion," she said on August 16th. The state has directed \$1.5bn to the city to help. But it has not budged otherwise. On August 23rd state and city lawyers gathered behind closed doors with a judge and the Legal Aid Society, a charity, to try to hash out a deal, but produced nothing.

New York has always been a gateway to America. But in the past the government did little beyond lifting the lamp beside the golden door to the tired and poor. Migrants were expected to find their own way, and mostly did, through family and kinship ties. The arrivals now tend not to have such links. Most are from Venezuela, but people get to America from as far afield as Russia and West Africa. One Mauritanian, who is staying in a suburban hotel paid for by New York City, says his family sold their livestock to pay for his travel costs. Most migrants would love to work, but it takes months for work permits to be issued.

Mr Adams has begged White House officials to expedite work permits. Stopping people from working is "anti-American", he says. But the federal government is not going to change the asylum system quickly, if at all. Nor is the right to shelter likely to go away—and even if it did, the city is hardly going to start dumping people on the streets. "New York City would look like the West Coast cities with a lot more street homelessness," says Kathryn Kliff, a lawyer with the Legal Aid Society, a charity. Something needs to change though. More migrants arrive every day. The mayor will have to get more inventive. ■



Let them work

Leprosy

Avoid armadillos

WASHINGTON, DC

An ancient disease is spreading in Florida and elsewhere

IN MANY WAYS the past few years have seemed biblical. First came a pandemic. Then war, followed by food shortages, fires and floods. Just when it seemed that things could not look more like the end of days, leprosy has joined the list.

Hansen's disease, better known as leprosy, is a tropical malady that is rare in America. In 2020 (the last year with available data) just 159 cases were reported. Only 5% of people seem to be susceptible to infection. Because it is so rare, Americans seldom think about leprosy, and many clinicians have never seen it outside a textbook. This is starting to change.

Charles Dunn, a dermatologist, and his colleague, Rajiv Nathoo, came across their first leprosy patient last year in a clinic in Orlando, Florida. "It was very classic in terms of what you read in the books," says Dr Dunn. Yet the 54-year-old patient had been seen by multiple clinicians, and none had properly diagnosed him.

"I am hoping that people take their blinders off," says Dr Dunn, referring to other clinicians, especially those in central Florida. Nearly 17% of American leprosy cases were in Florida in 2020, and over 80% of those were in central Florida. This year the state has reported 16 cases. Dr Dunn says medics should look out for the disease, so they can diagnose and treat it.

In the past, Americans with leprosy had usually caught it while travelling to countries where it is more common, such as Brazil, India or Indonesia, or had been in close contact with people who had travelled to such places. Armadillo wrestlers (who chase, capture and wrangle with the creatures) are also at risk—the nine-banded armadillo can carry the disease. This latest outbreak is unusual in that the new patients are neither intrepid travellers nor armadillo wrestlers. This suggests that the disease is now endemic in the south-east.

Though few people know what leprosy is, ears prick up at its mention. "There is essentially no population in history...that didn't have a stigma associated with leprosy," says Barry Bloom, an immunologist and former dean of Harvard University's School of Public Health. People have been burned or buried alive for having it, says Dr Bloom. Many were cast out of society, or forced to sound bells or clappers to warn others of their approach. That led to "a mortal fear of the disease". Many people still shun medical help for fear of the stig-

ma. In some countries leprosy is recognised as grounds for divorce.

It is the symptoms that give the disease its awful reputation, says Dr Bloom. Those with a visible infection develop lesions, usually on their face and extremities, that lack feeling. This is because the bacterium—*mycobacterium leprae*—affects the skin and the nervous system. In severe cases sufferers may lose fingers, toes and other body parts. When you cannot feel pain in your extremities, it is harder to avoid accidents that may cut them off.

In the Bible leprosy afflicts the sinful; at least until Jesus "cleanses" them. Scientists today are less sure how it spreads. This is partly because the disease can remain dormant for up to 20 years, so contact-tracing is difficult. (Who remembers what they were doing 20 years ago?) Scientists think that people catch the disease through prolonged contact with a contagious person, perhaps when that person coughs or sneezes.

Today there is a cure—a round of several antibiotics does the trick. After a few weeks infected people are no longer contagious. The lesions go away; though they may leave scars. The treatment is free thanks to the World Health Organisation. In the old days, leprosy was seen as a marker of sin. Today it is simply a sign that people should see a doctor. ■

"Tranq dope"

In the flesh

NEW YORK

A new drug cocktail rots limbs

IN THE EARLY 2010s a nightmarish new drug spread across Russia and Eastern Europe. Krokodil, a cheap substitute for heroin cooked up in kitchen laboratories, left users with scaly skin and rotting wounds. Now an eerily similar drug called "tranq dope" has infiltrated America. Last month the White House issued a national plan to fight it.

Tranq dope is a combination of fentanyl, a powerful synthetic opioid, and xylazine, a veterinary tranquiliser. Adding xylazine to an opioid seems to make the high last longer. Between January 2019 and June 2022, the share of all fentanyl-related overdose deaths where xylazine was present shot up from 3% to 11%.

The cocktail was first detected by drug authorities in the early 2000s in Puerto Rico. Later it circulated there and in limited areas within America's north-east, such as Philadelphia. But it has now been detected in nearly every state in the country and, ac-►

ording to the Drug Enforcement Administration (DEA), is probably being mixed "at retail level" (ie, on the street).

Xylazine can be bought for as little as \$6 per kilogram on Chinese websites, so drug suppliers can pad their profits by using it to bulk up their more expensive fentanyl, supplied mostly by Mexican drug gangs. Consequently, many end users will not know whether they are buying pure fentanyl or tranz dope, though it is increasingly risky to assume the former. In March the DEA warned that almost a quarter of American fentanyl powder now contains xylazine. In Philadelphia, more than 90% does.

Though chemically different, tranz affects the body in ways reminiscent of krokodil. Researchers believe that xylazine causes the outer blood vessels to constrict, which means the skin does not get enough fresh blood. The result is deep, necrotic open sores, which can form even if the drug is snorted, not injected. Eventually, tissue simply rots away. Such wounds can easily become infected, and limbs may ultimately need to be amputated. Users appear to enter a stupor, which makes them easy to rob or assault.

Worryingly, the emergency treatment for a fentanyl overdose does not work on non-opioids like xylazine. When people overdose, first responders give them naloxone, which acts on opioid receptors in the brain to reverse the effects of the opioid, in particular suppressed breathing. Xylazine has no such antidote.

Doctors say their primary worry is still fentanyl, rather than what it is mixed with. The opioid kills more Americans every year. In 2021 around 70,000 people died after having taken it. Fentanyl itself is increasingly used as a deadly bulker for more expensive party drugs, such as cocaine and ecstasy. Yet those taking tranz dope are at even greater risk of a fatal overdose, or of suffering a life-changing injury, such as a lost limb. The drug's spread complicates an already complex battle against addiction and overdose deaths.

American authorities seem to be taking the challenge seriously. In February the federal Food and Drug Administration announced that it would start tracking imported xylazine, which previously was mostly unmonitored, and detain suspicious shipments. The Biden administration has also set a goal of reducing deaths from tranz dope by 15% in at least three of four American census areas by 2025, primarily by increasing testing and adjusting treatment accordingly.

Nevertheless, the DEA suspects tranz will continue to spread. In Puerto Rico drug users have specifically sought it out, hoping for a lasting high. By some reports, demand is similarly rising in Philadelphia. As bleak as the opioid crisis seems, it could get grimmer. ■



Megachurches

Throng of praise

OKLAHOMA CITY

Even as Christianity stumbles, megachurches are thriving

EARPLUGS ARE available, should the music get too loud. Sure enough the volume—not to mention the tattooed front woman and bobbing crowd—evokes a country-rock concert. Only the lyrics suggest otherwise: "Fill it all up, fill it all up with Jesus." Afterwards a pastor, in t-shirt and high-top sneakers, compares an Old Testament parable to a rom-com. Donations are solicited by QR code. The service is entertaining and, for many first-timers, unlike anything they expected of church.

Welcome to Life.Church, one of America's largest megachurches, headquartered near Oklahoma City. Really it is a chain of churches, with 44 sites across 12 states. Every weekend around 80,000 people attend one of 170 services in person. Most watch a pre-recorded sermon by a senior pastor, Craig Groeschel; a junior pastor acts as an in-person MC and a worship band plays live. The whole thing blends seamlessly, and it is streamed online, too.

Churches have closed as the proportion of Americans who call themselves Christian has fallen from 76% in 2010 to 64% in 2020. But most of America's 1,750 megachurches—all Protestant and mostly evangelical churches with at least 2,000 worshippers—are thriving. Between 2015 and 2020 their congregations grew by a third on average, turning younger and more multi-racial, according to the Hartford Institute for Religion Research, a think-tank in Connecticut. After a covid dip, "We're in growth mode," says Brian Tome, pastor of Crossroads, a nine-site church based in

Ohio. "Things are fun right now."

Concentration among churches accelerated as costs rose in the 1970s, notes Mark Chaves of Duke University. Smaller ones lost members. Though evangelicals aim to convert non-believers, about three-quarters of those who join megachurches were already practising. "We'd like to think that we're reaching atheists. We're reaching some, but the truth is that the body of Christ is consolidating," says Mr Tome.

With more money and more hands, megachurches can innovate. Though they account for just 0.5% of all churches and 7% of churchgoers, their influence is felt in the music played elsewhere and the popularity of their TED-talk-style sermons, says Scott Thumma of the Hartford Institute. Nearly all the top contemporary worship songs between 2010 and 2020 came from just four megachurches.

Their success illustrates what it takes to compete in a dynamic spiritual marketplace. Bill Hybels, a megachurch pastor felled by sexual-misconduct allegations in 2018, was said to parrot Peter Drucker, a management guru: "What does the customer consider value?" Andre Audette, a political scientist at Monmouth College in Illinois, found that four-fifths of evangelical Christians have shopped around for a church—more than any other group.

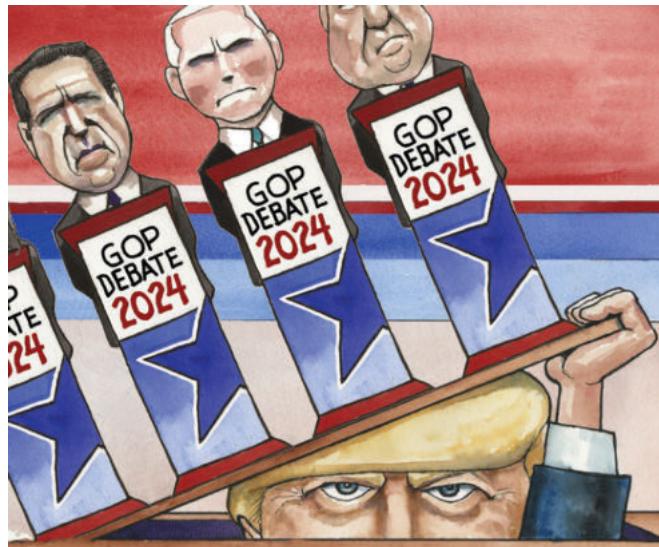
What would Drucker say of the faith customer? Two trends stand out. They want to choose their level of engagement, which megachurches make easy. Those craving connection can join any number of small groups. Life.Church hosts a club for Dungeons & Dragons fans ("gamers connecting and growing closer to Christ"). Others like the anonymity. There is more pressure to donate and serve at smaller churches. Megachurch members show up and contribute less per capita.

The other trend is the weakening of denominations. Two-fifths of megachurches are non-denominational. The rest tend to downplay theirs and emphasise their own brand. Life.Church is affiliated with the Evangelical Covenant Church—but few congregants realise that. Todd Mullins of Christ Fellowship Church, a church with 14 sites in Florida, estimates that about half his flock were once Baptists or Catholics and the other half unchurched.

Consolidation will level off at some point, says Mr Chaves. And today's winners will probably not look the same in future. Back in 2006 he found that the largest churches retained their top spot for about 20 years before being overtaken. Growing has stresses of its own. Mr Tome says he stopped sharing attendance numbers with *Outreach Magazine*, which ranks congregations by size, because he felt like a chief executive answering to the stockmarket. "I'm not in corporate America," he says. "I'm going to church!" ■

Lexington | The elephant not in the room

How Donald Trump won the debate he skipped



IN THE FIRST Republican debate of the presidential season, on August 23rd, Fox News generously granted Americans 50 minutes of escapism, or maybe denial: a glimpse of Republican politics without Donald Trump dominating the stage, as speaker or even as subject. He chose to skip the debate, leaving it to eight other candidates to bicker over how to ban abortion and whether humans caused climate change. It turned nasty fast, but some of it was clarifying, and all of it was a relief.

And then reality haled down in the form of a question about whether the candidates would support Mr Trump as the nominee even if he were convicted of a felony. Six of eight hands went up. Well, four hands went up, and Governor Ron DeSantis of Florida, looking around and spotting them, quickly half-raised his own hand, followed by former Vice-President Mike Pence.

Mr Trump was at pains to smother the debate, which took place in Milwaukee, Wisconsin. He pre-taped an interview with Tucker Carlson, formerly of Fox, that was posted to X, formerly known as Twitter, just as the debate began. The two had a genial back-and-forth about matters such as whether Jeffrey Epstein really killed himself in jail or was murdered. Mr Trump acted like he had already won the nomination, largely ignoring his rivals and attacking President Joe Biden. ("He looks horrible at the beach.")

And, just in case any of the other Republican candidates had a breakout moment, Mr Trump had arranged to turn himself in the next day at the Fulton County Courthouse in Georgia on his latest criminal indictments over his efforts to overturn the election. That guaranteed he would command the forthcoming news cycle, regardless of the outcome in Milwaukee.

He need not have worried much, as it happened. Mr DeSantis, whose prickly ways and blundering campaign have steadily eroded his position as Mr Trump's chief rival, delivered a middling performance, clumsily evading some questions and, despite his position at centre stage, fading back into the field for long stretches. The dominant personality was Vivek Ramaswamy, a former biotech entrepreneur and first-time candidate who has surged into third place in recent polls.

Mr Ramaswamy is 38, and according to Politico he did not vote in any election from 2004 to 2020. But he is obviously a quick

study. Like insurgent candidates before him he has fearlessly thrown himself before every camera and microphone, and he seems willing to pluck a winning formula wherever he can find one. "Who the heck is this skinny guy with a funny last name and what the heck is he doing in the middle of this debate stage?" he asked with a big grin in introducing himself during the debate.

Chris Christie, a former governor of New Jersey and an old political hand, clearly had no patience for Mr Ramaswamy's over-caffinated-millennial act, and he caught the echo of a line Barack Obama used about himself at the Democratic Convention in 2004 ("the hope of a skinny kid, with a funny name"). "I'm afraid we're dealing with the same type of amateur standing on the stage tonight," Mr Christie growled.

Though his sunny manner darkened over the course of the debate, Mr Ramaswamy was not cowed, and he continued to deride and bait his opponents, individually and collectively. "I'm the only person on this stage who isn't bought and paid for," he declared. As a result he, rather than Mr DeSantis, became the focus of their fire. This, again, was helpful to Mr Trump, by preventing any clear alternative to him from emerging. Mr Ramaswamy, who has been careful to heap praise on Mr Trump and has promised to pardon him if elected, is more likely to wind up in a Trump cabinet than the Oval Office.

The first nominating contest, a caucus, will take place in Iowa on January 15th, and Mr Trump has a commanding lead there as he does in national primary polls, though he remains unpopular with Americans as a whole. According to a poll published on August 21st by the *Des Moines Register*, fully 42% of those who intend to caucus said they would support Mr Trump, compared with 19% for Mr DeSantis.

Mr Trump's legal problems appear to be strengthening him in Iowa, as they have nationally. The survey was conducted from August 13th until August 17th; after Mr Trump was indicted in Georgia on August 14th, his support jumped five points. "Trump has never been viewed favourably by more of Iowa's likely Republican caucus goers than he is now," the newspaper reported.

Putin's useful idiots

Of the candidates in Milwaukee, Nikki Haley, a former governor of South Carolina and ambassador to the United Nations, presented the most compelling vision of an alternative Republican politics, at least for a general election. Although harshly critical of Mr Biden she insisted Republicans should acknowledge their own responsibility for the federal debt. When Mr Ramaswamy said he would support cutting aid to Ukraine, she said he did not understand Vladimir Putin. "You are choosing a murderer over a pro-American country," she said. Mr Ramaswamy accused her of auditioning to be a board member of an arms manufacturer. "You have pulled down everyone on this stage," she shot back, icily. "You have no foreign-policy experience—and it shows."

Mr Trump's grip on his party is not absolute. Several candidates said Mr Pence did the right thing in rebuffing Mr Trump's demand that he not certify the electoral college vote in Mr Biden's favour, though, once again, Mr DeSantis had to be pinned down. "Mike did his duty," he grumbled, finally. "I got no beef with him."

For his part, Mr Pence repeatedly reached for Reaganesque notes of optimism about the possibilities of America. But as delivered in his husky, solemn tones, his closing remark sounded less like a benediction than a warning. "God is not done with America yet," he said. ■



Offshore finance

Treasure islands

ROAD TOWN

A wave of international rule-making threatens Caribbean tax havens

IN JANUARY 2024 a court in Miami will start hearing an unusual trial: that of Andrew Fahie, the former elected leader of the British Virgin Islands (bvi). In 2022 he was arrested in the United States. The American authorities say he promised an informant working undercover for them that he would allow illegal drugs destined for the United States to pass through his territory's ports, in exchange for a fee. Mr Fahie, who is under house arrest in Miami, has pleaded not guilty. The skeleton of a house he had been building still stands, unfinished, outside Road Town, the capital.

The smell of rotten governance is the last thing the bvi needs. For four decades this luminous speck in the Caribbean has made a chunk of its living selling foreigners brass-plate companies—shells that exist largely on paper, without real staff or offices. That business, along with services that spin off it, has in some years funded more than two-thirds of the government's budget and has made a territory with a

mere 33,000 people famous in the business world. "It has served us very well," says Natalio Wheatley, who succeeded Mr Fahie as premier.

But lately global efforts intended to tame money-launderers and tax evaders have been weighing on the bvi's financial-services industry. The total number of companies registered there has fallen by more than a fifth since 2011. Like financial centres all across the Caribbean, it is sailing into choppier seas.

Almost every rock in the Caribbean has, at one point or another, sought to build an offshore sector of some flavour. The Bahamas was the first to make a good go of it. These days it earns about 10-15% of GDP from financial services, particularly private banking. But the places that most de-

pend on offshore work are the Cayman Islands, the bvi and Bermuda (in fact in the North Atlantic). All three are self-governing territories of Britain, reliant on it for defence and much diplomacy, but in all other matters in charge of their own affairs. In the bvi offshore financial and corporate services make up one-third of GDP. They support about one-fifth of all jobs.

Offshore centres provide a seafood buffet of useful and legitimate services. Among laymen, however, it is the way that Caribbean islands have sometimes been used by crooks and kleptocrats that most often fuels debate. The Tax Justice Network (tJN), an NGO based in Britain, guesses that wheezes involving financial centres in the Caribbean and Bermuda account for about 20% of the \$472bn that it thinks governments around the world lose each year to cross-border tax evasion and minimisation schemes. A larger share of global losses arises from cross-border business that is done in chilly countries such as mainland Britain, the Netherlands and Ireland. But for places so tiny, it is a whopping sum.

That offshore bounty is now threatened by a wave of international rule-making. In the Caribbean two initiatives in particular are currently top of mind. The first relates to corporate transparency. In 2016 Britain began publishing, in a public database, the identities of everyone who controls a company on its mainland; it was the first big ➤

→ Also in this section

26 Two polls, one theme

country to do so. Now it wants its overseas territories to follow suit, by the end of this year. The idea is that allowing journalists and NGOs to trawl records that at present are made available only to police and other relevant authorities will make it easier to detect tax abuse and fraud. But the offshore centres are dragging their feet, presumably because they fear that having a public register will dent sales.

A second pressure is a global corporate-tax deal struck by some 130 countries in 2021 which, among other things, aims to ensure that big multinationals pay at least a minimum level of tax on their profits, wherever in the world they choose to book them. For years companies have used legal loopholes to declare profits in havens that charge little or no levies, instead of where their sales are actually made. In the future, when companies use these kinds of arrangements to achieve a tax bill lower than 15%, they will be asked to cough up extra money wherever they have their main headquarters. Or at least that is the idea.

A bit rum

The extent to which Caribbean centres benefit from the corporate “profit-shifting” of a sort that will be affected by this agreement ranges widely. A global minimum tax could reduce incentives for big corporations to pitch tents in palm-fringed places, but will not eliminate them. The Bahamas and Bermuda are talking about raising taxes for the biggest foreign firms: if multinationals will be forced to pay more, goes their thinking, they might as well try to pocket the cash themselves. The Cayman Islands and the BVI are still deciding how to respond. There is a high chance that the United States will yet wimp out of the deal; that would greatly limit its effect.

These and various earlier initiatives have taken the BVI some way from its glory days. In the 1950s the colony made half its revenues selling stamps to philatelists, notes Oliver Bullough in his book “Butler to the World”. Everything changed in the late 1970s, when American firms began incorporating there in order to exploit the favourable treatment the BVI then enjoyed under a tax treaty between Britain and the United States. Within a few years, the territory was selling brass-plate companies to people from all over. Hong Kongers grew especially keen. Protecting their assets using offshore shells was one way to hedge against risks posed by their own island’s looming return to China.

In the 1990s the Caribbean offshore centres were “very wild west”, in the words of Jason Sharman at the University of Cambridge. “Think private jets full of cocaine cash being flown in and taken to the bank,” he says. During that period the BVI’s financial sector grew by around 50% each year. At their busiest, bland buildings in Road

Town lent their addresses to some 480,000 fee-paying companies. That was more than 15 for every resident.

Since then the number of new companies being created every year has slowed dramatically, from almost 80,000 in 2007 to some 28,000 in 2022. The total number of businesses registered in the territory has fallen at a somewhat slower rate. Whereas customers once bought and threw away BVI companies at some speed, they now purchase fewer and hang on to them for longer. But this figure is also drifting downwards, nonetheless. Lately the government has managed to prop up the revenues this industry generates for the territory, in part by raising fees. But there is probably a limit to how long it can do that. Some of the BVI’s customers may be moving to incorporation centres that are cheaper and better able to promise anonymity, such as Delaware.

The BVI’s economy is more vulnerable to changing regulation than its Caribbean competitors because its financial sector is much less diverse. The Caymans is a big domicile for hedge funds; Bermuda a hub for insurers. The incorporation work which the BVI excels at is, by comparison, much easier to replicate. The territory has done a poorer job than its neighbours of building expertise in other kinds of financial and corporate services, which would provide more security as its ability to offer tax advantages and secrecy erodes. Efforts to diversify can be fraught with risk. The Bahamas courted cutting-edge finance, only to find it was host to Sam Bankman-Fried, a cryptocurrency tycoon, who was jailed on August 8th in the United States, ahead of his trial for fraud (in January he entered a plea of not guilty).

A government report published in 2014

noted that the BVI needed to diversify the kinds of financial services it offers, as well as strengthen other pillars of the economy, such as tourism. But progress has been slow. It has certainly not been aided by the catastrophic impact of Hurricane Irma, which struck the islands in 2017.

That calamity destroyed or damaged some 70% of buildings and set back essential efforts to improve infrastructure. Look away from Road Town’s shimmering harbours, and the territory looks scruffier than its income level suggests (its GDP per person is about the same as Britain’s). Fires smoulder at its rubbish dump. Its power station occasionally packs up. As elsewhere in the Caribbean, youngsters get tempted into gangs that ship drugs to the United States; violence sometimes results. On the edge of Road Town sits a car with three bullet holes in its windscreen.

No man is an island

Dysfunctional politics have harmed it, too. Even before Mr Fahie’s arrest, the BVI’s British governor had launched a commission seeking evidence of corruption or “serious dishonesty” in government. Last year it concluded that politicians had been spending public money “without applying any objective criteria, without giving any reasons and without fearing any comeback”. The British government declined to suspend the territory’s parliament, as the commission advised—but says it could still do so if islanders do not make reforms that its report recommended.

Locals insist that after years of tumult, the territory is finally making good progress. Lorna Smith, deputy leader in a government that took office this year, says her new ministry of financial services will protect the BVI’s incorporation business and ►



encourage value-added services to grow around it. She talks enthusiastically about opportunities in “blue finance”, under which the islands could raise money from international investors by protecting their waters and reefs. Next year, she adds, the bvi will host a big fintech conference on a cruise ship. Mr Wheatley, the premier, says that tourism is bouncing back from its pandemic doldrums. For the first time in years visitors can reach the islands on a direct flight from Miami.

Making the most of these opportunities will require reforms, such as slashing the red tape that impedes too many local entrepreneurs. It will mean liberalising the bvi’s immigration system (until now islanders have not been very keen to offer admission and long-term residency to large numbers of foreigners). In particular, it will require big efforts to fix iffy schools, which during fat years proved easy to neglect. Without these solid foundations, the treasure islands risk slipping behind. ■

be quickly resolved. “The message of the voters was very clear,” he says.

Similarly, in Ecuador the electoral period has been turbulent. Just 11 days before the vote Fernando Villavicencio, a candidate campaigning on an anti-corruption platform, was shot and killed. This led analysts to believe that candidates who emphasised a law-and-order message would come out on top. Homicide rates have quadrupled since 2018 to 26 per 100,000 people per year. That is a higher rate than in Mexico or Colombia.

Instead, Ecuador’s result shows a deeply divided country. Ms González won 34% of votes. Her success points to the continuing influence of Mr Correa, who ruled from 2007 to 2017 and later went into self-imposed exile in Belgium, where he worked as a host for Russia Today, a news channel linked to the Kremlin. In 2020 he was tried in absentia for corruption (which he denies) and sentenced to jail for eight years. But many voters may be nostalgic for his rule, which coincided with a commodities boom. Poverty rates fell and the country was relatively peaceful.

By contrast, Mr Noboa’s surprise second-place showing, with 23% of the votes, suggests that some Ecuadoreans—particularly younger ones—want something different. Mr Noboa, a lawmaker since 2021, is the scion of one of Latin America’s richest families. His father unsuccessfully ran for the presidency five times. Mr Noboa talks about boosting free-trade agreements and cutting taxes. He performed well in the final presidential debate, and clips of his performance went viral online. If he can win over those voters who plumped for the other centrist candidates, or those who do not fondly recall Mr Correa, he could win in the run-off on October 15th.

Once in power, however, these reforming politicians will face huge challenges. The Guatemalan elite will probably try to put obstacles in Mr Arévalo’s way, especially as he has stated clearly that he will challenge their control of state institutions. Semilla won 35 seats in the Congress in elections in June, a big increase from its previous seven. But it is only the third-largest party. Ecuador’s Congress looks set to remain fragmented, too.

Success for underdog candidates is not limited to these countries. Last week Javier Milei, a libertarian economist who was elected to Congress in 2021, won the most votes in Argentina’s primaries. He will now face more established politicians in the election on October 22nd. Surprise winners do not always work out well: El Salvador’s Nayib Bukele has slashed murder rates since being elected in 2019, but he has attacked institutions and is seeking to stay in power beyond the country’s permitted term limits. Many Guatemalans hope that Mr Arévalo, at least, will be different. ■

A win for democracy

The rise of the outsider candidate

MEXICO CITY AND QUITO

Elections in Ecuador and Guatemala suggest an ongoing anti-incumbent surge

ON AUGUST 20TH voters went to the polls in Ecuador and Guatemala. Both produced results that would have been unthinkable just a few weeks ago. In Ecuador two candidates will now head to a run-off: Luisa González, a protégée of Rafael Correa, a former left-wing populist president, and Daniel Noboa, a 35-year-old who was polling in single digits a few days before the vote. In Guatemala the result was a landslide win for Bernardo Arévalo, a reformer who took 61% of votes, far ahead of the 39% gained by Sandra Torres, a former first lady on her third (unsuccessful) run for the presidency. Both elections show that Latin Americans are fed up with the status quo.

Mr Arévalo, the son of Guatemala’s first democratically elected president, pledges to tackle corruption. This appealed to voters angry at the influence over the state exercised by a sprawling network of political, military and economic elites, which Guatemalans call “the pact of the corrupt”. Although Mr Arévalo has spent part of his career as a diplomat, his party, Movimiento a Semilla (Seed Movement), is relatively new and founded by academics.

Two polls, one theme

Across the region, voters have long been restless at the rise in corruption and crime. In Guatemala this has been particularly obvious. In 2019 a UN-backed anti-corruption body was shut down by a former president. Lawmakers are widely believed to take money from drug-traffickers in exchange for their connivance. Under the outgoing president, Alejandro Giammattei, the courts have been stacked with people loyal to the political elite. Scores of independent-minded judges and journalists have fled the country.

Many hope Mr Arévalo’s win can re-

verse this democratic decline. Guatemalans in the capital celebrated with fireworks. Fears that the “pact of the corrupt” would scupper the election did not come to pass. Voting took place peacefully, without any reports of major irregularities. Indeed Mr Giammattei was quick to congratulate Mr Arévalo.

Legal challenges are likely between now and the inauguration in January, however. Ms Torres has yet to accept the result. Nine political parties launched a spurious legal challenge to the vote following the first round in June. Another ongoing case seeks to revoke Semilla’s legal status on the basis of irregularities in its registration (these are denied by the party). Still, Juan Carlos Zapata of Fundesa, a think-tank in Guatemala City, reckons that any challenges will



A new face, Bernardo Arévalo



Indo-Pacific geostrategy

The great mateship takes on China

BRISBANE, CANBERRA AND SYDNEY

Australia is America's new launch-pad into Asia. Some Australians are worried

WHEN IMPERIAL Japan's troops were sweeping all before them in 1941, the Australian prime minister, John Curtin, made a desperate turn. Cutting the last bonds of colonial fealty, he issued this plea: "Australia looks to America, free of any pangs as to our traditional links or kinship with the United Kingdom."

These days, Australia and America are keenly looking to each other again, to confront China. Their "mateship" is undergoing its greatest overhaul since General Douglas MacArthur led allied troops from Brisbane. Australia is upgrading its military bases to host more American forces and arming itself with weapons that can threaten China. It is also helping America weave a wider "latticework" of ad hoc security pacts across the Indo-Pacific region.

"We have no greater friend, no greater partner, no greater ally than Australia," declared Antony Blinken, America's secretary of state, during a recent visit. And he meant it. If America ever goes to war with China, American officials say the Aussies would be the likeliest allies to be fighting with them. Yet the risks and cost of their more

aggressive security posture are causing some disquiet in Australia.

It is, for now, less conspicuous than recent progress in the bilateral relationship. Much pomp attended the American warship *USS Canberra* when she entered Sydney harbour to be commissioned on July 22nd. Escorted by her Australian namesake, *HMAS Canberra*, she was the first American warship commissioned in a foreign country. The two vessels, named after an Australian cruiser sunk in 1942, are symbols of burgeoning ties. This week *HMAS Canberra* conducted war games with the Philippines with American marines and their MV-22B tilt-rotor aircraft aboard.

With a population of just 26m, on an island-continent spanning three time zones, Australia has capable but only mod-

est armed forces. Its 58,000 personnel are very roughly a third the size of America's Marine Corps or Britain's armed forces. But Australia plays an outsize role because it has things America needs: trustworthiness, a shared perception of the Chinese threat and a valuable geography.

As a member of the "Five Eyes", Australia and America have long shared intelligence, along with Britain, Canada and New Zealand. Australia has also taken part in American wars that others shunned, such as in Vietnam. A "fear of abandonment", as some see it, underlies Australia's readiness to pay a blood price for the relationship. Naturally, officials on both sides prefer to see this as an enduring strength.

Highlighting the threat of China, Australia's Defence Strategic Review, issued in April, stated that: "The United States is no longer the unipolar leader of the Indo-Pacific." Partly as a result, Australia no longer has a decade of "warning time" of possible war. In the missile age, it is also no longer far from the world's troubles. The answer, Australian strategists concluded, is for Australia to cling all the more tightly to America, "contribute more to regional stability" and develop weapons "to hold an adversary at risk further from our shores".

Australia's geographical advantage is that it lies in what strategists call a Goldilocks zone: well placed to help America project power into Asia, but beyond the range of most of China's weapons. It is also large, which helps America scatter its forces to avoid giving China easy targets. ►

→ Also in this section

28 Thailand's new government

29 Japan's porn industry

30 Banyan: Trashing Muhammad Yunus

The most ambitious leap for the alliance is the AUKUS defence-industrial agreement, which some liken to a marriage. The centrepiece is a long-term effort to arm Australia with nuclear-powered (but not nuclear-armed) submarines. The boats are planned to be British-designed with American nuclear propulsion, and to emerge in the 2040s. That could be a problem. The geopolitical risk may be sharpest this decade, as China seeks the capacity to invade Taiwan by 2027.

American *Virginia*-class attack submarines will therefore call more often at *HMAS Stirling*, a base on the western coast, as the *uss North Carolina* did earlier this month. From 2027 America will rotate four subs through the base (Britain will send another). In the 2030s Australia aims to buy three, and perhaps five, of its own *Virginia* boats. Plans are afoot for a second submarine base on the east coast.

The second "pillar" of AUKUS ranges from co-operation on artificial intelligence to quantum computing and hypersonic missiles. The three partners hope it will start to deliver deployable technology within months. America also promises to help Australia make, repair and maintain munitions, including missiles for the HIMARS system, now busy in Ukraine, which Australia is buying. This would help ease the West's munitions bottlenecks. On August 21st Australia announced plans to buy 200 Tomahawk ship-borne cruise missiles, with a range of about 1,500km.

Not quite so fast...

Joint weapons development will work best if America grants AUKUS partners waivers from rules that guard American know-how. Some talk of a "free-trade agreement in defence". The Pentagon is supportive. Whether the State Department and Congress will agree is unclear. A more immediate possible sticking-point is a Republican reluctance to give Australia precious *Virginia*-class boats at a time when America does not have enough of its own.

The politics of AUKUS are even harder in Australia, despite bipartisan support for the deal. It was signed in 2021 by the conservative government of Scott Morrison, and later endorsed by his Labor successor, Anthony Albanese, a left-winger who did not want to be considered weak on defence. Stalwarts on the Labor right have long been critical. Bob Carr, a former foreign minister, criticises the "grandiosity" of AUKUS, based on a reasonable fear that it risks hollowing out the rest of the armed forces. He also worries that Australia is making itself a target for nuclear attack. On August 18th, at Labor's annual conference, loud dissent emerged from the Labor left, too. The Greens, on whom Labor relies for support in the Senate, are also hostile.

The opposition is relatively small for



now. Mr Albanese won the support of the Labor conference, albeit with a promise that all AUKUS boats would be built locally and that Australia could not "be directed" by others on their use. Not for Labor the forthright view of Peter Dutton, the Morrison-era defence minister, who declared in 2021 that "it would be inconceivable that we wouldn't support the us in an action". Even so, AUKUS almost inevitably makes such Australian participation more likely.

The public is also broadly on board. A survey by the Lowy Institute, published in June, found 82% of Australians considered the alliance "important" or "very important". A majority favoured establishing American bases on Australian soil. Two-thirds supported acquiring nuclear-powered submarines, though many recoiled when told the likely price: A\$268bn-368bn (\$173bn-238bn) over three decades. In case of a war over Taiwan, a majority would send the navy to prevent a Chinese blockade. Most opposed sending troops.

But if most Australians view China as a threat rather than an economic partner, the government recognises that Mr Morrison's hawkishness contributed to his electoral defeat, especially among Australia's many China-born voters. Hence Mr Albanese's greater stress on regional diplomacy and stabilising relations with China. He is due to visit Manila, Washington and, perhaps, Beijing, in the coming months.

Meanwhile, Australian exports to China are booming, reaching a record A\$103bn in the first half of this year, partly on the back of growing sales of lithium concentrate. China has ended unofficial bans on Australia's timber and coal, and recently lifted tariffs on its barley.

Mr Albanese stresses the job-creating potential of AUKUS. But its financial cost may end up mattering more. Experts doubt that the new weaponry can be paid for under Australia's current plans. The core defence budget is set to shrink in the next two

years. Thereafter, total defence spending will rise only gradually, from the current 2% of GDP to about 2.3% in 2033.

For Hugh White of Australian National University, Australia would do better to defend waters closer to home with cheaper diesel-electric submarines. Efforts to preserve America's primacy are doomed to fail, he says: America cannot win a conventional war close to China's shore and may ultimately pull back from Asia.

Champions of AUKUS retort that losing Taiwan would mean the "Finlandisation" of much of Asia, ie, its subjugation to China even if countries remain sovereign. Moreover, adds Michael Green of the University of Sydney, China's economic woes suggest its dominance is not preordained.

For America, the relationship showcases its effort to rally allies against China without suggesting it is rushing to war. Australia must balance a fear of abandonment against a reasonable fear of entanglement. Critics of AUKUS cite a comment attributed to Kurt Campbell, Mr Biden's Asia "tsar", who reputedly said of Australia: "We have them locked in now for the next 40 years." Equally, though, Australia may have America locked in for the same duration. ■

Thailand's new government

Thaksin's grubby compromise

SINGAPORE

The monarcho-military establishment stiffs the democrats

EVER SINCE Thaksin Shinawatra, one of Thailand's richest men, became prime minister in 2001 he has loomed over the country's politics. Leaders of the army and royal establishment, Thailand's dominant institutions, despise him and resent his popularity among the poor Thais he wooed with populist giveaways. Even after Mr Thaksin was ousted in an army coup in 2006 and later fled the country, parties connected to his family continued to command widespread support.

That pattern shifted dramatically in May, when a party of punchy liberal reformers called Move Forward won more seats than any other party. This was a threat to the military establishment—which therefore used its control of an army-rigged system to stop Move Forward forming a government. The deadlock ended on August 22nd when Srettha Thavisin, a property tycoon and candidate from Mr Thaksin's Pheu Thai party, was appointed as the country's next prime minister.

At the head of a sprawling coalition of 11 parties, he received a clinching majority in a combined vote of the House of Represen-

tatives and the military-appointed Senate. After weeks of uncertainty, the promise of a functioning government was needed; the Thai baht rose on the news. But the deal between Mr Thaksin and the military establishment, in effect to nobble Move Forward, looks bad for Thai democracy.

A former critic of the establishment, Mr Thaksin has now launched his party into a coalition including the two largest military parties—an arrangement Pheu Thai had previously forsaken. Move Forward, which said it would not support any alliance with pro-military parties, will now be the main opposition party.

The price of Pheu Thai's accommodation with the establishment was suggested earlier on August 22nd, when Mr Thaksin arrived in Bangkok by private jet, thereby ending 15 years in self-imposed exile. Upon disembarking, he bowed before a portrait of the king. He was then arrested on long-standing corruption charges for which he has been sentenced to eight years in prison. But he is expected to receive a royal pardon before long. How active a role he will then play in politics is unclear. The 74-year-old claims merely to want to be close to his grandchildren. But even if that were plausible, his lead role in the formation of the new government is testament to his continuing political clout.

Many in Thailand are outraged by Mr Thaksin's opportunism. Ahead of the election, Pheu Thai promised to minimise the army's role in politics. It had good reason to. Mr Thaksin is not the only member of his family ousted in a military coup; a government led by his sister, Yingluck Shinawatra, was also toppled in 2014. During violent street protests in 2010, the army shot and killed Mr Thaksin's supporters. Yet instead of reducing the army, Mr Thaksin has now cemented its overreach. Mr Srettha would not have been appointed without support from pro-military parties.

Mr Thaksin's party may come to rue this. In a poll by the National Institute of Development Administration, a research outfit, over 60% of Thais said they disagreed with Pheu Thai going into government with pro-military parties. In expectation of the deal, protesters recently gathered outside Pheu Thai's headquarters in Bangkok. Some poured fake blood onto effigies of Mr Thaksin and set them alight.

Mr Thaksin and his party must hope to placate Thais by providing better government than the army has. That should not be hard. A decade of military rule has been defined by incompetence and corruption. Thailand's economy has lagged its neighbours, including Indonesia and Vietnam. Its post-covid economic recovery has been the slowest in South-East Asia. Mr Thaksin and his party at least have a record of decent economic management. And despite the sprawling nature of its new coalition, it



Thaksin times

should survive a four-year term, predicts Siripan Nogsuan Sawasdee of Chulalongkorn University. That is because, if the government foundered and fresh elections were held, Move Forward would be likely to win by a bigger margin than it did in May. Despite Mr Thaksin's dealmaking, Thailand's most popular party is not done yet. ■

Japan's porn industry

Regulating sex

TOKYO

Politicians want to protect porn actors, but many want to be left alone

KURUMIN AROMA, a 33-year-old YouTuber who lives near Tokyo, used to dream of becoming a singer. A decade ago, a man approached her on the street and asked her to be a swimsuit model. He also offered to pay for singing classes and help her succeed in the entertainment business. After some cajoling, she agreed. On the day of the photo shoot, she was coaxed into getting naked. She ended up appearing in several porn videos. Beset by feelings of shame and fear, Ms Kurumin considered committing suicide. "I kept thinking: what went wrong with my life?"

The Japanese porn industry is enormous. It is estimated to churn out 4,500 videos a month, to generate about 55bn yen (about \$380m) a year, and to employ around 10,000 performers. While it has shrunk since its peak in the early 2010s it remains a significant export, including to South Korea, where the production and distribution of pornography is officially banned. Taipei, Taiwan's capital, once issued metro cards stamped with the picture of a popular Japanese porn starlet.

The Japanese industry long existed in a

legal grey zone. That changed in May 2022 when the government passed a law targeting the sort of coercion Ms Kurumin had experienced. It obliges companies to sign contracts with performers, and to clarify what they are expected to do during shoots. For such a law to have passed Japan's male-dominated parliament (only 15% of legislators are women) was a "miracle", says Shiomura Ayaka, who, as a member of the opposition Constitutional Democratic Party, initiated it.

Abuse in the porn industry had long been a concern. In 2020 a government survey suggested one in four women under 40 had been accosted on the streets about supposed modelling gigs. Of those who agreed, 14% were asked to perform sex acts.

The problem became more urgent last year when Japan lowered the age of adulthood from 20 to 18. That meant teenagers could become legitimate targets of the porn industry. "We could have seen a surge in high-school girls turned porn stars," says Ms Shiomura. Last year, before the adult age was lowered, 40,000 people signed an online petition urging legislators to allow 18- and 19-year-olds to void porn contracts. The new law ended up extending that protection to all age groups.

Yet the law has sparked a fierce backlash from porn-industry workers. Before passing the law, which took just three months, politicians conducted hearings with victims of the industry and groups that help them, but did not make much effort to speak to representatives of the thousands who work in it willingly.

The hasty passage of the bill also caused confusion about its contents. A survey last year found that more than half of porn actors had seen job offers and income fall after its passage. Actors and producers have criticised various provisions in the law as unrealistic. These include forbidding filming for a month after contracts are signed, and banning the release of videos ►



Girls on film

► for four months after they are shot.

In the 2010s Japan saw a series of coercion allegations like Ms Kurumin's. Facing a public backlash, the porn industry "had to transform to survive," says an industry player. In 2017 it formed an oversight organisation, the AV Human Rights Ethics Organisation. This body established rules that mandate contracts, regular inspections and certification of porn.

Yet how much the porn industry has improved is unclear, as is the extent of ongoing exploitation. A lack of research makes the industry a black box, says Ma-

kihara Hideki of the ruling Liberal Democratic Party, who took part in negotiations on last year's law. While big porn-production companies tend to be fairly transparent, there are believed to be many underground businesses that ignore the rules.

Some feminists object to the new law on the basis that it legitimises porn. "There's no such thing as consent in the sex industry. You can't buy sexual consent," says Kanajiri Kazuna of PAPS, an NPO that helps victims of the porn industry.

There is at least agreement on the need for a broader debate about consent. Laws

on sex and women's rights in Japan are outdated, though improving. In June the country raised the age of sexual consent from 13 to 16. In March it amended the legal definition of rape to "non-consensual sexual intercourse", removing a stipulation that the crime involve physical force.

Still, Ms Kurumin doubts that the porn law "could actually save others from going through" what she did. Improving sex education at schools and teaching students about consent might help, she suggests. At least Japan is now not only watching sex avidly, but talking about it seriously. ■

Banyan The trials of Muhammad Yunus

Bangladesh is lurching towards repressive one-party rule

TO FOREIGN DONORS, development wonks and some of the world's poorest people, Muhammad Yunus is a hero. The Bangladeshi economist, social entrepreneur and founder of Grameen Bank pioneered the use of microloans and other services for those too marginalised to access conventional banking systems. In 2006 Mr Yunus won the Nobel peace prize for his work in grassroots development—empowering the most impious. The model he helped pioneer did much to improve economic, social and health conditions in Bangladesh. It has since spread across continents.

Yet to Sheikh Hasina Wajed, the prime minister who has ruled Bangladesh since 2009 (and once before), Mr Yunus is diabolical. With a general election due in January, she salts campaign speeches with attacks on him. She calls the development hero a "bloodsucker" of the poor, hellbound for his supposedly extortionate interest rates. She accuses him of embezzlement. She blames him for the World Bank's decision in 2012 to withdraw from a crucial bridge project over the Padma river, the main channel of the Ganges in Bangladesh, citing corruption. She hints that Mr Yunus might have betrayed his country, by somehow scheming with America to help it control the Bay of Bengal.

Sheikh Hasina has long had it in for Mr Yunus. In 2011 she pushed for his removal as head of Grameen Bank; later the government took control of its board. His main offence may perhaps be that, back in 2007, during a grim period of military rule, he briefly toyed with the idea of entering politics. But it was never a very serious prospect; politics, he tells Banyan, "is not my cup of tea". Now 83, Mr Yunus patently poses no direct threat to Sheikh Hasina. But that is not deter-

ring the prime minister's Awami League (AL) and the country's compliant police and judiciary from redoubling the persecution that she has unleashed.

Mr Yunus has been hauled before the anti-corruption commission and faces charges of tax evasion and labour infringements. He fears he will be arrested. Some suggest the assault is a precursor to the government seizing Grameenphone, the country's biggest mobile operator, which he also helped to launch.

Sheikh Hasina appears to find it unbearable that anyone might oppose or outshine her. The 75-year-old leader, whose father was Bangladesh's first president, talks as if she will be in charge for ever. The coming election may seal Bangladesh's descent into a one-party state.

A campaign rally in July by the opposition Bangladesh Nationalist Party (BNP) was met with rubber bullets and tear-gas. Human Rights Watch describes a "systematic" assault on the opposition. Over 800 BNP activists have been arrested. The opposition party claims that over 4m cases have been filed against its leaders

and supporters since 2009. Critics of the prime minister in Dhaka mutter that, if only she could, she would emulate the "Terminator" and go back in time to kill her future challengers.

Sheikh Hasina's sense of entitlement to Bangladesh is rooted in tragic loss: her father, Sheikh Mujibur Rahman, and nearly all her other close relatives were murdered in an army coup in 1975. Yet the personality cult she has built for her assassinated father—and by extension herself—is pernicious. Those who join this cult are assisting a regime thick with cronyism and corruption. In return for backing the government, favoured tycoons win banking licences and other plums. Meanwhile, Bangladesh's years of strong economic performance look imperilled. Its economic growth is far too reliant on one sector, clothing, as well as on remittances from Bangladeshis toiling overseas.

This amounts to a dreadful threat to Bangladesh's progress. It is also wholly unnecessary, even for Sheikh Hasina. If she allowed a free election, she would probably win it, so weak is the opposition. But she will not put that to the test, in part because she considers her authoritarianism risk-free. Though she rails against Western countries for opposing her repression, their criticisms of her have in truth been muted. Only recently did America, which fears China's efforts to woo Bangladeshis who undermine democracy. The attack on Mr Yunus, a sainted figure in the West and (gallingly for Sheikh Hasina) perhaps the best-known Bangladeshi, is emblematic of her sense of impunity. Would America and its allies finally balk if the octogenarian were arrested? That might be Mr Yunus's best hope.





Learning Mandarin

How do you say “not interested”?

Studying China's main language does not seem as worthwhile as it once did

TEN YEARS ago Mandarin, the mother tongue of most Chinese, was being hyped as the language of the future. In 2015 the administration of Barack Obama called for 1m primary- and secondary-school students in America to learn it by 2020. In 2016 Britain followed suit, encouraging kids to study “one of the most important languages for the UK's future prosperity”. Elsewhere, too, there seemed to be a growing interest in Mandarin, as China's influence and economic heft increased. So why, a decade later, does Mandarin-learning appear to have declined in many places?

Good numbers are tough to come by in some countries, but the trend is clear among university students in the English-speaking world. In America, for example, the number taking Mandarin courses peaked around 2013. From 2016 to 2020 enrolment in such courses fell by 21%, according to the Modern Language Association, which promotes language study. In Britain the number of students admitted to

Chinese-studies programmes dropped by 31% between 2012 and 2021, according to the Higher Education Statistics Association, which counts such things (though it does not count those who take Mandarin as part of other degrees).

China may be the top trade partner of Australia and New Zealand, but in those countries, too, local enthusiasm for learning Mandarin is flagging. Enrolment in university courses fell by a whopping 48% in New Zealand between 2013 and 2022. The dynamic looks similar in Germany, where the data show a decreasing appetite for Chinese studies among first-year university students. Scholars in Nordic coun-

tries report similar trends.

To be sure, the study of modern languages is falling across the board in many rich countries. In general, students are drifting away from the humanities. Mandarin seemed like it would buck this trend. However, the study of it in American universities has fallen faster than enrolments in all foreign languages combined.

According to an international survey taken in 2016 of education agents—consultants who help students to choose institutions—the most common reason people studied Mandarin back then was to improve their employment prospects. At the time, even a little Mandarin went a long way. From 2010 to 2015 the number of job postings in America that required skills in the language increased by 230%, according to the Language Connects Foundation, a lobby group. It reckons that American firms continue to desire Mandarin over any other foreign language, save Spanish. But that no longer seems to motivate students. Jennifer Liu, who runs Harvard University's Mandarin programme, says engagement by business students has fallen over the past decade, compared with those studying international affairs and security.

It could be that the market has changed. Tools like Google Translate and ChatGPT work so well that low-level Mandarin skills aren't really needed anymore. The market may have also got more competitive. Bilin-►

→ Also in this section

32 America reconsiders an old deal

33 Football in the countryside

34 Chaguan: Hong Kong's lessons

►gual Chinese graduates now fill many of the jobs that require Mandarin. In terms of language skills, they are often more qualified than their Western counterparts. All Chinese children start learning English by age eight, some even earlier. University-entrance exams in China require a high level of proficiency.

Students in the West may have also soured on the idea of doing business with China. Mandarin teachers point to the Beijing Olympics in 2008 as a seminal moment, when excitement for learning the language took off. Since then, though, China has grown more oppressive under Xi Jinping. Its human-rights abuses in Xinjiang and Hong Kong have been widely reported. In most rich countries negative views of China are at or near all-time highs.

At the same time, tensions between China and the West have risen. American and European leaders now talk of "de-risking" their economic ties with China. Analysts fear that a broader decoupling is taking place. The shift in narratives about China, from a place to make money to America's main rival, has affected student choices, reckons James Gethyn Evans of Harvard. Many now see no point in studying Mandarin, says Chen Dongdong of Seton Hall University (in New Jersey), where the number of students taking Mandarin classes has nearly halved in ten years.

There are also fewer American university students studying in China. The number peaked in 2011, even as the total studying abroad continued to grow. One reason may be pollution. Around that time, Western media regularly reported on Beijing's "airpocalypse". The capital's heavy smog made it difficult for foreign firms and embassies in China to recruit people, with or without Mandarin skills.

In need of a BTS

In many ways, the linguistic reach of a country is an expression of its soft power. Take South Korea, which can point to such cultural exports as BTS, a wildly popular boy band, "Parasite", an Oscar-winning film, and "Squid Game", a hit television show. Enrolment in Korean courses at American universities rose by 25% between 2016 and 2020. On Duolingo, a language-learning app, Korean is more popular than Mandarin.

China's soft power is weak by comparison, in part because its entertainment industry must please the Communist Party. Few of its cultural offerings have caught on in the West (see Culture section). China has more influence in poor countries, where its Belt and Road Initiative, a spree of global infrastructure building, is most active. In these places, Mandarin-learning appears to be ticking up. More than 81,000 students from Africa were studying in China in 2018, the last year for which data are

China and America

Political science

BEIJING

Time is running out for an old agreement about scientific research

AMERICA AND China established full diplomatic relations on January 1st 1979. By the end of that month they had also signed the Science and Technology Co-operation Agreement (STA). The deal didn't commit either side to much, but it laid out a shared desire for collaboration in these areas. Its terms call for renewal "by mutual agreement" every five years. For decades that happened with little fuss. Now, though, things are looking shaky. The deadline is August 27th.

China wants to stay in the deal. America is seeking a sixth-month extension so that it can negotiate changes to the pact. President Joe Biden is under pressure from Republicans to ditch the agreement. Some have written letters to Antony Blinken, the secretary of state. In one, ten congressmen claimed that China "has previously leveraged the STA to advance its military objectives and will

continue to do so." America, they added, must "stop fuelling its own destruction".

Backers of the STA say it has symbolic value, being among the first bilateral agreements signed by the countries after ties were established. And it has produced tangible benefits, too. They say that joint research enabled by the STA has helped prevent spinal birth defects and led to the regular monitoring of influenza strains, which is needed to formulate vaccines each year. They also cite achievements in seismology, agriculture, clean energy and other fields.

The STA does not fund or require any action. Rather, it is an umbrella agreement under which specific collaboration can be negotiated. Since it was signed, almost 100 protocols and annexes have brought American and Chinese scientists together. If any of those cause concern, they can be amended, abrogated or allowed to expire. In recent years, the level of activity occurring under the STA has decreased, partly because of the covid-19 pandemic and partly because of growing mistrust on both sides.

In 1979 America was already a scientific superpower, while China had relatively little expertise to offer. Now, though, China has caught up in many areas, so the potential benefits for America of staying in the STA are only increasing, say its proponents. The Biden administration says it wants to "strengthen" the deal. But it has already placed restrictions on the sale of certain technologies to China, such as advanced semiconductors, and prohibited American investment in some of the country's high-tech sectors. With elections coming next year, no one in Washington wants to appear soft on China.



The window is closing

available. (Many were on Chinese-government scholarships.) China's deployment of Confucius Institutes has also helped. These offer instruction in Mandarin, as well as other Chinese cultural pursuits.

Confucius Institutes were once prevalent on Western university campuses, too, providing them with cheap Mandarin teachers. But the outposts were accused of pushing a political agenda. Since 2017 more than 100 American universities have closed them. Universities elsewhere in the West have taken similar steps.

Western governments, though, say they need more people with advanced Mandarin skills. The CIA, for example, is looking

to double the number of Mandarin-speakers that it employs. America's State Department deems it a "critical language". Britain is underpowered when it comes to expertise on China and the ability to speak its main language, according to a recent official report. The German government has said much the same thing.

As China and the West, especially America, struggle to get along, those who learn Mandarin seem more likely to be future spies and diplomats than businesspeople. Whether that will help ease a sense of mutual mistrust is an open question. For now, China and its rivals are doing a good job of misunderstanding each other. ■

Village sports

Score one for the countryside

RONGJIANG

An amateur football league became a social-media phenomenon. Can the host keep up the momentum?

RONGJIANG COUNTY, tucked away in the rainy hills of south-west China, has little going for it at first glance. The grey tiles covering houses in the county seat give it a rather drab feel. The area was one of the last in China to be declared free of extreme poverty. Locals often have to find work elsewhere, travelling to distant factories and construction sites. In 2019 a video went viral of three young children in Rongjiang begging their migrant-worker parents to stay with them.

Yet this summer it was Chinese from far-off cities who flocked to Rongjiang. They came to watch an amateur football league involving 20 of the county's villages. It started in May and quickly became a phenomenon. Weekend matches between teams made up of butchers and farmers drew crowds of nearly 50,000, straining the local stadium. Millions more watched on Weibo, a Twitter-like platform, and Douyin, the Chinese version of TikTok.

The league's group stage finished in mid-July. When your correspondent visited to watch the semi-finals of the knockout stage on July 28th, every hotel in town was fully booked. Some fans camped out by a river, their tents and rice-cookers sheltered by a rough concrete bridge.

There are many reasons behind the popularity of the Rongjiang league, which is men only. Start with the state of professional football. Despite decades of investment by China's leader and chief fan, Xi Jinping, the country's players are not very good. The men's national team, made up of players from China's top league, ranks 78th in the world (the women rank 14th). It has only qualified for the World Cup once, in 2002, when it failed to score a single goal. Lately China's football association, which oversees the sport, has been dogged by allegations of corruption.

The Rongjiang league, by contrast, has an authentic, even wholesome feel. Football in the county dates back to the 1940s, when it was introduced by university students who were fleeing China's cities during the invasion by Japan. Today the games are free to watch and feel enjoyably low pressure. Players brush off their missed shots with grins. After a penalty shoot-out in the semi-finals, fans swarmed the pitch waving China's national flag. The winners of this year's tournament, from a village in Chejiang township, walked away with a cow. The two runners-up won three pigs

and three goats, respectively.

The league's cultural diversity is another draw. The players come from several minority ethnic groups, of which the biggest are the Dong and the Miao. During breaks in the matches, villagers in traditional silver headdresses often dance for the crowd. Others play *lusheng*, a musical instrument with multiple bamboo pipes. The performances are well received by locals and visiting Han Chinese, who make up more than 90% of China's population. Some of the latter are patronising, though. "The more backward people are, the more enthusiastic they are too," says one. China's minorities are often presented by official media as fun-loving curiosities.

A kick for business

To the delight of officials at all levels, the league appears to have stimulated the local economy. During the Dragon Boat festival in June tourism spending shot up, much of it coming from football fans. Restaurants selling *niubie*, a kind of soup made from partially digested grass found in a cow's stomach, have been packed of late. (The grass is extracted early in the digestive process, says a local rather defensively.) Vendors at the hundreds of stalls set up by the local government outside the stadium re-

port a brisk trade. Most sell food or traditional crafts. A man hawking barbecue skewers says he has doubled his income.

Officials are calling Rongjiang a successful case of "rural revitalisation", which is a pet project of Mr Xi. He wants to boost development in the countryside. Following his lead, state media have raved about Rongjiang. Even China's foreign embassies boasted about the football matches. In June the central government called for over 100 new sporting events to be set up in rural areas by 2035.

But there are concerns that the success of Rongjiang may be fleeting. Attracting crowds to this part of China is not easy. Before the football league, officials tried to draw tourists by touting sports such as bullfighting and basketball. An effort was made to promote local customs, too. None of these really caught on.

The city of Zibo, in the northern province of Shandong, provides a cautionary tale. It became a social-media phenomenon when word of its delicious kebabs began making the rounds earlier this year. Tourists flocked to the city, where officials turned arenas into makeshift dining halls. But after a few months of this barbecue craze, interest in Zibo slumped.

Still, officials think they have found a winning strategy for the countryside. A new football league began this month and will run until October. This one is a little more contrived. It involves nearly 300 amateur teams from all around China. Each is named after a food. On August 13th a team called the Sour Soups from the nearby city of Kaili beat the Bamboo Shoots from the southern province of Guangdong. The stadium in Rongjiang was still packed. ■



Do it for the cow

Chaguan | Hong Kong's lessons for the world

Repression in Hong Kong is a work in progress, and a revealing window on Xi Jinping's worldview



HONG KONG is becoming less and less relevant," says a Western diplomat in the city. On the face of it, that is an odd claim. Lots of foreign governments take Hong Kong seriously, noting each step of the financial centre's journey towards autocracy.

Only last month the governments of America, Australia and Britain formally protested when the authorities in Hong Kong announced bounties of HK\$1m (\$128,000) on eight democracy activists living as exiles in their respective countries. The territory's chief executive, John Lee, a former police officer, pledged that the eight will be "pursued for life" and "spend their days in fear". This was not mere bluster. In recent times police have swooped on Hong Kong-based family members of those exiles, questioning them for hours about contacts with their relatives.

The European Union's latest annual report on Hong Kong, published on August 18th, is both grim and thorough. It describes the arrests of hundreds of opposition politicians, journalists and democracy activists, among them a retired Roman Catholic cardinal in his 90s, under a national-security law imposed on the city by the central government in Beijing. The report catalogues new pressures and controls on schools and universities, environmental groups, trade unions and professional associations. More broadly, diplomats posted to Hong Kong by dozens of countries have spent long hours observing national-security trials, held without juries before panels of hand-picked judges. Dutifully, foreign envoys write reports on stage-managed "elections". Some of those contests involve a single, pre-screened candidate—the only one to meet the requirement, imposed from Beijing after anti-government protests in 2019, that "patriots administer Hong Kong".

For all those signs of external scrutiny, there are signs of policymakers in foreign capitals losing interest, or at least hope. The Western diplomat laments that, back home, the city's smothering is considered a done deal. "When I talk to colleagues at headquarters, they already consider Hong Kong to be part of China."

Actually, such fatalism is a mistake, for both principled and practical reasons. Start with the former. Democratic governments cannot change the Communist Party. But they can make China's rulers pay a price when they break their word. To shrug and turn away from China's actions in Hong Kong would break faith with

the territory's 7.5m people, who were promised a high degree of autonomy and the preservation of many fundamental freedoms for 50 years after British colonial rule ended in 1997, under China's formulation of "one country, two systems".

Then there is the impact on the stand-off over Taiwan, the democratic, self-ruled island that China calls its own. China's preferred Taiwan scenario involves the island's peaceful submission, in return for limited autonomy under a version of "one country, two systems". If foreign governments allow China to trample commitments to Hong Kong with impunity, they risk encouraging rulers in Beijing to imagine they can do the same to Taiwan. It is hard to see how that could be a consensual, bloodless process. Understandably, China's crushing of freedoms in Hong Kong has left the people of Taiwan warier than ever of a mainland takeover.

There is a practical reason to keep tracking repression in Hong Kong, too. A good way to understand any edifice is to watch it being built. In the same way, the stifling of Hong Kong's pluralism is a work in progress, and as such is unusually revealing about the ambitions and terrors that drive China's secretive rulers, and about the controls they think are needed in an orderly society.

For now, the territory enjoys freedoms unknown in mainland China. The internet is not sealed behind China's "great firewall". One of the biggest threats to debate is arguably self-censorship, induced by fear and by deliberately vague calls by Hong Kong's officials to eradicate "soft resistance"—their sinister description of dissent that does not explicitly challenge the law.

The trends are ominous, though. When Xi Jinping, China's supreme leader, visited Hong Kong last year he called on officials to heed central authorities in Beijing, to guard against foreign interference and to tackle what he called locals' primary concerns, namely larger homes, more economic opportunities, better schools and quality care for the elderly. Hong Kong's leaders have made progress on Mr Xi's first two priorities, at least.

Their new political model has no time for the notion of loyal opposition. Officials praise the "efficiency" of the territory's Legislative Council since dissenting politicians were thrown out. School curriculums have shed classes that encourage critical thinking and added lessons about national security. The new model questions the legitimacy of even constructive criticism. When campaigners raise doubts about planned transport or housing schemes, state-backed news outlets denounce them for inciting "citizens' negative emotions against the government".

A world city no more

Hong Kong is being domesticated, in every sense of the word. To bring the city to heel, its leaders want to weaken the West's perceived influence. One of the exiles with a bounty on his head calls extraterritorial harassment a warning to Hong Kongers. "It is not as if they are going to extradite us," he says. "The audience is domestic." China is working to bind Hong Kong economically to nearby mainland cities. Reportedly, lucrative opportunities are increasingly steered to mainland firms in Hong Kong, or to "patriotic" locals. There is talk of admitting more mainland immigrants. Diplomats draw parallels with settler-colonialism practised elsewhere in China's restive periphery, from Tibet to Xinjiang.

Once, foreign governments and businesses predicted that Hong Kong's value as a global city would protect it from heavy-handed Chinese rule. Instead, party bosses prize control over openness: that is the ongoing lesson of Hong Kong. As a window on the party's bleak worldview, the city's fate is all too relevant. ■



Zimbabwe's elections

Déjà vu

HARARE AND MUTASA

The shenanigans of the ruling party suggest it fears the opposition's popularity

ONE OF THE few things still manufactured in Zimbabwe is support for the ruling party. "Zanu-PF has used all the old tactics and some new ones as well," said Happy Bangwayo, an unemployed voter outside a polling station in Harare, the capital, on August 23rd. Ballots should have arrived by 7am on election day. But in the poor urban areas that are strongholds of the Citizens Coalition for Change (ccc), the main opposition party, papers were not delivered until late in the afternoon.

The delay caused chaos in major cities as angry voters cast ballots by phone-light; others gave up. In the middle of the night local election-monitoring groups had their offices raided, undermining their ability to run checks on official tallies. "It's deliberate rigging," said Mr Bangwayo. "My name is Happy but I'm not happy."

Little wonder. Zanu-PF has misruled Zimbabwe for more than four decades. Real GDP per person is lower today than at the country's official independence in 1980. In a fair fight Nelson Chamisa, the 45-year-old leader of the ccc, would almost

certainly defeat Emmerson Mnangagwa, the 80-year-old president, who replaced Robert Mugabe in a coup in 2017.

But this is Zimbabwe. As *The Economist* went to press on August 24th there was mounting evidence that the regime was worried about the outcome of the election and was trying to sway it. The country looks set for days, if not weeks, of disputes, which will test the resilience of the regime, the opposition and outsiders' commitment to African democracy.

Ahead of the vote, 72% of Zimbabweans polled by Afrobarometer, a research group, said the country was going in the wrong direction. That is ten points higher than in 2018, when Mr Mnangagwa beat Mr Chamisa.

sa, ostensibly winning 50.8% in the first round of the presidential race. (There is a statutory run-off when the leading candidate wins less than half the vote.)

The economy is now in an even worse state. The Zimbabwean dollar, reintroduced a few years ago at nominal parity with the American greenback, trades at around 6,000 to one. Devaluation has wiped out the value of many salaries and pensions. Official annualised inflation was 101% in July. Parirenyatwa, the country's largest public hospital, has no paracetamol and no fluid drips. "People are really suffering," said Angela Bvekerwa, who brought a small wooden stool to ease fatigue as she waited for ballot papers in Harare. "Young people have no jobs. They're stressed and turning to drink and drugs."

The blame lies with Zanu-PF. Though more subtly than when Mugabe ordered the printing presses to spew out 100-trillion dollar bills, the state still prints money to fund its schemes, fuelling inflation. Allegations of corruption are rife. Earlier this year an investigation by Al Jazeera, a Qatar-based media network, accused the ruling establishment, including people close to Mr Mnangagwa, of profiting massively from an illicit trade in gold. (Zanu-PF denies the allegations.)

Some of Mr Chamisa's colleagues mutter about his ego and disorganised ways. But the lawyer and preacher connects with ordinary Zimbabweans. His party pledges to curb corruption, stabilise the economy ➤

→ Also in this section

36 Vox pops on Niger

37 Lebanon's tourism boom

37 Rehabilitating Iraqi jihadists

38 Palestinian wine-making

► and uphold the rule of law. Of three polls released this year, two put Mr Chamisa ahead. The other, by Afrobarometer, had 34% of respondents refusing to answer or saying "don't know", suggesting that many held their tongues for fear of speaking out.

A good showing for the ccc would fit wider trends. Across Africa, opposition parties have been gaining support, as young, urban voters tire of ruling regimes. Between 2011 and 2022, of the 42 cases where a new candidate became president after an election, 25 were from an opposition party, including in Kenya, Malawi and Zambia. In the previous decade this happened in just 13 of 29 similar cases.

But not for nothing does Zimbabwe make up a big chunk of a book called "How To Rig An Election" by Nic Cheeseman and Brian Klaas. Before the vote, state resources were diverted to party ends. Public media lavished praise on Zanu-PF and ignored the ccc. The ruling party dished out food and farming supplies to voters. Police prevented ccc rallies. Chiefs in rural areas were given cars and, in a nod to the times, solar-electricity kits. Churchmen, especially Pentecostalists and apostolic sects, were given government sinecures.

A recent law dubbed "the patriot bill" criminalised "wilfully injuring the sovereignty and national interest of Zimbabwe", giving the authorities vast scope to clamp down on dissent. A full list of polling stations was not released by the notionally independent electoral commission, raising fears of "phantom" sites where tallies can be altered by pro-Zanu-PF officials. Some foreign observers were deported, including—with no sense of irony—a delegation from Good Governance Africa, a pan-African advocacy group.

On election day, while urbanites struggled to vote, many Zimbabweans in rural areas were intimidated into doing so. In Mutasa, 300km east of Harare, tribal leaders told villagers to come to their homes for "orientation" before the vote. Some said they were told to opt for Zanu-PF or risk being beaten up. A new shadowy outfit known as Forever Associates Zimbabwe (FAZ), which analysts say is a front for spooks, set up tables draped in the logo of the ruling party. It demanded the names and identity numbers of voters before they went into the stations.

The ccc hopes that its support will be "too big to rig". It is running its own tabulations of returns from polling stations. If Mr Mnangagwa and Zanu-PF are declared winners it is highly likely that the ccc will contest the vote. But the judges who would rule on any court challenges are widely seen as compromised.

Outsiders may wonder why they should care about a poor landlocked autocracy. The plight of ordinary Zimbabweans is one reason. The possibility of post-election

Vox pops about Niger

Leave the generals alone

DAKAR
West Africans seem loth to reverse a recent coup by force

A SURVEY BY Premise Data, a pollster, suggests that most people in west Africa approve of the recent coup in Niger (see chart). Respondents in Ivory Coast, Ghana, Mali and Nigeria also generally cast doubt on calls for the Economic Community of West African States (ECOWAS), a regional bloc, to intervene militarily to put the ousted president, Mohamed Bazoum, back in power.

The poll, conducted by mobile phone and balanced in each country by age and sex, finds that in Ivory Coast, Ghana and Nigeria about 60% of respondents think the coup in Niger was justified. In Mali, where a ruling military junta has applauded the coup, fully 78% of respondents approve of it.

The governments of Ivory Coast, Ghana and Nigeria all talk tough in favour of intervention, yet around 60% of respondents in each of those countries oppose the idea. Many say they fear it could spark a wider regional war.

Even economic sanctions against Niger are divisive. Malians heavily oppose them. But so do 58% of Ivoirians, while Ghanaians are almost evenly split. Nigerians narrowly approve of them.

The survey also sketches the scale of Russia's appeal in west Africa. In Mali, where mercenaries of Russia's Wagner Group operate, 71% say Russia is their country's most trusted partner; no other country exceeds single digits.

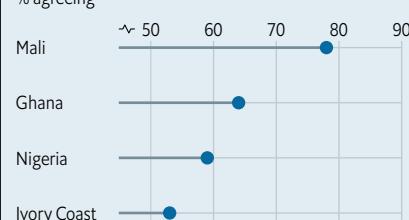
France's reputation is mixed. Half of Ivoirians say they trust it least. Of those, 65% say it might win them over only if it were to withdraw all its forces from west Africa. Almost 30% of Ivoirians reckon Russia's values are most similar to theirs, though slightly more are happy to identify with those of France.

Fondness for Russia may be partly thanks to France's past role as the colonial ruler of Mali and Ivory Coast. In Ghana and Nigeria, both once run by Britain, Russia has less appeal. America is most trusted in both. At least Uncle Sam isn't in the dock everywhere.

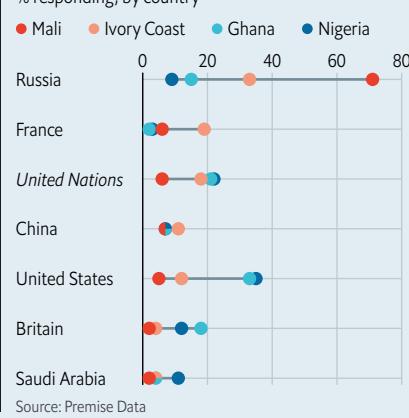
Cock-a-doodle-coup

Opinion polling, August 23rd 2023

The military junta's action in Niger was justified
% agreeing



"Which country/institution do you trust most?"
% responding, by country



protests and violence is another. After Mugabe lost in the first round of an election in 2008, hundreds were killed in the run-up to the second round, before the first-round winner was forced to bow out. In 2018 security forces in Harare fired on people protesting about delayed results, killing six.

Another reason to care is that Zimbabwe is a test for the region. South Africa's African National Congress habitually whitewashes abuses by its fellow liberation party to the north. But Zambia, which unusually has had several transfers of power since independence, is heading the regional observer delegation. Hakainde Hichilema, elected president of Zambia in 2021, invited both Mr Chamisa and Mr

Mnangagwa to his inauguration.

Zimbabwe also presents the West with a dilemma. It has been an outcast since the turn of the century, when Zanu-PF orchestrated violent farm invasions. It is locked out of international capital markets and has \$18bn in external debts. Any deal to restructure them depends on economic and political reforms, which Western powers, led by America, must deem credible before institutions like the IMF make new loans. Some Western officials, especially in Europe, hoped that a credible election would be the starting-point for a concerted effort to bring Harare in from the cold. That hope was always naive. In the aftermath of election day it looks even more so. ■

Lebanon

The Phoenician problem

BYBLOS

A flood of tourists is a reminder of how Lebanon's economy fell into crisis

IT COULD BE any luxury hotspot on the Mediterranean. The four-hour flight from Dubai, the region's financial hub, may cost \$1,000 each way. Holidaymakers fork out over \$450 for hotel rooms, \$100 for plates of grilled fish. Day-passes to beach clubs can cost 25% of the locals' monthly minimum wage, yet the clubs are packed. When a punter called a popular haunt for a last-minute booking in July, the bemused receptionist asked if he meant July 2024.

This is not the French Riviera or Mykonos, though. It is Lebanon, where a financial crisis has pushed the country into one of the worst depressions in modern history. Since 2019 the currency has lost 98% of its value and GDP has plunged by 40%. Annual inflation has been above 100% since July 2020. The country is trying to secure a \$3bn bail-out from the IMF.

None of that stopped Skybar, a much-loved Beirut nightclub, from reopening this summer after a three-year hiatus. Partygoers sip exotic cocktails and dance all night on a rooftop ablaze with neon—even while, on the streets below, the state cannot afford to keep the street lights on. “Inshallah, the IMF isn't seeing our [Instagram] stories,” joked a comedian.

Walid Nassar, the tourism minister, expects 2m visitors this summer, an influx equal to 40% of Lebanon's population. Most will be Lebanese expats for whom a summer trip home is a cherished tradition. Depending on whom you ask, their visits are either a much-needed boost for the ruined economy, or a reminder of the problems that ruined it in the first place.

The crisis stems from a years-long Ponzi scheme run by the central bank, which borrowed dollars from banks at high interest rates to finance large twin deficits and maintain a currency peg. By 2019 there were no longer enough new deposits to sustain it. Banks closed for weeks, then imposed arbitrary capital controls. The country defaulted in 2020.

There have been years of monetary madness. The lira had been pegged since 1997 at 1,500 to the dollar, but the official rate soon became irrelevant. Various quasi-official rates were introduced for subsidies and banks, while the black-market rate sank steadily lower. Lebanon has 18 officially recognised religious sects; for a time, people joked, it had 18 different exchange rates.

This has made it a cheap destination for

foreign visitors. Two summers ago, for example, a subsidy scheme allowed food importers to buy dollars for 3,900 lira, while the street rate was around 20,000. When your correspondent took some contacts for a beachside lunch, the bill came to 765,000 lira, more than Lebanon's monthly minimum wage: \$196 at the food-subsidy rate, but just \$39 with dollars changed on the black market.

Prices have caught up with reality. The government has halted most subsidies because it can no longer afford them. It raised the official exchange rate to 15,000, which meant a tenfold increase in customs duties. A separate rate known as Sayrafa, used for a wider range of transactions, has climbed above 80,000. Parts of the economy have dollarised. Restaurant prices are often listed in greenbacks.

Inflation has made it even harder for most Lebanese to make ends meet. Prices seem higher than ever. The cost of a basket of staple food has risen by more than 1,700% since 2019. Half of all Lebanese families cannot afford enough to eat, let alone take a holiday.

With the unemployment rate at 30%, tourism is one of the few sectors creating jobs. Mr Nassar estimates tourists will spend \$9bn this year, a sum equal to 41% of Lebanon's shrivelled GDP. Still, little of the money trickles down. Waiters or bartenders may earn as little as \$150-200 a month.

In 1977 this newspaper coined the term “Dutch disease” to describe how commodity wealth can harm a nation's economy. Lebanon has no such resources (though foreign firms are sniffing natural gas off its Mediterranean coast). What it does have is a sprawling diaspora. This causes its own distortions: call it the Phoenician problem.

For decades expat money let Lebanon run one of the world's highest current-ac-

count deficits (it hit 26% of GDP in 2014). The economy was unproductive, but the peg allowed many Lebanese to feel as if they lived in a middle-income country, buying imported brands and booking foreign holidays. A state with a double-digit unemployment rate had 400,000 migrant workers pumping petrol and cleaning homes. None of this was sustainable.

While the diaspora has stopped storing money in Lebanon's insolvent banks, annual remittances now equal a staggering 38% of GDP. That is enough to keep the country lurching along. But these inflows support little public or private investment. Instead they flow right back out, financing consumption in an economy that still depends heavily on imports. It is like a sugar rush: a cup of ice cream on a hot summer day, briefly enjoyed but soon forgotten. ■

Jihadists in Iraq and Syria

Still grounds for recruitment

BAGHDAD

Mistreating people once linked to Islamic State could prove costly

FOR TWO decades the war on terrorism preoccupied Western policymakers in the Middle East. America had to rally the world against Islamic State (is), a force of Sunni Muslim jihadists who by 2016 governed an area the size of Britain and extolled their desire to conquer the world for the caliphate. But four years after a Western coalition recaptured the last redoubts of is in Iraq and Syria, it is walking away from the clear-up.

In north-eastern Syria tens of thousands of women and children of captured jihadists are languishing in a detention camp called al-Hol. In Iraq jihadist sympathisers, their families and displaced people who had come under the sway of is and were held in camps recently closed have fared little better. Far from being reintegrated back into society, they could still pose a threat. “Iraq is still fragile,” says a Western diplomat in Baghdad. “Without a sustainable return, there's an increased tendency for displaced people to be pushed back into is's extremist narrative.”

The UN is handing over responsibility for them and their families to Iraq's Shi'ite regime and its allied militias, who have a history of wreaking revenge on their enemies. A UN document in February said that 80% of the UN's programmes for protecting children and victims of gender-based violence were due to be closed this summer.

Up to 100,000 women and children with ties to is fighters were quarantined after the war in al-Hol. is commanders' ►



A country in ruins

wives are bundled together with girls forced into marriage. Countries like Britain refuse to take back their own citizens. Iraq has suspended repatriations from al-Hol.

The American-backed Kurdish group that rules the area is meant to control the camp, but aid-workers speak of a free-for-all. Women loyal to IS hold sway with guns and train a new generation of believers in jihadist ideology. Killing is commonplace. "It's more an IS base than a prison," says a Western researcher monitoring the place.

The perimeter is punctured with tunnels through which IS infiltrates weapons. Inmates get out unvetted. While official repatriation proceeds at a snail's pace, al-Hol's population has fallen roughly by half, as inmates sneak away. But it still holds some 42,000 people, of whom 24,500 are reckoned to be Iraqis.

Mothers fund their escape from al-Hol by selling their offspring as child soldiers to Kurdish, Sunni or Shia militias—or to IS. Kitaib Hizbulah, a Shia militia in Iraq, is said to charge \$3,000 for getting a prisoner out of the camp and back across the border into Iraq. Western governments, loth to take back extremists, are washing their hands of the problem. "They're hoping for a cholera epidemic," says a consultant with America's defence department.

On paper Iraq has the biggest return programme for those in al-Hol. In 2019 its government promised to bring back all the Iraqis who were still held there. It opened a transit camp in Iraq called Jadda 1, south of Mosul, the biggest city the caliphate had held, to serve as a pipeline for receiving people from al-Hol and putting them back into the community. But the process has ground to a halt. Jadda 1 was meant to offer three months of rehab and trauma counselling there, but aid-workers call it "Iraq's Guantánamo". Inmates need security clearance and sponsors to leave it. Few meet those requirements, so many are stuck there.

UN humanitarians argue with Iraqi security men over turf, funding and agendas. Aid-workers say sexual abuse by UN staff and Iraqis overseeing security clearance at Jadda 1 is rife, while claims of rape are not investigated. After weeks of requests, the UN agencies funding the process declined interviews for this article.

Iraq's government has closed the camps which hosted 5m internally displaced people who had been ruled over by IS. Many have no home to go back to. Thousands of buildings were destroyed in the war to defeat IS, or have new occupants. The lucky ones who have recovered their homes are often badly discriminated against. "When they go out they're harassed by their neighbours saying, 'You're Daesh' [the Arabic acronym for IS]," says a researcher for an American institute.

Such is the stigma of affiliation to IS



Teaching staff at al-Hol

that those returning are often threatened with death. Some have been killed. Iraqi militias which helped recapture the territory hound them away, says a UN document, or extort bribes at checkpoints. Some 1m of them now doss down in unsupervised places such as Mosul's car parks. An estimated 430,000 lack basic documents. Iraq's authorities are reluctant to

recognise marriage, birth and death certificates issued by IS. Local officials require women to disavow their IS husbands, even if they are widows, to get clearance. This all makes it hard for them to find jobs and health care, go through checkpoints, or register children at school.

Some UN officials, explaining why the world body has stopped overseeing the return process, say that Iraq should take over responsibility because it is flush with oil. This year it has a budget of \$150bn. But they neglect to ask whether it is likely that Iraq's Shia-led government would actually protect the Sunnis it suspects still sympathise with their genocidal foe.

Most of those who lived under IS rule crave a fresh start. After IS was finally defeated at its last stand in early 2019 in the small Syrian town of Baghouz on the Euphrates, just north of its border with Iraq, its diehards headed to far-flung places such as the Sahel and Afghanistan.

Still, pockets of sympathy fuelled by resentment persist. This summer IS hailed a new caliph, Abu Hafs al-Hashimi al-Quraishi. It has since staged roadside and other attacks in Syria. "We're just fostering a new IS generation," says a UN observer. Getting the return process wrong could spark another nastier sort of return. ■

Viniculture

Grapes of wrath

BETHLEHEM

Making Palestinian wine is a challenge

THE VINES are heavy with grapes, the harvest just a few days away. Yet Sari Khoury is stressed: he cannot find workers to pick grapes in his vineyards. Proud owner of the Philokalia label, he is one of a handful of Palestinians in the West Bank producing wine under the trickiest of circumstances: Israel's occupation.

A "separation wall" between Israel proper and most of the Palestinian territory it occupies towers above Mr Khoury's cellar in Bethlehem. Mr Khoury's vineyards are hemmed in by Gush Etzion, a cluster of Jewish settlements nudging the south of the city. Constant niggles of the occupation abound.

In 2014 Mr Khoury gave up his job as an architect in Paris to return home to rekindle his passion for wine. A year later he was producing hundreds of bottles as one of the West Bank's handful of wine producers to use only indigenous grapes. Now he fills 10,000 bottles a year. The business of wine-making is testing enough at the best of times. The headaches of production under military occupation are even more painful.

Mr Khoury is short of labourers be-

cause Palestinians can earn five times as much across the wall in Israel. And it is virtually impossible to get a permit from the Israeli authorities to expand his type of business physically. "I can't even build a shed for my tools," he explains. "I have to bring them with me in the car every time." Other big obstacles are the Israeli checkpoints that hamper his logistics and the scarcity of water that is guzzled by the nearby Jewish settlements.

Many Israeli wineries grow European grapes that need a lot of irrigation. But the lack of water supplies for Palestinians in the West Bank means that they struggle to grow the likes of Chardonnay or Cabernet Sauvignon. Hence Mr Khoury's focus on local varieties such as Daabouki and Jandali that need less water and can survive the baking sun.

Mr Khoury also emphasises sustainability, but warns against growing indigenous grapes as a gimmick. "I want to create the highest quality wine possible, to be judged on its merits," he says. "That's my resistance," he adds, referring to Palestinian efforts to push back against the Israeli occupation.



Prigozhin's end

A fiery finale

The Wagner boss's death showed today's Russia for what it is: a mafia state

BILL BURNS, the director of the CIA, recently mused on what fate might await Yevgeny Prigozhin, the mercenary leader who mounted a short-lived mutiny in Russia in June. Vladimir Putin, Russia's president, "is generally someone who thinks that revenge is a dish best served cold," he said. "In my experience Putin is the ultimate apostle of payback so I would be surprised if Prigozhin escapes further retribution." On August 23rd, precisely two months after that mutiny, Mr Prigozhin's plane plunged to the ground.

Mr Prigozhin's Embraer business jet climbed to nearly 30,000 feet before suddenly falling in the Tver region near Moscow after less than 30 minutes in flight, according to public tracking data. All ten people on board were killed, and Mr Prigozhin was on the passenger list, according to Russia's aviation agency and state media. So was Dmitry Utkin, a senior figure in Mr Prigozhin's Wagner Group, and the com-

mander of the column which marched on Moscow in June.

Eyewitnesses reported hearing explosions prior to the incident, giving rise to speculation that it was shot down by air defences. It could conceivably have been an accident. Ukraine had conducted drone attacks against the Moscow area on seven successive nights to August 23rd, and local air-defences may have been jumpy. It is unlikely, though, that Russian radar operators would confuse a jet for a drone: drones

are slower, smaller and lower.

A senior source in Ukrainian intelligence said several figures in Russia were enraged enough to want Mr Prigozhin dead, including Sergei Shoigu, Russia's defence minister, a frequent target of Mr Prigozhin's irate video messages. Nonetheless, an operation of this sort could not have gone ahead without authorisation from Mr Putin himself. "I don't know for a fact what happened but I'm not surprised," said Joe Biden, America's president. "There's not much that happens in Russia that Putin's not behind." Mr Burns was not the only spymaster who forecast trouble for Mr Prigozhin. In an interview in June, Kyrylo Budanov, head of HUR (Ukraine's military spy agency), claimed the FSB, Russia's security service, had been tasked to assassinate the mutineer.

Notably, the crash came on a day of wider retribution. Earlier on August 23rd General Sergei Surovikin, who had served as commander of Russian forces in Ukraine until demotion in January, was relieved as commander of Russia's air and space forces. General Surovikin was closely associated with Mr Prigozhin and had come under suspicion of aiding the mutiny or having foreknowledge of it. The general was reported to have been under house arrest.

Mr Prigozhin's death will probably have little effect on the front lines in Ukraine. ►

→ Also in this section

40 Ukraine's sour mood

41 Spain's many languages

41 Belgrade graffiti fight

42 Italian populism

44 Charlemagne: Italian beaches

► General Valery Gerasimov, Russia's chief of general staff, whom Mr Prigozhin routinely attacked, has "brought some order to the military chaos of last year", says John Foreman, Britain's defence attaché in Moscow until last year. Wagner forces had been shoved aside after they led the conquest of Bakhmut in May. Its shock troops were not as important once Ukraine went on the offensive, says Mr Foreman.

The impact on African countries, where Wagner remains active, is more uncertain. Mr Prigozhin had reportedly been in Africa recently, attempting to prevent the GRU, Russia's military intelligence agency, from pushing his forces out of the continent. Wagner is not the only mercenary firm around, and African leaders in need of muscle will not much care whether Russian troops answer to Mr Prigozhin or another Kremlin functionary.

The biggest ripples will be inside Russia. If Mr Prigozhin was killed on Mr Putin's orders, it would reinforce the president's image as a vengeful strongman willing to dispense with procedure and law. Over the years, his enemies have suffered a range of exotic methods of attack, from a radioactive isotope slipped in tea to nerve agent smeared on underpants. Yet these methods have also undermined the notion that Russia is a regular state, exposing Mr Putin's regime as a mafia-like enterprise driven by whim and blood feuds. The very existence of Wagner—a private army formally banned under Russian law—demonstrated Mr Putin's mistrust in institutions and his reliance on informal connections.

Kirill Rogov, a political analyst, argued on his Telegram channel that Mr Prigozhin had become a victim of the uncontrolled violence he had promoted; the crash of his plane was a mirror image of the downing of military aircraft by Wagner during the mutiny. Mr Prigozhin's blasting of General Gerasimov and Mr Shoigu once made him useful to Mr Putin by deflecting blame for the disastrous invasion. But the army's somewhat improved performance of late made this unnecessary. The army

chiefs have now received satisfaction.

The Wagner boss's death could help consolidate Mr Putin's power. But it could also destabilise the pro-war constituency by alienating his followers and champions. "The assassination...will have catastrophic consequences," warned Grey Zone, a Wagner-affiliated group on Telegram, a social-media site. "The people who gave the order do not understand the mood in the army and morale at all."

As the drama unfolded, Mr Putin was addressing a gathering in Kursk, hailing the victory of Soviet troops over German invaders 80 years ago. Russian prosecutors, who promptly shut down an investigation into Mr Prigozhin's mutiny after he accepted a deal to go into exile in Belarus, were quick to open an investigation into a violation of air-traffic and safety rules. The Russian public may learn that it was a pilot's mistake or a fault in the plane that brought Mr Prigozhin to his end. In Russia, nobody expects to be told the truth. ■

Politics in Ukraine

Frustrated expectations

KYIV

Ukraine's slow counter-offensive is souring the public mood

A NASTASIA ZAMULA is a co-founder of ACvit (Blossom), an all-women volunteer organisation that supports Ukrainian units on the front line. Her crowdfunding appeals have struggled as hopes of a quick breakthrough in Ukraine's counter-offensive have dwindled. "The idea of a counter-offensive is bliss when you talk about it from an armchair," she says. "It's much harder when you understand that it means darkness, death and despair."

The public mood is sombre. Criticism of Volodymyr Zelensky, the president, has increased. Having once promised a march to Russian-occupied Crimea, political leaders are now curbing expectations. "We have no right to criticise the military sitting here in Kyiv," says Serhiy Leshchenko, a presidential spokesman. "Every metre forward has its price in blood."

Ukraine's leadership is frustrated that Western equipment has not yet arrived in its promised numbers. Equivocation among allies over newer weapons, and the prospect of America re-electing Donald Trump next year, have added to the anxieties. A source in the general staff says that Ukraine has received just 60 Leopard tanks, despite the promise of hundreds. De-mining vehicles are particularly scarce. "We simply don't have the resources to do the frontal attacks that the West is implor-

ing us to do," says the source.

The source adds that Ukraine's army was never blind to the challenges of breaching Russian minefields and defence lines without air superiority. For that reason the military leadership delayed the counter-offensive as long as it could. After a disastrous start in early June, when two Western-trained brigades lost an uncomfortable number of men and equipment in minefields, Ukraine has prioritised preserving its army. "The emphasis is now on degrading the enemy: artillery, drones, electronic warfare and so on."

In recent days Ukraine's forces have made important advances in the crucial southern theatre. Still, they remain a long way off their goal of nearing the Azov sea—thus cutting Russia's seized land corridor to Crimea—before the rains of late October.

The grim mood is spilling over into Ukraine's politics, which have been on hold for much of the war. Rumours have circulated all summer that Mr Zelensky's office may call early parliamentary and presidential elections. The logic is that it is better for him to seek re-election while still a national hero, rather than after being forced into peace talks that might require unpopular concessions. Mr Zelensky has no rival apart from commander-in-chief Valery Zaluzhny, who is busy running the war, says Volodymyr Fesenko, a political analyst. But "Zelensky's team understands that could change."

Conducting an election with up to 6m Ukrainians living outside the country and hundreds of thousands fighting away from home would be complex. And martial law precludes elections, meaning parliament would have to change electoral rules. The talk was initially of holding both elections this autumn, but that is unlikely. Polling suggests that Mr Zelensky's team would struggle to persuade citizens of the need for an early vote. "There just isn't a demand for it," says Lubomyr Mysyy of Rating, a Kyiv-based sociological group.

Peace negotiations with Russia would be an even harder sell. There have been some signs of a shift in mood: in early August a sniper made waves by dismissing the prospect of Ukraine ever regaining its full territory. He suggested that many soldiers would welcome a ceasefire—a notion that would once have been unthinkable. But for now, few would agree. Too much blood has been spilt.

Yet Ukraine's young are bearing the burden of a war with no end in sight. For young men, in constant danger of being conscripted, the pressure is intense. Those keen to fight volunteered long ago; Ukraine is now recruiting mostly among the unwilling. As Ms Zamula says, everyone knows that the cost of territory is dead soldiers. "Even hoping for success...has become an act of self-destruction." ■



Spain's languages

Plural forms

SANTIAGO DE COMPOSTELA

Spain's parliament now accepts Basque, Catalan and Galician

ALWAYS REMEMBER this, Sepharad/Keep safe the bridges of dialogue/and take care to understand and keep/the different reasons and languages of your children." Thus in 1960 Salvador Espriu, a Catalan poet, reminded Spain of its historical diversity (using the country's Hebrew name to evoke the days before it expelled Jews in 1492). Espriu's stance was bold at the time. Francisco Franco's dictatorship forbade official use of any language but Castilian Spanish. But on August 17th Francina Amengol, the new president of the lower house of Spain's parliament, known as the Congress of Deputies, read the verse in Catalan in her maiden speech. Sprinkling in Basque and Galician too, she announced that the chamber would thenceforth allow use of those three languages.

Spain's election in July left neither its right- nor left-wing alliances with a majority. On August 23rd the country's king gave Alberto Núñez Feijóo of the conservative People's Party the first shot at forming a new government, but he is expected to fail. Pedro Sánchez, head of the Socialist party, remains as caretaker prime minister, and still hopes to stay in power by cobbling together the support of five regional separatist parties. It was those parties that helped elect Ms Armengol (also a Socialist) to her post, and changing the language policy was part of the deal.

Ms Armengol, a former president of the Balearic Islands, where varieties of Catalan are spoken, is a proponent of federalism for Spain, where language fights stoke intense passions: they are a proxy for old conflicts over the power of the Castilian-speaking centre versus the rest. Some find the bargain "grotesque", as a leader of the hard-right nationalist Vox party put it. They see it as rewarding separatists and supporting languages used to divide Spain.

Néstor Rego, the lone MP for the Galician Nationalist Bloc, scoffs at such views. "They can't understand that if you speak Spanish because it's your language, I speak Galician because it's mine. They think we do it...to piss them off." He sees the change as powerfully symbolic. Over 90% of Galicians can speak the language, but only about half do so regularly—a failure of "self-esteem", he says. Perhaps hearing their language spoken in lawmaking could change that.

As part of the deal with the nationalists, Mr Sánchez has also requested official sta-

Belgrade graffiti

The art of war

BELGRADE

Backers of Ukraine and Russia are fighting with paint

ASGLEB PUSHEV, an artist who fled Russia to dodge the draft, was finishing a pro-Ukraine mural in Belgrade, Serbia's capital, three toughs hurled away his paints. The mural, which took four days to paint and featured a Ukrainian poetess, was later defaced. With friends standing guard, Mr Pushev repainted it. The restored mural was soon covered in pro-Russia imagery. He painted it again under police protection and covered it with plexiglass. The sheet was then shattered and the wall painted over. Mr Pushev now prints stickers instead: "If someone rips them off, it's less emotionally painful."

A "graffiti war" is on, says Piotr Nikitin, a Russian anti-Kremlin activist in Belgrade. Opposite a school where a



Defacing Putin properly

shooting on May 3rd killed ten people, a mural of Vladimir Putin has been repainted repeatedly to support Ukraine (sometimes by changing the red in Russia's flag to "bloodless" blue). One honouring Ratko Mladić, a Serbian war criminal, is frequently defaced and restored.

Passions are high. After Mr Nikitin asked local media to report on repaintings of the Putin mural in which he participated, Serbia's president disparaged Mr Nikitin on tv. The artist was detained for 44 hours on landing in Belgrade on July 13th. Another anti-war Russian, Ilya Zernov, fled to Germany after being beaten for painting over graffiti that read "Death to Ukraine". Aida Corovic, an activist who was roughed up by cops after throwing eggs at the Mladić mural, thinks the state finds far-right graffiti useful. It placates extremists and suggests to America and the EU that the centre-right government is needed to tamp them down.

As Russian losses in Ukraine mount, nationalist street artists have shifted to other messages: homophobia ("I don't want Dad and Dad"), militarism ("Serbia Sparta") and irredentism ("When the army returns to Kosovo"). Krokodil, a liberal cultural centre in Belgrade, has changed tack too. When it painted over a mural calling for the reconquest of Kosovo, nationalists restored the mural and defaced its headquarters with nationalist slogans. Now its founder, Vladimir Arsenijevic, is taking a subtler, less political anti-war approach. Krokodil is paying artists to involve youngsters in the painting of a permitted mural series which he says will radiate "gentle stuff, like nice, peaceful feminine images".

tus for Basque, Catalan and Galician in the European Union. This is trickier. The rules let each country make one language official for EU purposes. Many states might balk at the cost, and the precedent. Other countries have minority languages too. There are already 24 official ones, and the bloc's translation services employ over 2,000 people at an annual cost of €350m (\$380m), or 0.2% of its budget.

Back in Madrid it is not yet clear how the policy will work. The Senate, which represents the regions, already allows other languages, but only in certain proceedings. Ms Armengol says she will consult all the parties. The People's Party, in contrast to Vox's hard opposition, says it

will await details.

Javier Cercas, a novelist who lives in Barcelona, says he is "in favour of Catalan in the Congress, and everywhere." He is a fierce opponent of Catalan separatism, but a proud adoptive Catalan himself (hailing from Extremadura, in the south-west). In his column in *El País*, a daily, he argues against the logic that if you speak a language you are a nationalist, and therefore a separatist. The way to fight that idea is for Spanish patriots to celebrate all of the country's languages: "it is a tremendous error to leave the promotion and defence of Catalan in the hands of the secessionists...there is no better way to refute separatism than in Catalan." ■

Italian populism

Not so moderate after all

ROME

Giorgia Meloni's hard-right government is starting to show its true colours

ADMIRERS OF GIORGIA MELONI and her Brothers of Italy (fdi) party like to describe them as "Latin conservatives"—no more radical than, say, Britain's Tories. For the most part, the Italian prime minister has indeed been reassuringly pragmatic since coming into office last year. But the comparison ignores two significant differences: a widespread hostility among the Brothers to social diversity, be it ethnic or sexual; and a deep distrust of free markets and enthusiasm for vigorous state intervention. Both differences have burst to the surface in recent weeks, prompting open splits in the governing coalition, which also includes the populist Northern League and the more liberal Forza Italia party.

The latest row erupted after Roberto Vannacci, a serving army general and a former commander of Italy's elite parachute brigade, self-published a polemical book inveighing against "the dictatorship of the minorities". In the general's view this includes feminists, environmentalists and even animal-rights groups. His book is offensively homophobic (he laments no longer being able to use terms such as the Italian equivalents of "faggot" and "poofter") and profoundly racist (he writes of Paola Egonu, an Italian-born black volleyball star, that "her physical features do not represent Italian-ness"). Some of the general's warmest words are reserved for Vladimir Putin's Russia, where he served in the Italian embassy.

The army swiftly and publicly dissociated itself from the general's opinions. So did the defence minister, Guido Crosetto, who described them as "ravings". Major General Vannacci was suspended from his job as head of the military geographical institute and Mr Crosetto said an inquiry would be held. Though a founder of the fdi, Mr Crosetto, unlike most party members of his generation, never belonged to its forerunner, the defunct neo-fascist Italian Social Movement (msi). Nor was he ever a member of the msi's youth movement, as Ms Meloni was. "We are different—and very much so," he remarked of his party colleagues amidst the tumult over Mr Vannacci.

His colleagues made that difference abundantly clear. Not a single party or cabinet member expressed support for Mr Crosetto's stance; he was publicly criticised by leading members of the Brothers, and furiously denounced in online party



chat rooms. The silence from the prime minister was deafening. As one of Mr Crosetto's critics remarked, General Vannacci's book reflects the thinking of many who voted for the fdi and its allies—especially supporters of the League. On August 21st Matteo Salvini, the League's leader and one of two deputy prime ministers, declared that the general had a right to his opinions and compared his treatment to that of Giordano Bruno, a 16th-century philosopher who asserted that the earth revolves around the sun and was burnt at the stake.

In addition to such tacit support for racism and homophobia, the government's economic attitudes have begun to trouble



The not-so-soft face of the hard right

investors. On August 7th Mr Salvini, standing in for the prime minister, announced that the state would levy an unexpected windfall tax of 40% on the profits accruing to Italian banks because of higher interest rates. After Italian bank shares dived the following day, losing some €10bn of value, the government hurriedly modified the measure, capping the tax at 0.1% of a lender's total assets.

Meanwhile, another clash with the corporate world is looming. Ms Meloni plans to set limits on surge-pricing of flights between the mainland and Italy's biggest islands, Sicily and Sardinia. Ryanair, Europe's largest airline, claims this is illegal under EU law.

Neither airline executives nor bankers should have been too surprised. The Brothers' electoral manifesto in 2022 was relatively anodyne towards the financial sector. But its official programme in previous years had been openly hostile. It called for a parliamentary commission of inquiry into unspecified banking scandals; the separation of retail from investment banking; and a cap on dividends and salaries at banks that received public funding. Foreign airlines might also have expected a rough ride from a party that has made state control of strategic infrastructure a central plank of its programme.

The government's economic populism looks like a ploy to bolster the fdi's popularity after the economy unexpectedly shrank by 0.3% in the second quarter compared to the first. And the banking tax will replenish the state's coffers ahead of what promises to be an austere 2024 budget. Both moves are wholly consistent with the beliefs of the senior partner in the coalition. The Brothers do not, like Britain's Conservatives, hark back to laissez-faire conservatives such as Edmund Burke; their ideological roots lie in the statist nationalism that characterised fascism. Ms Meloni publicly endorsed the bank tax and said it had been her idea from the beginning.

Of course, her party is not the only one in government. The bank tax may have pleased the League, but it appalled Mr Salvini's fellow deputy prime minister, Antonio Tajani of Forza Italia. He complained he had not even been informed of it in advance. Before the election that brought Ms Meloni to power last year, the late Silvio Berlusconi, the founder of Forza Italia, strove to quell the misgivings of foreign governments and investors by claiming that his party would temper the populist instincts of its coalition partners. One lesson of Italy's summer surprises is that Forza Italia, polling below 8% (compared with 9% for the League and 29% for the Brothers), is in no position to do anything of the sort. Another is that if Ms Meloni starts to look too moderate, Mr Salvini will be happy to outflank her on the right. ■

Say do the right thing

Responsibility is the law of tomorrow

Forensic ESG scrutiny means reputation is increasingly difficult to protect. How you adapt to changing expectations will determine your future. Are you living up to the claims you make?

Discover what you can do with
the law of tomorrow, today at mishcon.com

Business | Disputes | Innovation | Private
Real Estate | Consultancy Services

Mishcon de Reya Group
It's business. But it's personal.

Charlemagne | Beach brawl

Italy's beaches are a battleground in a war over Europe's economic soul



TO VENTURE OUTDOORS in heat-struck southern Europe these days is an act of sweaty defiance. Perhaps the only sensible place to head for is the seaside. In most countries, little more is needed for a successful beach outing than a few spades, a parasol and sunscreen (trashy romance novel optional). Those heading for the shore in Italy, however, should also bring their wallets. From Bari to Venice to Palermo, much of the Italian coast is in effect the private property of a lucky few. Families holding concessions to run beach-side establishments monopolise the shoreline with row after row of reclining chairs and brightly-coloured parasols. Forking out the price of a couple of cinema tickets for a day's shade is a staple of Italian summers, on a par with *gelato* and the national football team underperforming in the World Cup.

As economic actors go, there may be worse than these amiable *balneari*, dedicated to offering sweltering customers a respite from the sun and an occasional lemonade. And yet, the manner in which Italian beaches are run has left European authorities redder in the face than a toddler unattended in the sun. For over a decade the European Commission in distant, drizzly Brussels has tried to make the sector comply with rules ensuring the EU economy is open and competitive. In its view the *balneari* arrangements amount to the capture of a lucrative business sector by protected incumbents—the very thing crimping European growth. Is that so? To grasp the nature of this vital issue better, Charlemagne grabbed his sunglasses and flip-flops for a visit to the Italian coast.

The fight comes down to who can be *balneari*. Most concessions dotting Italy's 8,000km of coast are family affairs, some tracing back to old fishing huts or handed out as a sop to war veterans decades ago. They have become a big business: the 12,000 or so establishments probably rake in over €10bn (\$10.9bn) a year. Since they operate on public land, a hefty slice of that ought to end up in the coffers of local authorities. But rents charged amount to little more than €100m, a tiny amount. Even with the expense of a few brollies, the margins to be made should be attractive to newcomers. They might have new ideas about how to run a beach shack, offer keener prices, or perhaps be willing to pay the state higher fees. But since the 1990s the Italian authorities have allowed existing concessions to be renewed all but automatically. This has

created a closed shop, like taxis protected from competition.

The European Commission wants Italian authorities to get their heads out of the sand. Under EU rules enacted in 2006 that extended the bloc's single market from goods to services, anyone should be able to compete to bid to run such businesses. That includes any Italian who might fancy having a go at renting out beach chairs, or indeed any European. To this end the EU has demanded changes to *balneari* concessions. These should be tendered out openly—perhaps through auctions, though not necessarily—for limited periods of time and according to objective criteria. Such criteria cannot include arguments such as "My papà used to run this concession, and his papà before him". Only then will competition flourish and consumers win.

"Mamma Mia!" is the collective Italian response. Complying with EU diktats would upset decades of tradition. What if big hotel groups decided to muscle in on the beach trade—worse, what if German hotel groups started winning concessions? Given that Italy's shoreline is also its border, would national security be assured without authentic *balneari* policing the coast?

Luckily for incumbents, Italian authorities have run rings around fuming Eurocrats. Official rebukes started coming from Brussels in 2008, backed by rulings from EU courts. Politicians in Rome periodically promise change to bring the sector into line. This prompts Brussels to drop its complaint—at which point the concessions are extended again. In 2022 the technocratic government of Mario Draghi became the latest to promise new tenders for *balneari*, by the end of this year. Giorgia Meloni, the populist who took over as prime minister, soon reversed course; an ally of hers denounces the forced tendering the EU wants as "expropriation". Icons of summer fun, the *balneari* have considerable lobbying power—a recent ministerial meeting featured 11 trade associations speaking for the beach-bum industry. Their latest wheeze to kick the can down the road is to demand a time-consuming mapping of Italy's coastline, which they think will show there are enough spots left to issue fresh concessions to newcomers.

Talk to the sand

The situation is hardly ideal for *balneari*. "For many years we have been trying to figure out what to do," says Alessandro Rizzo, who runs a concession on the Lido, a short *vaporetto* ferry ride from Venice. Investing to improve facilities is hard to justify, given the uncertainty. His family has run the joint's 260 cabins—most of which are rented out by local families for the summer, at a cost of up to €6,000—since the 1970s. Yes, he acknowledges he is the recipient of a handy distortion. But the undue privilege comes with obligations not fully grasped by Brussels types: the *balneari* take care of the beach, keep teenagers out of trouble, ensure that everyone tans peacefully. Why must everything be run according to the kind of rules that give big business an edge over the average man?

Plenty of Italians think the concessions should not be transferred to new *balneari*, but cancelled: there are parts of the country where private-parasol joints are so rife it is impossible to visit a beach without paying. Viewed from Brussels, the tussle is part of an enduring struggle for the soul of the European economy, notably that of its poorer south. In too many sectors, incumbents are mollycoddled: think of workers clinging onto comfy jobs-for-life even as the unemployed struggle for opportunity. The privileges given to a lucky few end up amounting to huge costs for the many. The economy loses dynamism as outsiders ache to break in. Something to ponder while waiting for that *limonata*. ■



The low-wage economy

A failed experiment

Choking off immigration to make low-wage sectors more productive was never going to work

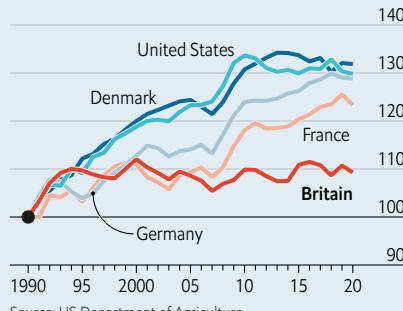
THE BREXITEER plan to end free movement from the European Union was not only about satisfying popular hostility to immigration. Leavers also talked of fixing Britain's perennial productivity problems. Boris Johnson, as prime minister in 2021, described a future that was "high wage, high skill, high productivity", and would be realised only if Britain kicked its addiction to cheap foreign labour.

Since 2010, the country has suffered a dramatic slowdown in productivity growth, including in many low-wage sectors such as food processing. By 2015, German, French and Dutch workers in low-paid roles were around 30% more productive than their British peers. In the preceding decade Britain had also experienced historically high immigration: around 1.5m eastern Europeans flocked in, many for low-wage jobs. To Brexiteers, these facts were linked. They argued, too, that the cradle of the industrial revolution had become a laggard in using technology. Britain is much less automated than other ad-

vanced economies, says the International Federation of Robotics. Some argued that Poles and Romanians could be replaced with robot carrot pickers.

Most economists saw things differently, disputing the Brexiteers' premise that low-skilled immigration reduced earn-

Reap what you sow
Agricultural total factor productivity, 1990=100
Three-year moving average



→ Also in this section

46 [Thefts at the British Museum](#)

47 [Bagehot: on the "cozzie lives"](#)

→ [Read more at: Economist.com/Britain](#)

— [Russians in Britain](#)

— [Dangerous dogs](#)

— [The Blitz's long-term effects](#)

ings. Increased labour supply leads to greater demand which cancels out effects on wages. Migration generally raises productivity by facilitating greater specialisation. In some cases, however, cheap labour may reduce investment. One study found that excluding Mexican farmworkers in the 1960s led to American farmers investing in mechanisation. Similar trends were seen in the Australian and Californian wine industries. Could the same happen in Britain?

Alas, the experiment has not worked. The food sector offers an example of what went wrong. Since Brexit, real output per worker in agriculture and food manufacturing has not risen; in some quarters it has fallen. Nor has there been an automation boom. Businesses show little sign of investing more or raising wages to attract more domestic workers, says Jonathan Portes, a professor of economics at King's College London.

One problem was that politicians were not serious about going cold turkey. Free movement ended on the last day of 2020 and, by the following summer, labour shortages began to bite. Fruit rotted in the fields. Supermarkets cried out for lorry drivers. Pigs were shot for want of abattoir workers. Initially, Mr Johnson sounded bullish, but the Home Office soon opened doors and tweaked rules to help fill vacancies. Net migration reached 606,000 in 2022, higher than any previous year. ►

► Refugees from Hong Kong and Ukraine were part of the increase, but more students and workers were also brought in. Britons may say they want lower immigration, but they also want more migrant nurses, doctors and fruit-pickers. Businesses mostly swapped out EU workers for non-EU ones. In bars and restaurants Poles were replaced by Indians, often dependants of those on student or worker visas. In fields Romanians were replaced by Ukrainians and, last year, by a surge in new arrivals from Central Asia.

Despite the high numbers, some firms have struggled. Brexiteers wanted fewer but higher-skilled immigrants. The opposite happened: fewer than one in seven arrivals last year were skilled workers (officially defined as those paid over £26,200 (\$33,500)). The new visa system has forced firms to take some drastic measures. In 2022 Cranswick, a big food producer, paid £4m to fly in 400 Filipino butchers to avoid a Christmas shutdown.

A lack of commitment was not the only reason the Brexiteers' experiment failed. The thinking behind it was also faulty. The real productivity problem starts at home. A significant factor is the poor quality of British managers, according to John Van Reenen and Nick Bloom, two economists who have conducted international surveys. Other research suggests that this is especially true in low-wage sectors. Weak investment is also to blame, though that is a concern throughout the economy.

Nor is automating a business as simple as switching workers for robots. Machines require skilled operatives. The Netherlands, with the most productive farms of all, pioneered vertical farming and the use of robotics in harvesting and milking. But success there grew from decades of nurturing links between farms and universities, and investing in research. For British farms and factories, workers with technical skills are hard to find.

Running automated systems requires some labour, as when a packing machine sits at the end of a row of human fruit-pickers. Yet businesses lack certainty about their labour supply. As long as the government talks of ending some visa schemes and slashing immigration firms cannot plan. Professor Simon Pearson, who led a government review of automation in horticulture last year, says that this is a big factor deterring investment. A new field rig might pay off over several seasons, but if a farm cannot see beyond the next harvest it will not risk buying one.

Britain also timed its experiment badly. Around the world borrowing rates have soared and businesses have been hit by higher costs of labour, energy and feedstocks. Selling goods abroad also became harder with post-Brexit border checks. That made investing harder. Chicken

farms have struggled, says Kerry Maxwell of the British Poultry Council. The trade body estimates the poultry sector has shrunk by 10% since 2020.

The government could do more. The environment department has not used post-Brexit freedoms to adjust subsidies to give farms incentives to spend on technology. At the last budget Jeremy Hunt, the chancellor, did introduce a tax reform that lets businesses fully deduct investments in machinery. Unfortunately, in order to meet his fiscal rules, it is limited to just three years which negates much of the benefit. Tackling problems like weak management and low investment will be a grind, with few quick answers. But providing more certainty on immigration and tax policy would be a good place to start. ■

Stolen antiquities

Now museum... Now you don't

BLOOMSBURY

An embarrassment for the institution

GO INTO THE British Museum. Ignore the Rosetta Stone; don't turn left for the Parthenon sculptures; don't be seduced by the sumptuous naked statue of Venus. Instead, head up the stairs to Room 69. Here, it is quieter. There is the usual old stuff: Greek pots; some rude Roman decorations; and a pair of wooden double doors whose brass buzzer announces, expansively, that they lead to "GREEK AND ROMAN ANTIQUITIES". Press it, and no one answers. They are not likely to. Because, after a series of thefts, there are fewer antiquities behind this museum's doors than there should be.

The British Museum is in trouble. Pre-

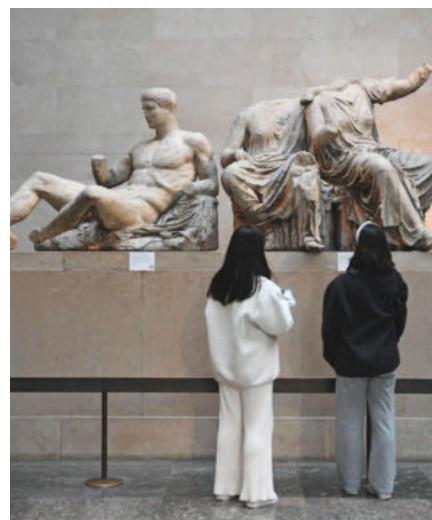
cisely how much is not yet clear. The museum has announced a few facts: objects dating as far back as the 15th century BC, including gold jewellery and gems, are "missing, stolen or damaged". A staff member has been sacked. More details have, with archaeological painstakingness, been unearthed by others: it is said that the Museum first learnt of this in 2021; it is said Roman cameo gems are among the things stolen. This might sound small—the gems are tiddly. It is not. Dr Christos Tsirogiannis, who heads a UNESCO group on antiquities trafficking at Ionian University, says this is "probably the worst case so far...No one expects that to happen in a museum."

This is less about pottery than principles. To lose one antiquity may be regarded as a misfortune; to lose hundreds looks as if you are a museum that cannot do its job. The museum has built its reputation—and defended its collection—by arguing that it looks after things well. This would imply that it can't. Paul Cartledge, emeritus professor of Greek culture at Cambridge University, thinks that is overstating it: the theft of some jewels does not mean the Parthenon sculptures are unsafe. But, he says, if this was going on for some time, "How the hell was it not noticed?"

Equally: how the hell would it be? Museums are icebergs of antiquity, with the vast majority of their collections unseen. In the case of the British Museum's 8m objects, only around 1% are usually on display. As with humans, museums' "one percent" tends to be glamorous and noticeable: the Parthenon sculptures, the Rosetta Stone. Steal that, and it would be noticed immediately. Steal a tiny Roman cameo and most would be none the wiser. Other curators may not have even known they had it in the first place.

Until, that is, the theft becomes known, for filched art is fascinating. Some of the most famous exhibits acquired their fame less from artistic merit than because they were nicked. The Mona Lisa, until it was stolen in 1911, was little known except to art enthusiasts; it took 26 hours for the Louvre to notice it had gone. The British Museum knows this better than anyone: as a former curator once pointed out, the Parthenon sculptures became "this great icon of Western art because they were removed".

Those sculptures are one reason why these thefts are so embarrassing. The sweet savour of *Schadenfreude* is evident in some of the comments on the thefts. The museum, says Dr Tsirogiannis, is "having a taste of their own medicine". For centuries, it has collected objects—to the fury of other countries, which often claim such items were stolen. "Now they find themselves being...the victims of theft." Though if the museum ever gets these gems back they could put them on display. This time, as a star appearance, not a mere cameo. ■



Something's missing

Bagehot | The power of the “cozzie livs”

Britons are not all in it together, even if they think they are



FEW PHRASES penetrate the skulls of voters. Sir Keir Starmer's "sticking plaster politics" has not stuck. David Cameron's "long-term economic plan" did not last. Use of Boris Johnson's "levelling up" is well down. One phrase has gone from Westminster wonkspeak to universal refrain: "the cost-of-living crisis".

On television, Martin Lewis, a consumer-finance expert, is omnipresent, dishing out "cost-of-living" advice to "This Morning" viewers before rushing to 11 Downing Street to do the same to the chancellor. Across TikTok wildly popular accounts offer money-saving tips on how to survive the "cozzie livs". Even the sentencing of Lucy Letby, a neonatal nurse serial killer, could hardly dislodge the most-read story on BBC News: a chip shop in Wales was feeding struggling families for £1 (\$1.26) a go.

The "cozzie livs" has gripped British politics to a degree few predicted when the concept emerged late in 2021. Back then, a mooted increase in National Insurance of 1.25 percentage points combined with inflation of 3.2% was enough to trigger handwringing among politicos, worried that the Bank of England would have to lift rates from 0.1%. By 2023, inflation has peaked at 11%, taxation's share of GDP is on its way to the highest level since the 1940s and the bank has pushed rates to 5.25%, the highest level in 15 years. Real disposable incomes will not recover before 2028, according to the Office for Budget Responsibility.

The circumstances are worse than people could have imagined. Yet many are holding up better than anyone could have hoped. While some genuinely struggle, others merely find their "fun money" going less far. When it comes to the cost of living, Britons are not all in it together. Unfortunately for the government, they think they are.

Nightmare mortgage stories abound as the era of near-zero interest rates fades into memory. Yet unlucky homeowners are far from a majority. Rising mortgage costs affect only a minority of households, shrug government aides. (Outright-owners have outnumbered mortgagees since 2014.) Anyone who bought in the past few years in, say, London will be hammered when they refinance. But many first-time buyers in the capital are well off. Many have a big mortgage because they have a big London salary. Some of the most fiscally fortunate cosplay as the hardest hit.

For others, rising interest rates are a boon. Almost three-quarters of pensioners own their home without a mortgage. For them, higher interest rates mean little but higher returns on cash savings. Inflation whittles away at their living standards, but the government has upped the state pension to compensate. Public-sector workers have to strike for pay rises that struggle to match inflation. Thanks to the triple lock, pensioners receive an inflation-linked bump automatically. Yet few pensioners accept that they are the lucky ones. There is a cost-of-living crisis, after all.

Britons are tightening their belts, but in general only by a few notches. Two-thirds of voters say they have cut down on non-essentials, while almost half say they have reduced even essentials. But there is a gap between how people answer surveys and how they behave at the tills. Retail volumes, which adjust for inflation, are down by barely 3% on 2019. Likewise, living standards do not have to fall as prices rise. Some Britons can rely on savings. At 10% of GDP, Britons have more excess savings, built up in the pandemic, than any rich country bar Canada, according to a rough estimate by Deutsche Bank.

For most people the "cozzie livs" has resulted only in a reduction of fun, rather than a descent into poverty. Thus when help arrived, much of it was spent on pleasure. The Institute for Fiscal Studies examined how poorer Britons spent some of the £70bn (3.5% of GDP) in government support dished out between 2022 and 2023. In the month after cash landed in bank accounts, spending on necessities such as groceries jumped by £20; spending on fun, whether eating out or streaming, rose by £35.

This poses a problem for the government. People are surviving, but not thriving. For most, the cost-of-living crisis results in trade-offs, rather than going without. A zippy BMW is replaced by a Fiat 500 when it comes to renewing the car lease. For most Britons, it is not a choice between eating or heating but Marbella versus Margate. Since 2010, when the Conservatives first came to power, a plurality of voters have not had to compromise on their living standards even during the austerity years. Cheap credit plugged a gap left by lousy wage growth. Now voters have to choose.

Few things bind Britons together more than a sense of shared suffering, even if for some this means no hot tub and for others no hot food. The cost of living has a radically different effect on, say, a family with a £600,000 mortgage on a house in Battersea compared with a family on benefits in Wigan. Yet both families will use it as a reason not to vote Conservative at the next election.

The personal (finance) is political

Economically, things are improving. Rupert Harrison, a prospective Tory MP and a government economic adviser, notes that wage increases are already outstripping inflation and will probably do so by a big margin come 2024. The economy will be healthier as the general election nears. It was a combination of rising wages, falling energy prices and belated economic growth that helped David Cameron snatch a slim but consequential majority in 2015.

Voters are unlikely to be grateful this time. In 2010 they backed the Conservatives knowing that times could be tough. By the election in 2019 the promise was that things would improve. Many have weathered the cost-of-living crisis better than could have been expected. But they are worse off than they thought they would be. This is a chronic problem, not an acute one. Britain was becoming relatively poorer before prices spiralled. Now, people are taking note. The worst of the "cozzie livs" may be over, but the political consequences have just begun. ■

TELL THEM I MADE IT



MADE IT

Hem Moktan earned just \$45 over the three years he was concealed as a child laborer in Nepal. He was only a young boy, but the carpets he hand-knotted were sold in fine showrooms across the United States and Europe – until one company partnered with GoodWeave. GoodWeave rescued Hem and provided him counseling, education and a place to live. Now with a master's degree, Hem heads GoodWeave Nepal's child protection program, transforming other children's futures as his was.

Hem made it. You can help other children make it in life too. Look for the GoodWeave® label on carpet and home textile products – your best assurance no child labor was used.



goodweave®
goodweave.org

Design: tabakdesign.com

Photo: The Studio_M – thestudiom.com



A red line over Syria

Investigating America's lost credibility

Ten years on, how much was Barack Obama to blame?

THE FORCES of Syria's president, Bashar al-Assad, struck soon after 2am. Residents of Ghouta, a Damascus suburb, told reporters that they heard a strange noise, as if someone was opening a bottle of Pepsi. A local doctor, fighting back tears, explained that many people had sought shelter underground, but the gas was heavier than air and it pooled in basements and cellars. Had they climbed the stairs instead, they would have lived. More than 1,000 people perished that night. The doctor distributed some 25,000 ampoules of atropine and 7,000 of hydrocortisone to medical teams so they could try to save those who were suffering the effects of nerve agent.

Mr Assad fired sarin-filled rockets at Ghouta on August 21st 2013. It was the deadliest day of the Syrian civil war. It challenged Barack Obama, then America's president, to act on his warning that "a red line for us is we start seeing a whole bunch of chemical weapons being moved around or utilised. That would change my calculus."

Ten years after Ghouta, Mr Obama's red line over Syria is remembered as a defining moment of his presidency. Rather than strike immediately, he first decided to ask for a vote in Congress and then agreed not to act at all if Russia stepped in to oversee Syria's chemical disarmament. Critics argue that Mr Obama's reluctance to punish Mr Assad diminished America's credibility and that the consequences are still being felt even now.

Speaking to the BBC last month, François Hollande, who was French president at the time, argued that it "was particularly bad for the Middle East. And it was decisive when it comes to relations between the West and Russia." Back in 2013, *The Economist* lamented Mr Obama's choice, too, blaming him for "the weakened West". But it is worth revisiting that judgment. Although there is no disputing the erosion of the West's credibility over the past decade, a salvo of cruise missiles fired against Mr Assad would hardly have rescued it. It may not even have spared the Syrian people

from further nerve-gas attacks.

Mr Obama's red line is a curious case of a policy that came about by accident and then succeeded brilliantly in its own terms only to be remembered as a historic failure. It raises questions over how much leaders can—or should—put credibility at the centre of their plans.

Oddly for such a meticulous politician, Mr Obama stumbled into laying down his red line. Although the term suggests that he had settled on an ultimatum after carefully weighing up his options, the president shocked his aides at a White House news conference on August 20th 2012 when, seemingly on an impulse, he spoke about the consequences if Syria used chemical weapons. Only a handful of news outlets actually reported his remarks, perhaps because officials hastily briefed that the administration remained highly unlikely to intervene in Syria.

The officials were too late. Many people within the American government and abroad, including in London, wanted America to use military force to stop Mr Assad committing daily atrocities. They seized on Mr Obama's words. "It was going to detonate immediately," says Steven Simon, a former Obama official and author of "Grand Delusions", a new history of American policy in the Middle East. "There was no time-delay fuse attached to this."

What's more, Mr Obama himself wavered. In December 2012 and March 2013 Mr ➤

▶ Assad was accused of using chemical weapons against his people. On the first occasion Mr Obama called such weapons "totally unacceptable", on the second "a game-changer". Yet, having thus built up expectations, three weeks after Ghouta, the president suddenly denied that his credibility was at stake, saying, "I didn't set a red line. The world set a red line."

With hindsight, Mr Obama's error was to seem to want to have it both ways. The red-line formulation helped strengthen America's warning when Mr Assad appeared to be thinking about using nerve gas to terrorise his people. Yet, after the atrocity, the very firmness that made it a powerful threat also raised the cost of seeming to do too little. Theodore Roosevelt, America's 26th president, famously advised leaders to "speak softly and carry a big stick". Mr Obama swapped noise for stick and paid a heavy price.

The -um in ultimatum

Except that, if Mr Obama's aim was to stop Syria using nerve gas, he also succeeded beyond expectations. A few weeks after the attack, Russia had a plan for international inspectors to oversee the dismantling of Syria's chemical-weapons programme, if America would not strike.

"The deal to bring Syria into the Chemical Weapons Convention (cwc) was one of the greatest non-proliferation achievements of the 21st century," believes Gregory Koblentz, a chemical-weapon expert who teaches at George Mason University in Fairfax, Virginia.

Syria had the Middle East's most advanced programme, which it had built to deter a conventional military attack by Israel. With Russia's encouragement, international help and the good offices of the Organisation for the Prohibition of Chemical Weapons (opcw), it destroyed 1,300 tonnes of weapons and precursor chemicals, 1,200 munitions and demolished 27 production facilities. Dr Koblentz points out that ten to 12 rockets had killed over 1,000 people on August 21st. Each carried around 50 litres of nerve agent weighing a little under 55kg. By comparison, he reckons, the nerve agents Syria destroyed may have weighed 1,000 tonnes—enough to attack Ghouta 1,800 times over.

The record was far from perfect. Syria continued to use chlorine, including in one highly lethal attack in 2018, which Donald Trump, Mr Obama's successor, and Britain and France met with a barrage of cruise missiles. Dr Koblentz also observes that Syria held on to some nerve agent—though a tiny fraction of its initial stock—because Mr Assad launched three more nerve-agent attacks, though they caused much less harm than in Ghouta. In every case, Russia covered up for its ally, blaming the attacks on rebel forces. During emer-

gency sessions at the opcw, Syria's ambassador flaunted his contempt by playing "Angry Birds" on his phone.

But the record is surely better than if America and its allies had tried to eliminate Syria's chemical weapons from afar. Mr Simon recalls how the early months of the war were all about how to stop chemical weapons falling into the wrong hands. "I spent a lot of my time dealing with the us and Israeli intelligence communities on pinpointing where all this stuff was," he says, "and tracking or monitoring the vulnerability of specific installations to a breach by opposition forces and exploring ways with the us military on how those stockpiles might be destroyed by the United States unilaterally without creating a monstrous public-health hazard."

In addition, the Syrian civil war has not weakened the cwc (see chart). Many countries strongly condemned Russia over its attempt to poison Sergei Skripal, a former member of the KGB living in Britain, back in 2018 and Alexei Navalny, an opposition leader, in 2020 using another nerve agent called novichok. The taboo against chemical weapons remains.

Yet if Syria's programme was mostly dismantled and the cwc is intact, why has American credibility suffered? One answer, says Keren Yarhi-Milo, dean of Columbia University's School of International and Public Affairs, is that policy choices have audiences far beyond their narrow target. In Mr Obama's case this audience was packed with people who already doubted his resolve. His tough talk over Syria's red line was overshadowed by his oft-stated desire for America to devote less of its resources to policing the Middle East—and indeed the world as a whole. The United States had become bogged down in Afghanistan and Iraq. The decision to "lead from behind" in Libya to remove Muammar Qaddafi, its tyrannical president, at the behest of Britain and France had ended in chaos. Mr Obama's attempts to strike a deal with Iran over its nuclear programme was seen as too accommodating by some

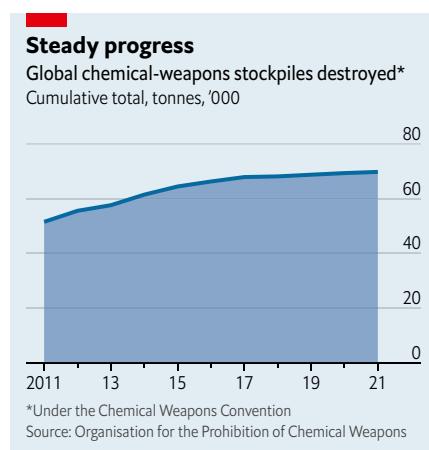
leaders in Israel and the Gulf.

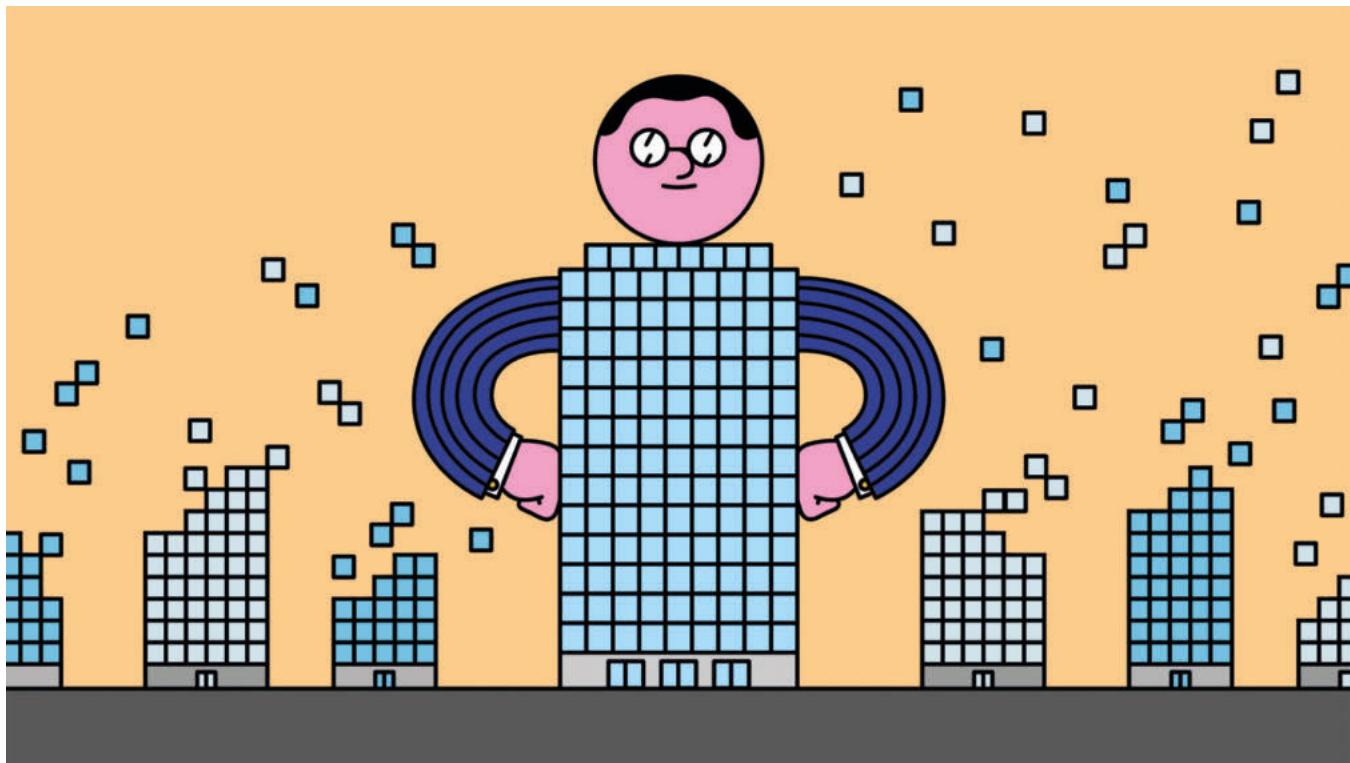
Dr Yarhi-Milo argues that, as well as being judged on policies, leaders also acquire a "signalling reputation" reflecting their record of carrying out threats and honouring promises. Experts disagree about how much this reputation is worth. Some argue that foreign powers take hard-nosed decisions, based on their assessment of a leader's capabilities and interests in the moment, rather than on his or her past. However Dr Yarhi-Milo's research suggests that, in the real world, foreign powers use reputation as a guide. "Somebody like Putin doesn't engage in those kinds of super-rationalist calculations," she says. "They use shortcuts. And those...many times are based on their personal experience interacting with that country."

Mr Obama's reputation strikes Mr Simon as monumentally unfair. He points out that in 2013 the former president began a massive operation to train and support rebel fighters in Syria and argues that was far more significant than a punitive strike for Ghouta would have been. Middle Eastern leaders knew about this commitment, but it does not seem to have won much credit with them. Furthermore, Mr Simon describes in his book how, since the second term of George W. Bush, every American president has sought to limit America's commitment to the Middle East. And yet the red line over Syria is nevertheless treated as a turning-point.

Looking back across a decade, Mr Obama's record shows how elusive credibility can be. Mr Obama has insisted he has no regrets. In 2016 he told the *Atlantic* that "dropping bombs on someone to prove that you're willing to drop bombs on someone is just about the worst reason to use force". That is surely correct. When Richard Nixon bombed Cambodia and the Viet Cong in the 1970s, in the belief that developing countries would otherwise topple like dominoes, it cost a lot of lives without saving America's reputation. Furthermore, leaders such as Turkey's president, Recep Tayyip Erdogan, feel free to flip-flop but are still able to exert power.

Even so, the success in dealing with Syria's chemical weapons has been eclipsed by the more general truth that America's position in the Middle East has weakened—partly by choice. That has been thrown into relief by the rise of Islamic State in 2014 as a violent source of anarchy and chaos. It was made worse by the fact that the man who stepped in to handle Syria with Mr Obama's blessing was Vladimir Putin. He has since increased his hold over the country, derided America's pretences to act as a global policeman and sent his troops into Ukraine. The red line has stuck because it represents a powerful metaphor for America's ongoing struggles to cope with a complicated world. ■





Big business

Goliath's triumph

Why America's corporate giants are surprisingly impervious to disruption

ATTEND ANY business conference or open any management book and an encounter with some variation of the same message is almost guaranteed: the pace of change in business is accelerating, and no one is safe from disruption. Recent breakthroughs in artificial intelligence (AI) have left many corporate Goliaths nervously anticipating David's sling, and fearing the same fate as Kodak and Blockbuster, two giants felled by the digital revolution.

"The Innovator's Dilemma", a seminal book from 1997 by Clayton Christensen, a management guru, observed that incumbents hesitate to pursue radical innovations that would make their products or services cheaper or more convenient, for fear of denting the profitability of their existing businesses. In the midst of technological upheaval, that creates an opening for upstarts unencumbered by such considerations. Yet America Inc has experienced surprisingly little competitive disruption during the internet age. Incumbents appear to have become more secure, not less. And there is good reason to believe they will remain on their perches.

Consider the Fortune 500, America's largest firms by revenue, ranging from Walmart to Wells Fargo and accounting for roughly a fifth of employment, half of sales and two-thirds of profits. *The Economist* has examined the age of each firm, taking into account mergers and spin-offs that make the group look artificially young.

We found that only 52 of the 500 were born after 1990, our yardstick for the internet era. That includes Alphabet, Amazon and Meta, but misses Apple and Microsoft, the middle-aged tech titans. Only seven of the 500 were created after Apple unveiled the first iPhone in 2007, while 280 predate

America's entry into the second world war (see chart 1 on next page). In fact, the rate at which new corporate behemoths arise has been slowing. In 1990 there were 66 firms in the Fortune 500 that were 30 years old or younger. Since then the average age has crept up from 75 to 90.

One explanation for this is that the digital revolution has not been all that revolutionary in some parts of the economy, notes Julian Birkinshaw of the London Business School. Communications, entertainment and shopping have been turned on their heads. But extracting oil from the ground and sending electricity down wires look much the same. High-profile flops like WeWork, a much-hyped office-sharing firm now at risk of collapse, and Katerra, which tried and failed to redefine the construction business by using prefabricated building components and fewer middlemen, have discouraged others from trying to disrupt their respective industries.

Another reason is that inertia has slowed the pace of competitive upheaval in many industries, buying time for incumbents to adapt to digital technologies. Although 65% of Americans now bank online, nearly all the banks they use are ancient—the average age of those in the Fortune 500, including JPMorgan Chase and Bank of America, is 138. Fewer than 10% of Americans switched banks last year, according to Kearney, a consultancy. That stickiness has made it difficult for would-be disruptors to build scale before incumbents imitate their innovations. A labyrinth—►

→ Also in this section

53 Arm's listing plans

53 Reviving the IPO market

54 Europe's weather-beaten tourists

55 America's corroding steelmakers

56 Bartleby: The joys of mentoring

57 Schumpeter: Supreme Court verdict

► thine regulatory system that favours big institutions with well-staffed compliance departments helps. The insurance industry, also dominated by geriatric giants like AIG and MetLife, is much the same.

The pattern is not unique to financial services. Walmart, America's mightiest retailer, almost missed the rise of e-commerce. David Glass, its boss in the 1990s, predicted that online sales would never exceed those of its single largest retail warehouse, according to a recently published book, "Winner Sells All", by Jason Del Rey, a journalist. Nonetheless, Walmart's financial heft and enormous customer base gave it the chance to change course later. Only Amazon now sells more online in America.



The recent growth of electric vehicles from Ford and General Motors, America's two largest carmakers, offers another example. Their bulky balance-sheets have allowed them to spend heavily on reinventing their businesses at a time when raising capital is becoming more difficult for newcomers.

A third explanation for the endurance of America's incumbents is that their scale creates a momentum of its own around innovation. Joseph Schumpeter, the economist who coined the phrase "creative destruction", first argued that economic progress was propelled mostly by new entrants, noting in "The Theory of Economic Development" in 1911 that "in general it is not the owner of stage coaches who builds railways". By the time he published "Capitalism, Socialism and Democracy", his magnum opus of 1942, he had changed his mind. It was, in fact, big firms—monopolies, even—that drove innovation, thanks to an ability to splash cash on research and development (R&D) and quickly monetise breakthroughs using existing customers and operations, spurred on by a constant fear of being toppled.

America's tech titans offer the quintessential illustration. Alphabet, Amazon, Apple, Meta and Microsoft invested a combined \$200bn in R&D last year, equivalent to 80% of their combined profits and 30% of all R&D spending by listed American firms. Less obvious examples abound, too. John Deere, America's largest agricultural-equipment firm, founded in 1837, leads the way in innovations like driverless tractors and clever sprayers that use machine learning to spot and target weeds. Its ambition is to make farming fully autonomous by 2030. After snatching laid-off techies from Silicon Valley it now employs more software engineers than mechanical ones.

Incumbents and newcomers also often play complementary roles in innovation. William Baumol, an economist, wrote in 2002 of a "David-Goliath symbiosis" in which radical breakthroughs generated by independent innovators are then enhanced by established firms. A paper in 2020 by Annette Becker of the Technical University of Munich and co-authors split R&D spending by a sample of firms into more exploratory "research" and more commercially oriented "development", and found that the relative weight of research fell with firm size. Likewise, a paper in 2018 by Ufuk Akcigit of the University of Chicago and William Kerr of Harvard Business School found that patents generated by big firms were less radical and more focused on incremental improvements to existing products and processes.

That division of labour may help explain why many startups are bought by established firms. John Deere's acquisition in 2017 of Blue River, for example, gave it the technology behind its clever weed

sprayer, which it was then able to sell through its vast network of distributors. Over the past decade 74% of venture-capital "exits" in America were via such acquisitions, according to PitchBook, a data provider. That is up from next to none in the 1980s, leading to warnings of a plague of "killer acquisitions", with big firms eating their potential future rivals.

Such cases do occur, but are rare. A study in 2021 by Colleen Cunningham, then at the London Business School, and co-authors found that 5-7% of acquisitions by drug companies, which rely heavily on startups to top up pipelines, looked suspect. Most of the time, folding into an established giant is simply the most efficient way for an innovative new firm to bring its breakthroughs to the world.

A final explanation for the lack of competitive disruption relates to demographics. "Young firms are generally built by young people," notes John Van Reenen of the London School of Economics. Between 1980 and 2020 the share of America's population aged between 20 and 35 fell from 26% to 20%. The rate of new business formation dipped from 12% to 8% in the same period (see chart 2). In a study of 2019 comparing variations in population growth and new business formation across states in America, Fatih Karahan of the Federal Reserve Bank of New York and co-authors concluded that falling population growth accounted for 60% of the decline in the business-entry rate over the past 40 years.

Application rates to start new businesses in America surged in late 2020 after plunging in the early months of the pandemic, and have since remained well above pre-pandemic levels. That entrepreneurial burst has mostly focused on hospitality and retailing, which were hammered by covid, and over time may peak, especially as pandemic-swollen household savings dwindle. Optimists will hope that the recent flurry of investment in AI startups can sustain the momentum. Even if it does, the corporate giants of the past may well remain on top. ■



Chipmaking

Arm-twisting

The chip designer looks to its AI future, not its smartphone past

ON AUGUST 21ST Arm, a chipmaker whose designs power most of the world's smartphones, filed for an initial public offering (IPO) that could turn out to be the largest of the year. The route taken by the British firm, which is owned by SoftBank Group, a Japanese technology conglomerate, has not been straightforward. In 2016 SoftBank acquired Arm, then listed on the London Stock Exchange, for \$31bn. Four years later a proposed \$40bn sale to Nvidia, another chipmaker, was squashed by competition authorities. Now a blockbuster listing is in prospect that would also signal a revival of an IPO market that has been largely dormant since 2022 (see next article).

Arm will now be listed on America's tech-heavy Nasdaq as soon as early September. SoftBank will retain majority control and pocket all the proceeds. The IPO filing does not specify how much Arm intends to raise or the chipmaker's worth, though in August SoftBank paid \$16bn for a 25% stake which was held by the group's Vision Fund, a tech-investment vehicle, putting Arm's value at around \$64bn. It will probably seek around \$60bn-70bn, or around 21-25 times annual sales. That would place it close to the lofty multiples of Nvidia (see chart), which on August 23rd confirmed its position as the leader of the artificial-intelligence gold rush by reporting a 101% increase in quarterly revenue compared with a year earlier, beating analysts' already lofty expectations. Projections for the next quarter are even rosier.

The ubiquity of Arm's chip designs may seem to justify a juicy valuation. Unlike its competitors, which design, manufacture and sell chips, Arm deals only in intellectual property. It makes money by licensing its designs, which customers can modify if required, and takes a small cut from every chip built. Using Arm's off-the-shelf designs allows firms to build a processor at a fraction of the cost of designing it themselves. As a result, its chips are everywhere.

Its technology sits within 99% of the world's smartphones. In devices from industrial sensors to smart toasters or anything else that now connects to the internet, its designs feature in 65% of their processors. In the automotive sector Arm has a 41% market share and even in the lucrative cloud-computing market, long dominated by Intel, Arm-based processors account for 10% of the chips sold.

The AI boom brightens Arm's prospects. Earlier in August Nvidia unveiled Grace Hopper, a new chip that combines an Arm-based central processing unit (CPU) with its graphics-processing unit (GPU). The chip promises to run bigger and faster versions of the language models that are trained on text from the internet to produce human-like output. And as Sara Russo of Bernstein, a broker, points out, as AI moves from data centres to consumer apps, devices able to run AI functions using less energy will be needed. Arm's expertise in low-power, high-performance chips should help it meet the demand.

Other tech trends look less encouraging. Begin with sluggish demand. Most of Arm's sales come from processors for smartphones, cars and other connected devices. Sales of these chips have lately been weaker than expected. Qualcomm, an American chipmaker that specialises in smartphone processors, recently reported a 23% drop in sales in the latest quarter compared with a year earlier. It expects the downturn to drag on until at least the end of the year. The forecast for automotive chips is similarly gloomy. Expanding demand from AI will not be enough to offset a drop-off in Arm's core products.

Arm's position as the only supplier of easy-to-use chip designs is also in peril from RISC-V, an open-source alternative developed at the University of California, Berkeley. RISC-V designs are available to anyone without a licence or fee. Alan Priestley of Gartner, a market-research firm, believes it is a "growing threat" to Arm. For now RISC-V serves the lower end of the market—sensors, connected devices and automotive chips. But as the technology improves, the promise of licence- and royalty-free designs for expensive smartphone and data-centre processors could prove a problem for Arm. In the year to March 2023 all its revenues came from licensing (\$1bn) and royalties (\$1.6bn).

A reliance on China—a separate entity—for a quarter of its revenues is another cause for concern for investors. In its

filings Arm admits that it is "particularly susceptible" to tensions between China and America. In December Arm chose not to license its designs for a high-end CPU to Alibaba, a Chinese e-commerce giant, for fear that it would fall foul of a ban imposed by America last year on selling certain cutting-edge chips in China.

The question is whether the hype around AI means that investors pay less attention to such worries. When the deal to sell Arm to Nvidia fell through in 2022, Son Masayoshi, the founder of SoftBank, vowed to take Arm public in the "the largest IPO in semiconductor history". AI exuberance in a market starved of blockbuster IPOs may make his wish come true. ■

Stockmarket listings

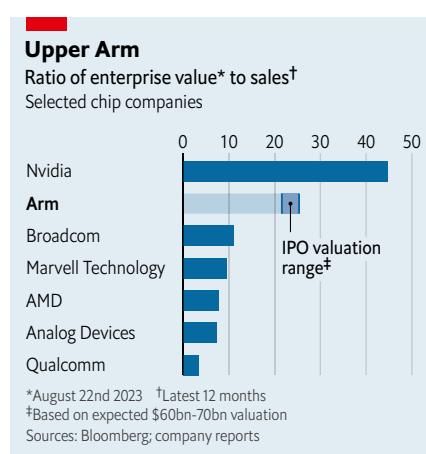
Strike up the band

Arm's flotation could signal a revival in the market for initial public offerings

NO MATTER HOW wild the party, it is a rare hangover that lingers into its second year. Yet after a record-smashing rave in 2021, investors in initial public offerings (IPOS) are still nursing sore heads. Over the course of a year-long binge, they ploughed some \$600bn into stockmarket listings around the world in 2021, according to Dealogic, a data firm. That is more than double the figure for 2007, in the mad gallop preceding the financial crisis, and nearly triple that for 2000, as the dotcom bubble swelled. But then soaring inflation, the end of cheap money and cratering markets put paid to the celebrations. In some places flotations all but disappeared: proceeds from American IPOs in 2022 fell by more than 90% compared with the previous year. So far in 2023, the sombre mood has continued (see chart on next page).

The music may soon start up again. On August 21st Arm, a British chip designer, at last filed a preliminary prospectus for a hotly awaited listing on the Nasdaq exchange, expected to take place in the first half of September. A likely valuation of between \$60bn and \$70bn would mark the biggest American float in nearly two years.

It is not just Arm. Notwithstanding an August wobble, stockmarkets have been rising for almost a year: the S&P 500 index of large American firms is up by 24% from a trough in October. MSCI's broadest index of global stocks has also risen by 24%. Such a bull run offers inevitable temptations to the bosses of private firms. With prices having risen so much, perhaps now is the time to sell a chunk of the company's shares to public investors and get a healthy ►



► slug of capital in return.

Importantly, says James Palmer of Bank of America, volatility has also been subdued for months. That lowers the likelihood of would-be floaters kicking off a weeks-long listing process only to see the market plunge and the value of their soon-to-be minted shares fall with it. Alok Gupte of JPMorgan Chase, another bank, is more bullish still. The pace of work at firms using his team's help to go public, he says, has "gone from second gear to fifth" in recent weeks.

Meanwhile, the listings that have already taken place suggest a market that is hungry for more. Oddity Tech, a beauty outfit that perhaps inevitably uses artificial intelligence (AI) to develop its products, listed on the Nasdaq on July 19th. It saw demand for its offering vastly outstrip supply. The firm sold \$424m-worth of its shares, while investors placed orders for over \$10bn. After Arm's IPO, Instacart, a grocery-delivery group, Databricks, a software firm, and Socure, an identity-verification company, are all likely to follow up with their own flotations.

If this steady drip is to become a rush, it will require three developments in its favour. The first is a clearer picture of where interest rates are heading. One senior banker cites confusion over this as the main reason that listings, as well as other deals such as mergers and acquisitions, were so slow to return in the first half of 2023. With the Federal Reserve's fastest tightening cycle in decades still under way and a clutch of American regional banks teetering close to collapse, guessing where long-term rates would end up felt like taking a shot in the dark, she argues. As well as determining firms' funding costs, this is the ultimate benchmark against which IPO investors measure their potential returns. And so without much idea of where the "risk-free rate" will settle, pricing a new tranche of shares with any confidence becomes impossible.

There is now a growing sense, both in markets and among economists, that the

Fed's rate rises are at or near an end. Yet uncertainty over how long rates will stay high persists, largely due to the surprising resilience of America's economy (see Finance & economics section). Mostly as a result of this, the yield on ten-year Treasuries—possibly the most important benchmark for investors—has risen by 0.8 percentage points since early May, to 4.2%. Until this measure begins to settle, IPOs will remain hard to price and, as a result, sparse.

A second factor required for listings to resume in earnest is for firms themselves to grow in confidence. "I've thought for some time that market readiness would come before company readiness," says Bank of America's Mr Palmer. A successful flotation, he says, involves the businesses making a series of reassurances: to regulators, investors and research analysts. The firm will offer guidance on its financial performance not just over the next quarter, but probably over the coming year.

For as long as geopolitical tensions, especially between America and China, are running high, companies that rely heavily on cross-border trade will find such reassurances fiendishly hard to offer. Virtually all, meanwhile, are hampered by uncertainty over where inflation will settle and whether the world's big economies have avoided, rather than merely delayed, recessions. Some firms, such as those owned by private-equity funds with limited life-spans, may have few options but to make the jump and list despite the fog of uncertainty. But those with the freedom to choose are more likely to wait until it lifts.

A final, if obvious, requirement for a new IPO boom is that the firms now preparing to float manage to do so successfully. Crucially, says Rachel Gerring of EY, a consultancy, that means their shares end up being sold at around the price investors have been led to expect and then rise from there. That the opposite happened for many of 2021's floaters was the death knell of the previous boom: few IPO investors want to open their chequebooks without benefiting from the share-price "pop" associated with new listings. In this sense, Arm's flotation has acquired totemic importance. Should its share price leap, others will be quick to follow; should it flop, they may not.

Whenever it materialises, the next cohort of IPOs is likely to look substantially different to the class of 2021. With the heady days of rock-bottom interest rates firmly in the past, investors will prize "safer" prospects. This means big firms over small, profits over revenue growth, seasoned executives over newbies, and easy-to-model business plans over more speculative ventures. JPMorgan's Mr Gupte sees these preferences reflected in a much more diverse group of companies now preparing to go public than did in 2021. Whereas the

last wave was dominated by tech firms, he says, the next will involve many more industrial, energy-transition, consumer-focused and health-care outfits.

All agree that a return to the breakneck pace of dealmaking that preceded the current drought is unlikely. Central banks are no longer flooding markets with liquidity, the rate rises of the past 18 months could yet tip many economies into recession, and an American stockmarket that is at its most expensive in decades could yet crash. But "if nothing upsets the apple cart", says Mr Gupte, then a reasonable number of firms should be looking to go public in 2024. All eyes on Arm, then, to see if the apple cart can stay on the road. ■

Tourism in Europe

Too hot to handle

BERLIN

Extreme weather will change when and where tourists go

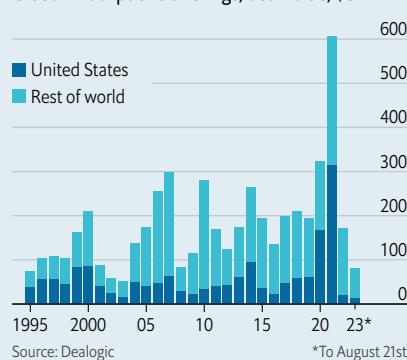
"ARRIVED IN BOLOGNA, Italy, today, now it's off to Tuscany. The heatwave is spectacular here. If things continue like this, these holiday destinations will have no future in the long term. Climate change is destroying southern Europe. An era comes to an end." This tweet in early July by Karl Lauterbach, Germany's health minister, went down badly in Italy. The country's minister for tourism, Daniela Santanchè, sourly retorted that she thanked Mr Lauterbach for picking Italy for his holiday, but the Italian government was well aware of climate change and that sustainability was one of the central elements of its strat- ➤



A fan of the hot weather

Floating is sinking

Global initial public offerings, deal value, \$bn



▶ eg for managing tourism.

The industry is not just an important contributor to Italy's economy. Europe is the planet's most visited region, welcoming 585m of the world's 900m international travellers in 2022. On top of this, domestic holiday-makers outstripped foreigners in terms of nights spent in tourist accommodation in the EU. Little wonder then that the sector directly generates 5% of the EU's GDP and by some estimates indirectly accounts for more than 10%. Some countries rely heavily on travellers' contributions both direct and indirect, including Croatia (26% of GDP), Greece (18.5%), Spain (13.6%) and Italy (10%).

Changes to the climate that lead to ever-wilder weather could deliver a nasty blow to the tourist industry. This year southern Europe has endured an abnormally turbulent summer. Extreme hot weather in Italy in July contributed to wildfires that ravaged Sicily as the temperature at one time climbed to 47°C in Palermo, the island's capital. Farther north, hailstorms in Lombardy claimed several lives. Also in July Greek authorities had to evacuate tens of thousands of tourists from Rhodes and Corfu after wildfires engulfed those islands. After heatwaves scorched Spain over the summer, Tenerife battled fires that last week forced thousands to flee their homes. Heavy floods have deluged southern Austria, Croatia and Slovenia.

Despite the devastation, Italy's tourism industry—and that of Europe as a whole—is set for a record summer this year as holidaymakers return in force after the travel restrictions of the pandemic. Few have cancelled trips despite the dangers that may await them. According to Demoskopika, a market researcher, 68m people will have taken a holiday in Italy this summer, with around half arriving from abroad. Tourist numbers this year may even surpass the record set in 2019, when 743m visitors arrived in European destinations from other countries. According to Germany's TUI, the world's largest travel group, in spite of higher prices summer bookings were around 6% higher than a year ago.

Can the rebound last if tourists are fearful of the effects of climate change in years to come? Harald Zeiss, an expert in sustainable tourism at Harz University of Applied Sciences in Wernigerode, speaks for many climate watchers when he says that Europe's weather will become hotter and drier, and that extreme weather events will become even more likely in the future. Aside from the awful consequences for populations caught up in floods or fires, this also threatens the livelihoods of those who rely on income and employment from tourism in affected areas.

The classic "all-inclusive" package holiday on the beaches of the Med will have a rough ride, predicts Mr Zeiss. He reckons

that the prospects of oppressive heat will deter the elderly and those with children in particular. Torsten Kirstges, another tourism expert at Jade University of Applied Sciences in Wilhelmshaven, thinks that while wildfires remain sporadic travellers will continue to flock south, even in the hot summer months, at least for the next five years. Youngsters in particular still want to roast in the sun, says Mr Kirstges.

The lure of the Mediterranean will probably endure as long as the alternatives do not look as enticing. Northern destinations, in particular the Baltic Sea, Germany, eastern Europe and Scandinavia, may see an increase in demand during the peak summer period. But these destinations cannot replace southern resorts because they are not equipped for mass tourism (which many don't want anyway). For potential visitors the weather is too unpredictable in the summer. But travel trends do change, if slowly. In the 1950s the favourite holiday destination for Germans was a trip across the border to Austria. It was not before the mid-1980s that Spain took over. And experts agree that tourism in Europe in 30 years' time will be different from what it is today.

The industry has joined in with wider promises by businesses to hit the targets of the Paris climate agreement by becoming net-zero emitters of carbon dioxide by 2050. TUI, for instance, wants to be climate-neutral across its operations and supply chain by 2050. Yet such efforts by firms to mitigate the effects of global warming will have little overall impact. More importantly, tourism will need to adapt to climate change.

In the short term, this will be a question of measures such as strict management of water resources where these are becoming increasingly scarce, early-warning systems for extreme weather events and an extension of the holiday seasons, says Thomas Ellerbeck, chief sustainability officer at TUI. His company is, for instance, extending the booking season for Greece until November. Mr Kirstges thinks many more hotels in the Med will install air conditioning (fuelled by solar power), water coolers and the like. Tourists may adapt by going out in the mornings and evenings to avoid the midday furnace.

Longer term, some switching from the golden sands of the Med to the beaches of the Baltic is inevitable. But there is a silver lining for the holidaymakers who will either discover the unexpected beauty of Baltic beaches or may go south at different times of the year. A shift by some tourists to the spring or autumn will help with the overcrowding which has become a such a nuisance for residents and those visitors eager to imbibe the culture of Dubrovnik, Venice, Barcelona or other marvels of southern Europe in relative peace. ■

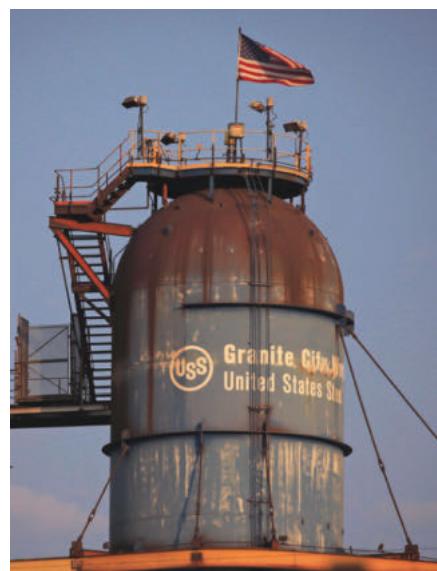
American steelmaking

A question of furnace

MORE CONSOLIDATION may be the only option

AMERICA'S STEELMAKERS were the big tech firms of their day, at the corporate forefront in the 19th century as industrialisation led to rocketing demand. In 1901 ten industrial firms were combined to create US Steel, one of the world's first billion-dollar corporations, and for the next 70 years business boomed for steelmakers boosted by rearmament in two world wars. Those heady days are long gone. Many firms such as US Steel, which smelt steel in blast furnaces from iron ore using coking coal, have either been bought or gone bust. Indeed, on August 13th Cleveland-Cliffs, an America competitor, said it had offered \$7.3bn for US Steel, half in cash and half using its own shares. Shortly afterwards ArcelorMittal, the world's second-largest steelmaker, was said to be mulling a bid.

US Steel, once a juggernaut of the American stockmarket, now languishes in the S&P 500, a mid-cap index, as does Cleveland-Cliffs. Meanwhile, companies using electric-arc furnaces (EAFFS), which process scrap metal using electricity in mini-mills, now account for 75% of American production compared with 10% in 1960. Mini-mills are greener and cheaper to build and run, so generally remain profitable even during downturns. That translates into nifty margins. Mini-mill operators such as Nucor and Steel Dynamics posted operating margins of around 22% in the latest quarter, compared with 12.5% for US Steel ►



A blast from the past?

► and 8% for Cleveland-Cliffs.

The legacy steelmakers could fall even further behind. EAFFS have the flexibility to make the flat-rolled steel used by railways and carmakers as well as long-steel products mainly used in construction. Blast furnaces are limited to just the former. That leaves the incumbents with few options. One is to embrace the new. In 2021 US Steel purchased Big River Steel, a mini-mill, for around \$1.5bn and is building another, taking its steel capacity from EAFFS to around 6.6m tonnes in 2024, 28% of its total. A more audacious move would be to

buy another big steelmaker to consolidate blast furnaces further. The industry has already heavily consolidated; 14 steelmakers made up around 80% of the market in 2000 compared with just four today.

Cleveland-Cliffs, the only confirmed bidder for us Steel so far, has been particularly active: in 2020 the firm snapped up AK Steel and ArcelorMittal's blast furnaces when it left America. Merging with us Steel is a bigger gamble. It would create a steel-making juggernaut, giving it half of flat-rolled steel, 60% of the car market and total control over electrical steel. Antitrust

authorities may deem it a consolidation too far. Politicians may be more amenable, especially as an election approaches.

United Steelworkers, the union that represents us Steel's employees, is battling for Cleveland-Cliffs. The union wants to keep blast furnaces, as they are heavily unionised, and claims to have veto power over prospective bidders. us Steel's boss, David Burritt, disputes this and has so far turned down his rival's offer, calling it unreasonable. He may soon have no choice but to accept if he wants to restore us Steel to anything like former glory. ■

Bartleby The mentor in you

The joys of corporate confidantes

GANDALF FROM "The Lord of the Rings", Yoda in "Star Wars" or M in Ian Fleming's early James Bond novels all act as mentors, providing sage advice and guidance to the less worldly-wise. In real life, as in fiction, the value of imparting wisdom gained through experience and age (Yoda is 900 years old, Gandalf is in his 1,000s) is becoming ever more important. It is in a company's interest to keep its employees happy and loyal even if the jobs-market upheavals of the pandemic-induced "great resignation" are fizzling out. A good mentoring scheme can serve this purpose.

Workplace mentoring has long been an informal affair, disguised as a chat by the coffee machine or a trip to a bar with a longer-serving and more senior colleague. Even the most successful find having a receptive ear a useful addition to the corporate armoury. For over 30 years Bill Gates has turned to another billionaire, Warren Buffett, for advice. Peter Thiel, another tech baron, credits René Girard, a French polymath and part-time philosopher, as one of his greatest inspirations.

In recent years businesses have sought to formalise an arrangement with the obvious rewards of nurturing a sense of connection and loyalty, and helping the transfer and development of skills. The aim is to support staff and boost their confidence by sharing knowledge and experience. At their best, when there is genuine rapport between mentor and mentored, such arrangements can help the latter to come up with new ideas and help them cope with problems.

So how do firms build the best mentoring schemes? For them to work, some degree of chemistry is essential, as is a high regard for the person whose advice is being sought, irrespective of age gaps

and backgrounds. Maurizio Orlacchio, a former manager for Four Seasons, a hotels chain, credited his career to his relationship with his mentor, an older executive who taught him how to motivate his employees—and himself.

Schemes should be self-managed with the junior party taking the lead in arranging discussions which are always confidential. It is best to let employees choose the person with whom they would most like to discuss their career trajectory, no matter their position on the corporate ladder. Requested mentors can be flattered but still decline.

If you want to become a valued mentor, do not start by offering unsolicited advice. If you're being mentored, do not look for solutions to personal problems (failing romantic relationships, dandruff) or ask for bail money. But anything else work-related should be open for discussion. "I'm feeling wobbly, this is all too much to take in" is as legitimate as chatting about your long-term career prospects.

Firms are increasingly recognising the importance of face time with helpful

colleagues. Nicholas Bloom at Stanford University, using data from hundreds of organisations since the onset of the pandemic, found that the mentoring of recent hires was a key reason to bring employees into the workplace two or three days a week. David Solomon, CEO of Goldman Sachs, has echoed this in his push for a full return to the office.

Despite Goldman's efforts, working from home has become a post-pandemic fixture. So virtual mentoring also still has a role. As with any online relationship, trust and rapport take longer to build. No matter how clearly boundaries are set, there are inevitable glimpses of personal spaces when sessions take place on Zoom with cameras on. Bartleby recommends looking reasonably smart and refraining from getting a beer from the fridge. What seems natural when meeting face-to-face does not always translate well online.

Reverse mentoring is also in fashion. Matching a junior employee with an executive whose understanding of diversity and other generational divides may need a refresher course could have benefits. There is room to debate how much a seasoned chief financial officer will learn from a millennial but the best mentoring relationships are always a two-way street.

Whether it is lunch, drinks or a chat in the car park, mentoring's benefits are undeniable if it fosters a friendlier culture, staff retention and development of talented employees. Think of Yoda's serene demeanour and galactic wisdom rather than his enigmatic speech patterns. The idea is to find, if not a Jedi master, then at least someone to talk to whenever you feel stuck in your job. Sometimes sharing a coffee can be just as powerful as wielding a lightsabre.



Schumpeter | No laughing matter

Corporate America has lost the Republican right. Is it losing the Supreme Court, too?



IF AMERICA INC were ever to raise a glass to the Supreme Court, the ideal time to have done so was in June, when the nine justices ruled unanimously in favour of Jack Daniel's in a jolly judgment that included discussion of parody, bad puns and, of all things, dog poo. The trademark-infringement case centred on a canine toy shaped like a bottle of Jack Daniel's called "Bad Spaniels". Beneath, in the whiskey maker's black-and-white filigree, the words "Old No. 7 Brand Tennessee Sour Mash Whiskey" were replaced by "The Old No. 2 on your Tennessee Carpet". Jack Daniel's was not amused, nor was the US Chamber of Commerce, an influential lobby group that called the case "no laughing matter". Elena Kagan, a liberal justice who wrote the opinion, could barely contain her mirth, remarking that the case was about "dog toys and whiskey, two items seldom appearing in the same sentence". Her conclusion, though, was dead serious and pro-big business: parody is not a blanket excuse for trademark violation.

To some, the decision fitted a pattern. Last year Lee Epstein of the University of Southern California and Mitu Gulati of the University of Virginia School of Law used data on wins and losses by corporations in 1920-2020 to describe the Supreme Court led for 17 years by Chief Justice John Roberts as possibly "the most pro-business court in a century". This was not only because of the Republican majority, they argued. Those appointed by Democrats voted remarkably often in favour of business, too, as they did in the Jack Daniel's ruling.

This business-friendly characterisation may be an oversimplification. As the academics admit, there are more nuanced ways of evaluating America's highest court, such as looking at the legal doctrines the cases set out. Since former President Donald Trump stuffed the court with ultraconservatives, its 6-3 rightward swerve may even have weakened its support for business. In fact, the court's most recent decisions, some swayed by originalist readings of a constitution blind to the way business would operate 235 years later, have confounded corporate America, ruling against its interests on issues ranging from interstate commerce to affirmative action. As it has become less pragmatic, the court has become less predictable. And business recoils at uncertainty.

History shows how the court's ideological texture has influ-

enced American commerce. For most of the 20th century, data from Ms Epstein and Mr Gulati show that the most business-friendly court was under William Howard Taft in 1921-30, a laissez-faire age when cases against unions predominated. The nadir of corporate success was during the 1950s and 1960s. After that, with the re-emergence of free-market thinking, the corporate win rate improved. Emblematic of the pro-business environment that defined the Roberts court in its early years was *Citizens United v FEC*, a decision finding that corporations have a constitutional right to spend what they like on political campaigns.

Recent rulings have darkened the mood, though. Two that directly went against the interests of corporations have big potential spillover effects. In upholding a California law that bans the sale of pork from overly confined pigs, the court in May rejected an attempt by out-of-state farmers (who produce almost all of the nation's pork) to claim the law, called Proposition 12, violated the constitution by harming interstate commerce. In support of the farmers, the Chamber of Commerce unsuccessfully sought to show that the California precedent could allow other powerful states to impose regulations on businesses beyond their borders, thereby Balkanising state-by-state trade.

Another case, *Mallory v Norfolk Southern Railway Company*, dealt with the question of where companies may be sued. It has long been settled that companies can face legal challenges where an injury occurred or where they are based. But the court's ruling in June upheld a unique Pennsylvania law enabling prosecution of companies in its courts even if injuries occurred elsewhere. That raises the possibility of "forum shopping" if other states pass similar laws.

Equally worrying from a corporate point of view are the repercussions from seismic judgments that are not related to business. Companies are bracing for the fallout from a decision in June to end race-based affirmative action in higher education. Before the judgment, more than 80 firms, from Apple to Uber, joined in filing a friend-of-the-court brief expressing the workplace benefits of promoting diversity at universities. Since the ruling, some fear that a similar challenge to Title VII of the Civil Rights Act, which prevents discrimination in the workplace, could jeopardise their diversity efforts.

The court may yet mollify parts of the business community. Free-market diehards have applauded its efforts to push back against President Joe Biden's regulatory onslaught. Two forthcoming cases will explore the contours of the administrative state. One concerns the future of the Consumer Financial Protection Bureau, a watchdog. The other will examine a nearly 40-year-old precedent known as Chevron that instructs judges to defer to government-agency interpretations of ambiguous laws as long as their readings are reasonable.

Don't get court out

Yet there is an uneasy tension. While parts of the private sector welcome curbs on administrative power, last year's landmark *West Virginia v Environmental Protection Agency* curbed the EPA's ability to regulate greenhouse-gas emissions from coal-burning power plants, setting back the move to cleaner forms of fuel that many firms support. Critics saw it as the conservative supermajority making policy from the bench. Just as corporate America rues the loss of common sense in parts of the Republican Party, so it may come to lament a more interventionist Supreme Court. Time for a Jack Daniel's stiffener, surely. ■



Growth problems

Power trip

HONG KONG

China's economy is in a dire state—and fixes are politically unpalatable

THE HEADLINES keep getting worse for China. Consumer prices are falling. America is shunning exports from the country and restricting investment in it. China's trade with its best customer and biggest rival shrank by a fifth in July compared with a year earlier. The country's property sector, which has driven more than 20% of its GDP in recent years, is teetering. Developers, which carry debts worth about 16% of GDP, are struggling to meet their obligations. Two of them, Country Garden and Sino-Ocean, have missed bond payments. Investment products sold by Zhongrong Trust, which are probably exposed to property, have failed to pay out.

These reports have been accompanied by even scarier metaphors. China's economy is a "ticking time-bomb", according to America's President Joe Biden, because of its ageing workers and unemployed young. Others think it is suffering from "long covid" because of the private sector's "immune response" to Xi Jinping's meddle-

some rule. Many worry that China faces "Japanification"—a combination of debt, deflation and demographic decline—in the long term and a "Lehman moment" in the more immediate future, as defaults cascade through the shadow-banking system.

Even level-headed observers are shaken. The mood is the worst it has been for years, if not decades. The cause of this despondency is disputed—is it politics or property?—but the consequences are clear. It is inhibiting spending, which is depress-

ing prices, profits and hiring, all of which only adds to the gloom. To break this cycle, the country's confidence must be revived.

Morale used to respond to a strong signal from China's leaders, such as Deng Xiaoping's "southern tour" of entrepreneurial cities in 1992, or Zhu Rongji's vow to keep growth at 8% during the Asian financial crisis in 1998. But China today lacks a ruler with the requisite economic credibility. Officials will have to put their money where their mouth is, spending on infrastructure, pensions and the like. These tools should work—if they are used. The problem is that they entail a generosity that some in China's leadership find distasteful. And they require a commitment to growth that seems to be lacking.

It is a disorientating state of affairs. For 40 years Chinese officialdom's commitment to growth was never much in doubt. When China began its reform era in 1978, GDP per person was only \$2,000 at purchasing-power parity, which adjusts for differences in the cost of living. More than 70% of the country's workforce toiled on farms. Almost 90% suffered in abject poverty. Only 12 firms were permitted to trade across borders. The millions who worked in state-owned factories were saddled with "obsolete and dysfunctional products", according to Thomas Rawski of the University of Pittsburgh and his co-authors, such as "transformers that failed to keep out rain-►

→ Also in this section

61 China's troubles, exported

62 America's Energizer-Bunny economy

63 Goldman Sachs's embarrassing boss

64 Argentina breaks the IMF

65 Free exchange: Noah's Ark, round two

— Buttonwood is away

► water" and "sewing machines that leaked oil onto the fabric".

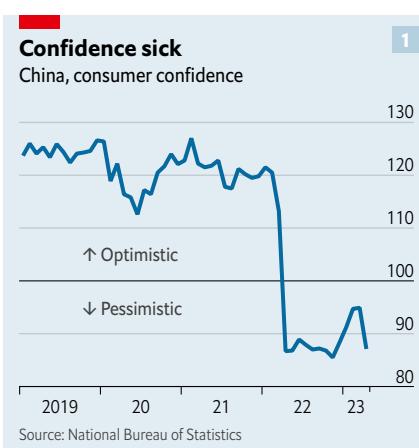
Market reforms meant managers "switched from politics to business", as one of them put it. China's GDP per person now exceeds \$20,000, above the global average. The most wretched poverty has been eliminated. Those 12 trading firms have been succeeded by tens of millions of others, turning China into the world's biggest exporter of goods by 2009, and perhaps its biggest exporter of cars this year. The country's manufacturing GDP exceeds America and the European Union combined, churning out chips, ships and industrial sewing machines (60m leakless ones in the past ten years). In its combination of scale and speed, this economic revolution has no precedent.

The transformation included a remaking of China's urban landscape. From 2010 to 2020, the country added more than 140m units of housing to its cities, according to Morgan Stanley, a bank. In just three years, it produced enough cement to turn the whole of Britain into a car park. The amount of living space per person increased from a cramped 27 square metres (like the eastern half of Europe) to a more comfortable 35 (like the western half), according to calculations by Rosealea Yao of Gavekal Dragonomics, a research firm. Chinese residential property became one of the world's largest asset classes, worth over \$30trn by the end of 2019.

China's miracle is long over. Its economy has matured. Its workforce is shrinking. Fundamental demand for new property in China's cities, driven by people's aspirations for a first home or better digs, has passed its peak. For China's leadership, the pursuit of prosperity must now compete with other goals. Mr Xi wants to break the West's chokehold on vital technological inputs. He wants to keep finance tethered to the needs of the "real" economy, like a kite tied to a tree, according to an official think-tank. He frowns on the "disorderly expansion of capital" into social realms like education and child rearing. And he despises the mix of gumption and corruption that motivates many local cadres.

The question now is whether the next phase is moderate or malign. China's strict "zero-covid" policy played havoc with its economy last year. Thus hopes for this year were high. China's reopening released pent-up demand for the goods and services it was hard to enjoy when a single infection could imprison an entire city block. It also cleared a backlog of export orders and allowed a flurry of home purchases in China's more expensive cities. Some private-sector economists raised their growth forecasts for the year to a jaunty 6%.

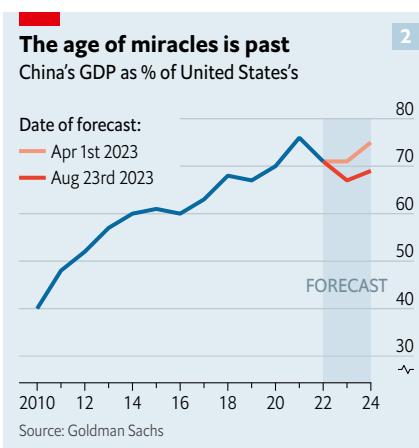
This bout of spending was, however, considerably briefer than hoped. And, crucially, it did not lift morale sufficiently to



sustain a broader recovery of spending. In April consumer confidence fell back to last year's lows, according to the National Bureau of Statistics, which promptly stopped releasing the figure (see chart 1). Foreign direct investment all but vanished in the second quarter, falling by 87% year-on-year to \$4.9bn, as multinationals repatriated their earnings rather than reinvesting them. The Shanghai Composite, a benchmark stock index, is down by about 5% compared with a year ago, when the memory of Shanghai's torturous lockdown was still fresh. Prices for existing properties in China's 100 biggest cities have dropped by 14% compared with their 2021 peaks, according to Beike, a broker. In the smaller cities, where price information remains patchy, things are probably worse.

An old trick

Many economists now expect growth to meet the government's target of "around 5%" only because the word "around" gives it some wriggle room. Slowing growth has also been accompanied by declining prices and a weaker currency. The combined effect could wipe trillions off the dollar value of China's GDP. In the past four months, for example, Goldman Sachs, a bank, has slashed its forecast for this year and next by a combined \$3trn (see chart 2).



For some observers, there is little hope of improvement. Adam Posen of the Peterson Institute for International Economics, a think-tank, has suggested that China's economy is suffering from something akin to "long covid". Draconian and arbitrary lockdowns in 2020-22 ruptured people's faith in Mr Xi's meddlesome party. Households and entrepreneurs can no longer assume that the party will not bother them if they do not bother it, he argues. Therefore private investment is tentative, purchases of consumer durables are weak and bank deposits are unusually high, as people self-insure against an uncertain future.

Confidence has also suffered as a result of the "regulatory storm" that struck after 2020, humbling China's online platform companies, such as Alibaba and Meituan, and all but killing the ed-tech industry. The succession of crackdowns and lockdowns left the impression that the government was newly willing to sacrifice economic growth for other ends. Whereas Mr Zhu urged China to keep growth at 8%, Mr Xi insists that it must be "high-quality", by his own evolving definition. For entrepreneurs, that requires an uncomfortable switch from business to politics.

If Mr Posen is right, China is stuck. If spending is weak because households and entrepreneurs fear the party's intrusive policymaking, their spirits will not revive until Mr Xi commits to self-restraint—a commitment that he cannot credibly make. Even if the setbacks of the past two years have chastened him, he cannot prove he will not change his mind again. The party lacks the power to limit its own power.

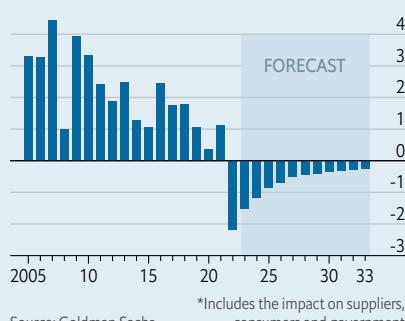
Yet low confidence may have more mundane explanations. Households may be despondent because employment is insecure, wages are stagnant and assets, especially houses, are losing value. If so, morale should pick up if the job and housing markets improve. The animal spirits of private entrepreneurs should also revive if their sales regain momentum.

It may, in fact, be property that is at the heart of the problem. In manufacturing, by contrast, private investment has been respectable, growing by 8% in June compared with a year earlier. Weak spending on consumer durables may also reflect property-market woes, which have depressed furniture and white-goods sales. Purchases of other consumer durables have shown more signs of life. Sales of cars surged in the first half of this year, helped by the exemption of electric vehicles from a 10% sales tax. China's households are not so worried by their government that they will miss out on a bargain.

The renewed weakness in China's property market has certainly contributed to fears of deflation and default (see chart 3 on next page). The price of building materials fell by 5.6% in July compared with a

Floored

China, property sector, contribution to GDP growth*, percentage points



*Includes the impact on suppliers, consumers and government

Source: Goldman Sachs

2022. China's currency has weakened more quickly than the central bank would like in recent weeks. There are signs that state-owned banks are helping to prop it up.

Such constraints on monetary policy necessitate a more forceful fiscal push. During past slowdowns, local governments and affiliates have led the way, allowing the central government to keep its balance-sheet relatively uncluttered. But local stimulus efforts have included poorly conceived projects, which Mr Xi views with distaste. Some cadres "over-borrow for construction and blindly expand businesses", he complained last year.

Other provinces have been a little more imaginative. Three years ago, for example, cities in Zhejiang distributed perishable coupons to consumers through e-wallets on their mobile phones. These coupons offered discounts on things such as restaurant meals if shoppers spent above a certain threshold. A study by economists at the Ant Group Research Institute found that these vouchers had a high multiplier, delivering a lot of wallop for the yuan.

The problem is that many of China's local governments are in no position to stimulate the economy this year, imaginatively or otherwise. Indeed, they will need more help merely to prevent damaging spending cutbacks. According to *Caixin*, a business magazine, China's central government will allow local governments to sell an extra 1.5trn-yuan (\$210bn)-worth of bonds, which carry an implicit central-government guarantee, to help repay the riskier, costlier debt owed by their financing vehicles (investment firms, backed by state assets, that can borrow in their own right). Proceeds from these bonds should help prevent an explicit default. Yet even 1.5trn yuan looks meagre compared with the total risky debt of these platforms, which one estimate suggests amounts to 12trn yuan.

Although avoiding a default by a local-government financing vehicle will prevent the economic downturn getting worse, it will not reverse it. That would require the central government to make greater use of

Over the hill

China, labour force*, m



*Aged 16 years and over

Sources: National Bureau of Statistics; EIU

its own balance-sheet, through increased investment in green infrastructure, consumer giveaways of the kind pioneered in Zhejiang or increased spending on things such as pensions and anti-poverty programmes. Some economists have argued that the government should also establish a fund to buy up some of the unsold inventories of China's struggling property developers in order to create affordable rental housing for the poor.

Flaming out

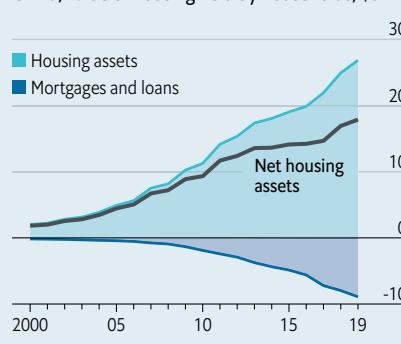
The aim would be to prevent a fire-sale of properties by distressed developers, add to household incomes and replenish company order books. If used, stimulus should be enough to ward off deflation, cap unemployment and ensure China's economy fulfils its potential over the next few years. Low inflation, after all, is both a threat and an invitation. It implies that the economy has plenty of "slack" or room to expand over the medium run, even if its growth potential is constrained in the longer term.

But this comes with two mighty caveats. The first is that fiscal heroics will not erase the long-term problems that cloud China's economic future. The country will still have to contend with demographic decline and diplomatic dangers. Its workforce will begin to shrink more rapidly in the 2030s (see chart 5). And America's restrictions on semiconductor exports will bite more keenly as technology advances.

The second concerns the political dynamics at play. If China's government acts with urgency, it has the tools it requires in order to engineer a recovery in the latter part of this year. But will it use them? Mr Xi lacks the credibility or focus of previous leaders. He now prizes greatness over growth, security over efficiency and resilience over comfort. He wants to fortify the economy, not gratify consumers. These competing priorities may prevent China's rulers from doing whatever it takes to revive demand. Mr Xi no longer wants growth at all costs. And so the country has not had it. At growing cost. ■

Borrowing problems

China, value of housing held by households, \$trn



Source: The Centre for National Balance Sheet

Global spillovers

Aftershocks

What China's troubles mean for the rest of the world

ONLY EIGHT months ago China's economy was expected to roar back to life. Zero-covid had been abandoned; the country's shoppers and tourists allowed to roam free. Yet the rebound has fizzled out, with weak growth and deflation the result. This will not only affect its people. What happens in the world's second-largest economy matters beyond its borders, too.

Because China is so big, its changing economic fortunes can drive overall global growth figures. But a slowing China also directly affects other countries' prospects. Its households and companies will buy fewer goods and services than they would have otherwise, with consequences for both the producers of these goods and other consumers of them. In some places, China's difficulties will be a source of pain. In others, though, they will bring relief.

Commodity exporters are especially exposed to China's slowdown. The country guzzles almost a fifth of the world's oil, half of its refined copper, nickel and zinc, and more than three-fifths of its iron ore. China's property woes will mean it requires less of such supplies. That will be a knock for countries such as Zambia, where exports of copper and other metals to China amount to 20% of GDP, and Australia, a big supplier of coal and iron. On August 22nd the boss of BHP, the world's biggest miner, reported the lowest annual profit for the Australian firm in three years, and warned that China's stimulus efforts were not producing changes on the ground.

Weak spots in the West include Germany. Faltering demand from China is one



Exporting problems

reason why the country's economy has either contracted or stagnated over the past three quarters. And some Western companies are exposed through their reliance on China for revenues. In 2021 the 200 biggest multinationals in America, Europe and Japan made 13% of their sales in the country, earning \$700bn. Tesla is more exposed still, making around a fifth of its sales in China; Qualcomm, a chipmaker, makes a staggering two-thirds.

Provided the slowdown does not escalate into a full-blown crisis, the pain will remain relatively concentrated. Sales to China account for only 4-8% of business

for all listed companies in America, Europe and Japan. Exports from America, Britain, France and Spain come to 1-2% of their respective outputs. Even in Germany, with an export share of nearly 4%, China would have to collapse in order to generate a sizeable hit to its economy.

Moreover, China's struggles come at a time when the rest of the world is doing better than expected. In July the IMF revised up its forecast for global growth, compared with projections in April. Most notable has been the rude health of the world's biggest importer and China's geopolitical rival, America, which some surveys suggest is growing at the red-hot pace of nearly 6% (see next story).

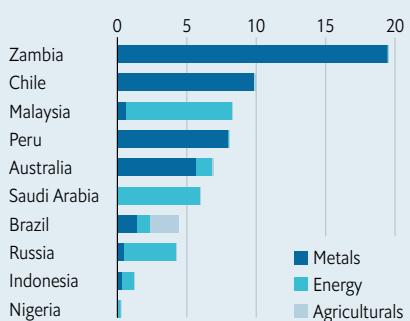
When set against this backdrop, China's slowing growth should even provide a measure of relief for the world's consumers, since it will mean less demand for commodities, bringing down prices and import costs. That in turn will ease the task faced by the Federal Reserve and other central banks. Many have already raised rates to their highest level in decades, and would not relish having to go further still.

But what if things go badly wrong in China? Under a worst-case scenario, a property meltdown could reverberate through the world's financial markets. A study published by the Bank of England in 2018 found that a "hard landing" in China, where economic growth fell from 7% to -1%, would cause global asset prices to fall and rich-world currencies to rise as investors rushed in the direction of safer assets. Overall, British GDP would drop by 1.2%. Although most Western financial institutions have relatively little exposure to China, there are exceptions, such as HSBC and Standard Chartered, two British banks.

A longer slowdown could lead China to turn inward, reducing its overseas investments and loans. Having become the world's biggest bilateral creditor in 2017, it has already cut back as projects turn sour. Officials may become fussier still if they are firefighting at home. Observers will watch forthcoming celebrations of a decade of the "Belt and Road Initiative", the label under which China splurged on bridges in Mozambique and ports in Pakistan, for signals of official intent.

Real difficulties at home would also change how the world perceives China. Rapid growth, along with generous overseas lending, boosted the country's reputation. According to a recent survey of two dozen countries by Pew, a pollster, people in rich locations had a generally unfavourable view of China. The picture was different in much of the emerging world: Mexicans, Kenyans, Nigerians and South Africans all saw China in a more favourable light, and welcomed Chinese investment. The question is whether that will still be true in a year's time. ■

Taking the lead

Commodity exports to China
% of GDP, 2022

Exposure to China, total exports and Western-owned subsidiaries' revenues, % of GDP, 2020





Energised economy

Whoosh!

WASHINGTON, DC

America's astonishing growth goes up yet another gear

THE ENERGIZER BUNNY, a pink mechanical hare that keeps banging its drum owing to long-lasting batteries, will celebrate its 35th anniversary this October. As if to mark the momentous occasion, the American economy is doing its best imitation of the advertising icon. Despite umpteen predictions of a slowdown, it keeps going and going. Recent data suggest it may even be on track for annualised growth of nearly 6% in the third quarter, a pace it has hit only a few times since 2000.

As has been the case repeatedly over the past year, a steady stream of better-than-expected data has left analysts scrambling to lift their forecasts. New orders for manufacturing firms reached their highest in nine months in July. Retail sales were perky last month, too, with consumers splurging on everything from restaurant meals to online shopping and clothing to sporting goods. The construction industry has also been buoyant, supported by a rebound in homebuilding. Underpinning all this is the labour market, which has remained hot, making it relatively easy for people to find work at decent wages. The total number of jobs in America has been growing faster than the working-age population, helping to keep the unemployment rate at 3.5%, just shy of a five-decade low.

The worry is that such strong growth, veering into overheating, will also beget a long-lasting inflation problem. Added up, America is on track for a GDP figure this quarter that may look more like a "no land-

ing" than the "soft landing" expected a short while ago. The Federal Reserve's branch in Atlanta uses a range of data points to estimate GDP growth in real time: a technique known as nowcasting, rather than forecasting, because it assigns weights to already observed variables without factoring in expectations for future figures. On August 16th, its latest update, the model showed the economy may expand by 5.8% in the third quarter. That would be a shocker after more than a year of aggressive interest rate hikes by the Fed.

Could growth really be that strong? The nowcast almost certainly exaggerates the economy's vigour. It is normally off by about two percentage points at this point in the quarterly cycle (see chart). One fac-



tor this time is likely to be inventories. When firms make sales from their stocks rather than by producing new goods, this drawdown counts as a subtraction from GDP. A recent gap between rising retail sales and declining wholesale transactions suggests that such a drawdown is now taking place and will weigh on growth, according to Andrew Hunter of Capital Economics, a consultancy. Still, even if somewhat exaggerated, the Atlanta Fed's nowcast is almost always directionally correct. The inference is clear: America's economy is not just holding up but steaming ahead.

Recent months have offered some respite on the inflation front. Core prices, which strip out volatile food and energy costs, have risen at their slowest pace in more than two years. But if the economy continues to heat up, inflation may well stage a rebound. Andrew Hollenhorst of Citigroup, a bank, warns that shortages of both workers and housing risk a significant reacceleration of prices next year. Where once optimists thought that inflation might be transitory, now pessimists fear that disinflation will be fleeting. That would scupper hopes for a pivot to monetary loosening by the Fed.

The strength of the American economy may also add to financial strains. It is the principal factor explaining why investors have sold off government bonds since May. Yields, which move inversely to prices, have risen by about one percentage point during that time, with long-term Treasury yields climbing to 16-year highs. This has prompted a debate about whether America's neutral short-term interest rate—where the Fed would set rates to neither stifle nor stimulate growth—has drifted up. Bill Dudley, a former Fed official, has argued that in the long run America may require higher rates to balance the need for more borrowing (implied by higher government deficits) and a smaller funding pool (as retirees spend their savings). A gathering of central bankers in Jackson Hole, Wyoming, taking place after we go to press, was expected to discuss such issues.

Wall Street is now convinced that in the short run the Fed will need to keep rates higher than expected, too. A few months ago most were pricing in rapid rate cuts starting in September; now most think the Fed will wait until May and will move tepidly. Given the economy's continuous outperformance, pricing in higher rates further into the future seems prudent.

Higher yields are contributing to an increase in funding costs for financial institutions, which are a headache for smaller lenders in particular. Moody's and S&P, two credit-rating agencies, downgraded a spate of banks this month, a reminder of the continued fragility of the financial sector. Higher borrowing costs are also starting to bite for consumers. Delinquencies ►

► on credit cards and car loans have started to increase sharply. Finally, higher rates are clouding the outlook for housing. Like the wider economy, the market has been most notable for its resilience to date. But mortgage rates have jumped over the past couple of months and hit 7.5% this week, their highest since 2001. This is already having a dampening effect on existing home sales, which could spread to homebuilding and construction more generally.

The lesson of recent history is that the American economy inevitably blows through such problems. Nothing lasts for ever, though. The higher yields rise, the greater the challenge. In the advertisements the Energizer Bunny's batteries never fade. In real life even the strongest batteries are drained eventually—or uncereemoniously yanked out. ■

Goldman Sachs

Solomon problem

WASHINGTON, DC

Once Wall Street's smartest, most envied bank; now the butt of jokes

IT BEGAN AS a steady drip of criticism, including on the cover of *The Economist*, concerning Goldman Sachs's performance during his tenure as chief executive. The firm's foray into consumer banking was setting fire to a chunk of its dwindling profits. Efforts to move into businesses that promised steadier revenues than trading and proprietary investments were coming up short. And this was producing tension between the firm's divisions. It has now become something more brutal: a cacophony of people outlining the myriad ways in which they dislike David Solomon.

Complaints have come from Mr Solomon's underlings, who told reporters that he is "not likeable" and is, quite simply, "a prick". They have also come from his predecessor: Lloyd Blankfein was reported by the *Wall Street Journal* to have complained about Mr Solomon's use of the company's private jets to go to music festivals, where he performs under the name "DJ d-Sol", rather than spending time on the day job.

The mutiny at Goldman has become so open that grousers no longer even bother to do it in private. According to Bloomberg, at a lively steakhouse dinner in Manhattan last month managers complained about Mr Solomon's failings in the presence of John Waldron, the firm's chief operating officer and Mr Solomon's longtime lieutenant. In July Larry Fink, boss of BlackRock, said on TV that there was an obvious "schism" at the bank. Even students are getting in on the act. After a visit by Mr Sol-

omon to Hamilton College, three youngsters wrote an open letter complaining that their conversation with him about climate change had "racist and sexist undertones", something Goldman disputes.

Mr Solomon's increasingly precarious employment is now the butt of jokes. Steven Starker, a former Goldmanite who founded BTIG, a brokerage firm, recently moderated a soirée in the Hamptons, attended by Gary Cohn, Goldman's former chief operating officer, and Larry Summers, a former treasury secretary. "If you happen to see [Mr Cohn] leave early, that means they're probably calling him because he's a candidate to be the future CEO of Goldman Sachs," quipped Mr Starker.

Few think Goldman should be run by a teddy bear. This is the firm that was characterised in 2009 as a "great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money". But there is a difference between being disliked for being smarter and more successful than everyone else, and the kind of vitriol that is being spewed now. It is increasingly embarrassing for Goldman that its boss is being laughed at in rarefied circles, and that employees see fit to make petty criticisms.

The situation is evidence of a rot within the firm, which it is hard to see reversing without either Mr Solomon or many of those who clearly loathe him leaving their positions. The question for the board, then, is whether to push him out.

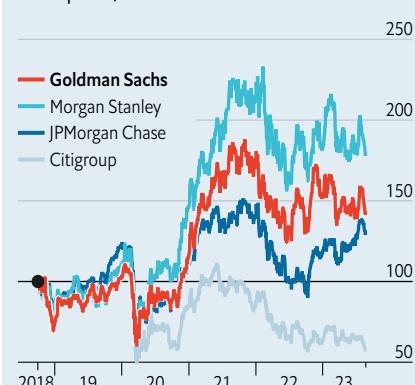
In Mr Solomon's defence, the firm's performance on his watch has been patchy rather than dreadful. Shareholders who bought Goldman stock on the day he took charge in 2018 have earned an annualised return of 10%—worse than those who bought shares in Morgan Stanley, Goldman's closest rival, but better than those who bought Citigroup (see chart).



DJ, rocked

Not great, not terrible

Share prices, October 1st 2018=100*



*David Solomon becomes chief executive of Goldman Sachs

Source: Refinitiv Datastream

The institution's poor earnings for the past three quarters do reflect some strategic errors. Goldman has taken losses in its consumer-banking efforts, and has written down the value of acquisitions. Sluggish profits also reflect a failure to shrink its proprietary investment arm quickly. But Mr Solomon has recognised these issues and is adapting the firm's strategy, including by exploring a sale of its financial-advisory business. His shareholder returns should have earned him enough goodwill for an attempt at course-correction. He is reported, for now, to retain the support of major investors and the board.

This type of cold analysis of the figures might not be enough to save Mr Solomon in the long term, however. Although it always seems trite when bankers proclaim that the most valuable part of their firm is the employees, it is probably true for Goldman. The company does not make money by, say, investing in machinery to make computer chips for which it owns the designs. It does so, in large part, by hiring clever, competitive people and getting them to work insanely hard to bring in deals, trade assets and come up with investment strategies. If these employees dislike the boss, they will leave.

That is exactly what is happening at Goldman. The bank typically has around 400 partners, adding 60-70 new ones every couple of years. Some 200 are reported to have left the firm since Mr Solomon took charge—a high attrition rate. Even more worrying is that the list includes many who were considered contenders for the top job, such as Gregg Lemkau, a dealmaker, and some of the firm's highest-earning partners, such as Julian Salisbury, who ran the asset-management business. Even if the board wanted to oust Mr Solomon, there would be no clear successor. The problem with waiting to see how things develop is that there might be even fewer options by the time the knife is wielded. ■

The IMF flounders

Perma-crisis

Argentina is pushing international lending to its breaking point

THE ARGENTINE economy hangs by a thread. So far this year, the peso's black-market value has fallen by half against the dollar and annual inflation has hit 113%. The only foreign-currency reserves left are lent by China. Policymakers are torn between printing pesos to cover the government's bills and the need to avoid hyperinflation. Ahead of presidential elections in October, much is riding on the candidates' proposed fixes. Javier Milei, a libertarian economist who once smashed a model of the central bank on live TV, and who unexpectedly prevailed in recent electoral primaries, would scrap the peso and make the American dollar Argentina's legal tender.

Yet the economy may implode before any candidate gets to fix it. On August 23rd the government persuaded the IMF to release a \$7.5bn tranche of its bail-out programme, its only hope of meeting dollar-debt repayments and staving off default. The IMF's reluctance stemmed not from the fact Argentina is broke—lending to such countries is the fund's purpose—but from the fact that most of the cash Argentina must repay this year is promised to the fund itself. Argentina is a rare country with the IMF as its biggest creditor, owing the fund a cool \$40bn, roughly a third of its external debt. By providing support, the IMF has delayed disaster. It has also prolonged an increasingly absurd situation.

The IMF lends to the world's unstable economies as a "preferred creditor". If a country only has a little cash, it is the first to be repaid. It never takes a loss during debt restructuring. This lets it and other multilateral institutions, including the World Bank, hand out cheaper rescue packages. The approach has worked when packages are small enough that even troubled countries are able to repay them.

Yet Argentina is pushing the model to its breaking point. In 2018 the IMF took a gamble and offered the country a bail-out worth \$57bn, the fund's biggest ever. At the time, many observers thought it was too much for a country with Argentina's patchy track record. It turned out also to be far too little to fix the country's economy.

Argentina cannot afford its bills; the IMF cannot cut the debt it is owed without forfeiting its status as preferred creditor. The result is a stalemate. For now, an instrument approved by the IMF last year provides a workaround. Every time the fund collects Argentine debts it deposits a

\$20bn. But that would have barely covered repayments to the fund for the year.

Another option is for the IMF to admit that Argentina has too much debt and things will have to change. Although the fund reckons that Argentina is just about solvent, with a bit of luck, many outside economists think the country is already unable to repay its debts without restructuring. It is unlikely other creditors, mostly American financial institutions, will agree to take losses while the fund shelters behind its elevated status, since the more obligations Argentina racks up to multilateral institutions, the less its bondholders matter. Soon private-sector lenders could hold so little of the country's external debt that they are irrelevant for its solvency.

The IMF's preferred-creditor status ultimately rests on the expectation that borrowers will turn their fortunes around and on other creditors' goodwill. Neither condition holds in Argentina. By doling out another wedge of cash, the fund will reassure markets, stopping sudden fluxes in the peso or bond prices. But the disbursement brings a tough question. When does the IMF stop handing out money? Through their desperation to avoid default, the fund's officials are putting up with naked disobedience from Argentina, which may set a bad example for other countries.

Meanwhile, Argentina desperately needs a lasting fix. Each month without one deepens the country's economic woes. Inflation worsens as imports become more expensive and monetary policy flirts with fiscal dominance, where the government borrows so much the central bank has no choice but to bail it out. The longer Argentina limps on without restructuring, the more damaging the process will be when it happens. In the past three months, Argentina has racked up short-term debts of \$1.7bn from China, \$1.3bn from CAF, a regional lender, and \$775m from Qatar.

These are steep costs to protect the IMF's preferred-creditor status. The alternative would be for the fund to stop lending to Argentina, which would force the country to restructure its debts. In doing so, the fund would risk default and perhaps even a loss. Those in favour of such a move argue that the damage to the IMF's preferred-creditor status would not affect its dealings with other countries, so long as it did not make a habit of big bail-outs.

With the next disbursement due in November, IMF officials might even be able to use the threat of this action to squeeze real reforms from the outgoing government. If the move fails, the next government would at least receive a clean slate, rather than being dogged by negotiations during its first year in office. The cost of letting Argentina carrying on is high. In the coming months, the IMF will have to figure out if the cost of cutting it off is higher. ■



roughly equal amount with Argentina's government. This programme has an elongated repayment schedule, but also eye-watering interest bills of 8%. Argentina has just as much borrowing—and just as few ways to pay—as it did before.

One escape for Argentina would be to find the cash to repay the IMF. During 60 years of borrowing from the fund, however, the country's politicians have shown little interest in taking its advice. Few reforms stipulated as part of the agreement in 2018 have been enacted. Even if the next president is disciplined, it will take years to get the economy on track. IMF officials point to the country's recent bad luck, including a drought that cost an estimated



No hope on the horizon

Free exchange | Noah's Ark, round two

What if the boatbuilder was an economist? Some biblical lessons for today's conservationists



OF FOWLS AFTER their kind," the Lord said to Noah, "and of cattle after their kind, of every creeping thing of the Earth after his kind, two of every sort shall come unto thee." Co-operation from the animal kingdom helped make the biblical patriarch history's greatest conservationist, saving every land-based animal, including humans, from a wave of divine extinction.

Unlike Noah, contemporary conservationists face constraints: they cannot save everything. The patriarch was able to fit a breeding pair of each of the 5.6m or so terrestrial species onto his 300 cubits-long ark. If he was forced instead to ration his space, facing the traditional economic problem of scarce resources and unlimited wants, which animals should Noah have prioritised and kept safe from the flood for future generations?

This was the dilemma Martin Weitzman, an economist, posed in a paper published in 1998, and it is one that carries enduring lessons. Weitzman's goal, beyond biblical interpretation, was to create an economic theory of conservation, calculating a strategy that a rational conservationist could follow to maximise both human welfare and natural biodiversity. He wanted to come up with a way of ranking conservation projects; how to weigh what the Lord called creeping things of the Earth against one another given the limited amount of funding to keep them all alive.

Animals have two sources of value in Weitzman's model. The first is the utility they provide humanity: economists now call this "ecosystem services". They vary from the delight that megafauna provide those visiting a safari park to the more prosaic: pollinators fertilising crops; earthworms keeping the soil healthy. A forthcoming paper by Eyal Frank of the University of Chicago and Anant Sudarshan of the University of Warwick looks at the economic benefits of "keystone species". They find that the accidental poisoning of vultures in India led to a dramatic increase in human mortality, with more than 100,000 additional deaths in an average year, as the birds no longer devoured waterway-poisoning carrion (see Graphic detail). Despite their poor reputation, vultures might therefore earn a place on a resource-constrained ark.

The second part of the calculation places a direct value on biodiversity. Imagine, now, that you are not Noah trying to save the natural world from a flood, but a scholar trying to save texts from

the Library of Alexandria. All the scrolls might be valuable, but many have information on them that is in other libraries. The aim would be to save those with information not recorded elsewhere. Weitzman applies the same logic to animals: biodiversity has both an aesthetic value and an informational one, with content embedded in the genetics of animals. The selection for the ark should try to preserve as much of this information as possible, even if the animals themselves do not do much for human welfare.

That led to what some conservationists might consider a repugnant conclusion: counterintuitively, the best way to preserve biodiversity is for the resource-constrained ark to pick a single species and squeeze in as many as possible. Preventing just one type of animal from going extinct preserves not only what is distinct about that animal, but everything it shares genetically with every other animal as well. Trying to keep two species alive, and failing, means losing everything. The real-world implication of this is that using conservation funds on highly endangered species risks throwing good money after bad. Pandas, for instance, are cute but require a lot of effort to keep alive. Noah might be best to fill the ark with resilient cockroaches instead, ensuring that at least one creature makes it through the flood.

To reach that counterintuitive conclusion, Weitzman assumed that people ought to value biodiversity for its own sake. Some boatbuilders might instead want to focus only on the benefits animals provide to humans. Perhaps a few creatures provide a sufficiently low or even negative value as to be excluded altogether. Stinging wasps are one candidate, but the picnic irritants play a vital role, eating other pests and pollinating flowers. Mosquitoes, humans' greatest natural killer, responsible for more than half a million deaths a year, are another. Some scientists have suggested releasing genetically modified, sterilised versions of the insects that would get rid of the species altogether; others warn that doing so could have unforeseen consequences by eradicating both a pollinator and a food source for other animals.

Deliberate eradication is occasionally successful. Every week the US Department of Agriculture (USDA) and Panamanian government drop sterilised screwworms, a parasitic flesh-eating fly larva that feeds on livestock, out of a plane on the Panama-Colombia border in order to stop the creatures from breeding. This helps maintain a biological barrier that prevents the creature from moving northward, and thus safeguards a programme spanning decades and countries that has got rid of the fly from North America. The USDA estimates that the project produces economic benefits worth around \$3.1bn a year.

Be fruitful and multiply

There is reason to be careful, though. Even when valuing animals solely on their benefits to humanity, biodiversity still has something to offer: insurance. Genetic range reduces the vulnerability of any individual part of an ecosystem to pests and diseases, helping avoid catastrophe if a species vital for human survival goes extinct. Were Noah to have filled his ark with cockroaches—or panthers, for that matter—a single virus could have wiped out the lot.

Weitzmann himself applied such an approach to climate change, formulating his "dismal theorem", which states that, in the presence of sufficiently big risks with a small chance of great harm, regular cost-benefit analysis is of little use. The same may be true of biodiversity. Deliberate extinctions are irreversible and reduce humanity's options, so should be used sparingly. Playing at being Noah is one thing, playing at being God quite another. ■

HELP WANTED

QUALIFICATIONS: Expertise in adolescent psychology and addiction medicine. Skills in communication and conflict resolution.

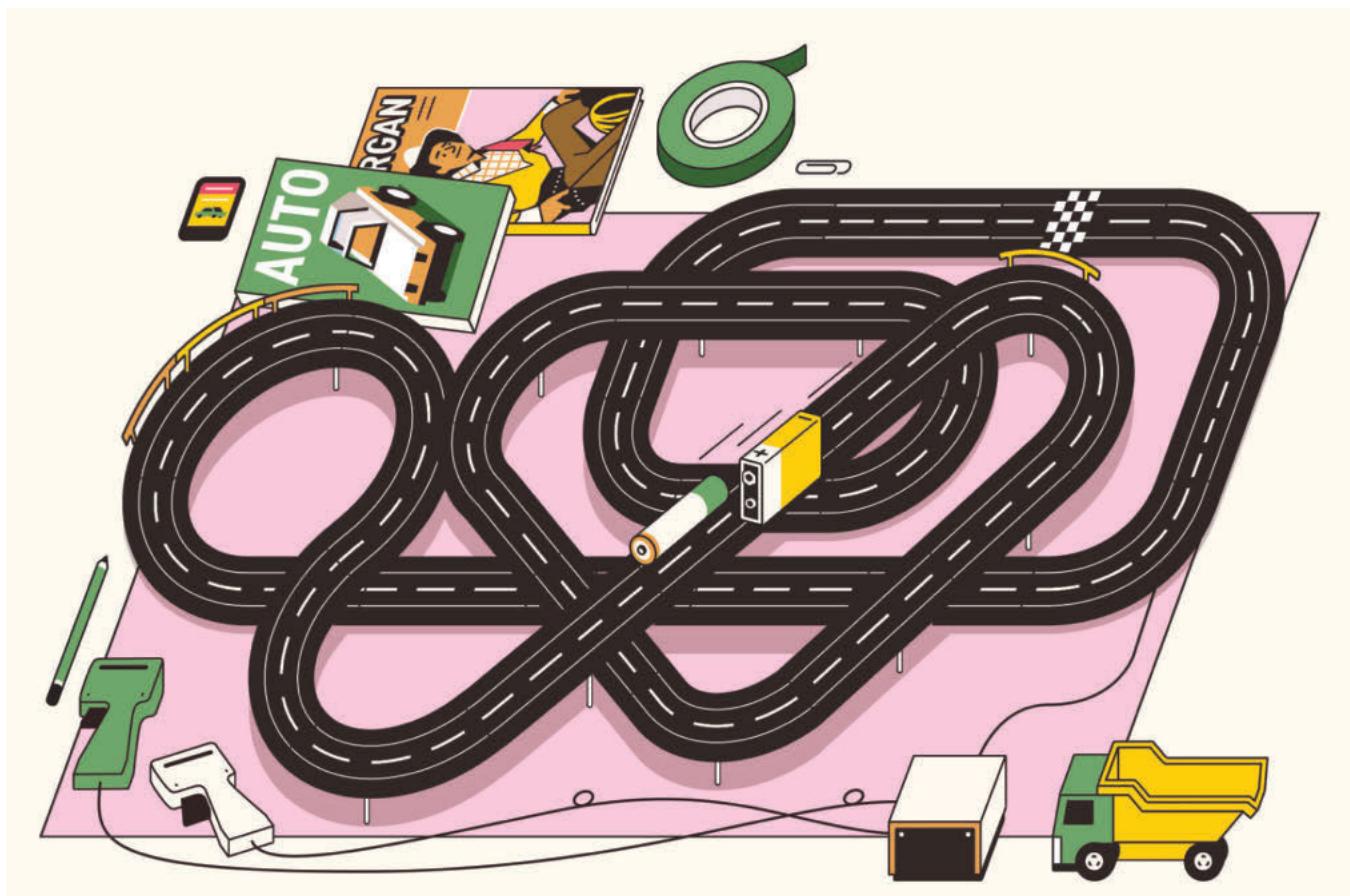
HOURS: Let's call them "unpredictable"

PAY: \$0/Hr.

Apply Today - The need is urgent and there's only one truly qualified candidate: You.

Helping a loved one with an addiction can be a full-time job. You never asked for it, but you may be the only person truly qualified for the position. And we're here to prepare you for this job, providing not only help, but hope.

Visit drugfree.org to get started.



Electric cars

The race to build a superbattery

Longer range and faster charging are coming for EVs—provided battery-makers can source enough raw materials

ASKED WHAT they most want from an electric car, many motorists would list three things: a long driving range, a short charging time and a price competitive with a similarly equipped vehicle that has an internal-combustion engine. To help with those goals, carmakers have been looking for ways to replace the traditional lithium-ion (Li-ion) batteries that power most modern electric vehicles (EVs) with more advanced “solid-state” versions. These new types of superbatteries have long promised faster charging and much greater driving range. Finally, after years of technical problems, efforts to make them are coming to fruition, with the first solid-state Li-ion batteries due to go into production within the next few years.

Toyota, the world's biggest carmaker, began looking at solid-state batteries in 2012. Over the years it has even intended to show off working prototypes, although lit-

tle has appeared. The firm recently announced it had made a “technological breakthrough”, however, with plans to start manufacturing a solid-state battery as early as 2027. Toyota claims its new battery will provide an EV with a range of around 1,200km (746 miles), which is about twice that of many existing models, and can be recharged in around ten minutes.

Electrifying

Toyota is not alone. Similar performance figures are being touted by other producers developing solid-state Li-ion batteries. Nissan, for instance, is building a pilot plant in Yokohama that will start making test versions next year. A similar plant is planned in Germany by BMW in partnership with Solid Power, a battery developer based in Colorado. QuantumScape, a Silicon Valley startup, has started shipping prototype solid-state batteries to Volks-

wagen, its main backer.

It is, perhaps, hardly surprising that developing a solid-state battery has taken so long. Getting a new type of battery to work in a laboratory is one thing, but scaling it up so that millions can be produced in a factory is a difficult business. Although they were invented in the late 1970s, Li-ion batteries themselves were not fully commercialised until the early 1990s, at first for portable electronic devices, such as laptop computers and cell phones, and then as bigger versions that could be used to power a new generation of EVs.

Electric cars have been around since the dawn of motoring. Indeed, Clara Ford much preferred her 1914 Detroit Electric to the petrol-powered vehicles made by her husband, Henry. But these early EVs, and others that appeared in subsequent years, were largely powered by dozens of heavy lead-acid batteries, which were expensive, provided limited range and often sloth-like progress. Lightweight and capable of storing a large charge, the Li-ion battery brought down costs and increased range (see chart 1 on next page), allowing the electrification of transport to begin in earnest. Solid-state Li-ion batteries could bring about another transformation.

Carmakers were originally attracted to solid-state cells to improve safety because, ➤

► as powerful as they are, traditional Li-ion cells come with a risk. This is because they contain a liquid electrolyte which is typically made from organic solvents, and these are extremely flammable. Hence, if a Li-ion battery is damaged, which can happen in an accident or if it overheats whilst recharging, it can explode into flames. Using a non-flammable, solid electrolyte prevents that. Solid electrolytes can be made from a variety of chemicals, including polymers and ceramics. But even Toyota, the master of mass production, initially found it difficult to get solid-state cells to work efficiently over a long period of time.

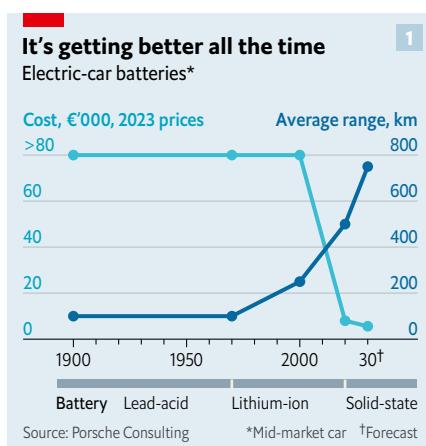
By itself, a solid electrolyte does not necessarily improve the performance of a battery. But it does allow a Li-ion battery, for example, to be redesigned so that it can be made even smaller and lighter, and thus pack more energy into less space. It also allows engineers to broaden the range of materials which they can use to produce a Li-ion battery and tinker with how it works.

Despite their fiery nature, electrolytes are used in a liquid form for good reason. Ions are charged particles and are created at one of the battery's electrodes, the cathode, when the cell is charged, causing electrons to be stripped from lithium atoms (see chart 2 on next page). The electrolyte provides a medium through which the ions migrate to a second electrode, the anode. As they do so, the ions pass through a porous separator that keeps the electrodes apart to prevent a short-circuit. The electrons created at the cathode, meanwhile, travel towards the anode along the wires of the external charging circuit. Ions and electrons reunite at the anode where they are stored. When the battery discharges, the process reverses, with electrons in the circuit powering a device—which in the case of an EV is its electric motor.

The medium is the message

For all this to work efficiently, the ions need to move between the electrolyte and the electrodes with ease. The electrodes are coated with various materials, in the form of layers of minute particles. As the liquid electrolyte in a traditional Li-ion battery can flow into these layers and immerse the particles, it provides a large surface area through which the ions can pass. A solid electrolyte cannot flow into all the nooks and crannies, so it needs to be compressed hard against the electrodes to make a good contact. Doing this in the construction of the battery, however, can damage the electrodes. Solving this so-called conductivity problem is one of the main technical challenges in manufacturing solid-state batteries, says Mathias Miedreich, the boss of Umicore, a Brussels-based company that supplies battery materials.

Despite their initial problems, in the past year Japanese carmakers have made



great advances in working out how to manufacture solid-state Li-ion batteries at scale, says Mr Miedreich. Having been a bit of a laggard in launching EVs, he believes, they plan to use these new batteries to overtake competitors. Perhaps, but the race to build a superbattery is far from won, not least because the contenders come in many different forms.

Some solid-state batteries are already on the market. For instance, Blue Solutions, a French company that is part of the giant Bolloré Group, produces one containing a polymer as its electrolyte. As this requires a high operating temperature, the battery is best suited to vehicles that, once the battery is warmed up, remain in constant use. Hence it is being used to power electric buses.

Others are something of an interim step, as they still contain small amounts of a liquid electrolyte to help with conductivity. Many of the Chinese battery-makers that dominate the market are working on semi-solid versions. Contemporary Amperex Technology (CATL), a Chinese firm that makes more than a third of the world's EV batteries, measured by their total capacity, says it could begin production later this year of a semi-solid version it calls a "condensed" battery. The company claims this will have both a high level of safety and a big storage capacity.

A battery's capacity can be measured by its specific energy, which is the amount of energy that can be stored by weight. According to CATL, its condensed battery will be able to store up to 500 watt-hours per kilogram (wh/kg). The highest performing Li-ion batteries with liquid electrolytes presently available on the market tend to top out around 300wh/kg. Completely solid-state batteries might be able to reach 600wh/kg or beyond. Besides boosting the performance of EVs on the road, batteries of such power and lightness will also greatly extend the range of small vertical-take-off-and-landing air taxis that are on the brink of being certified airworthy.

Capacity, however, is just one charac-

teristic of a battery. How quickly it can deliver its power, how long it will last and how much it will cost are just as important. But resolving these issues involves trade-offs. Increasing the amount of energy that can be stored, for instance, is likely to increase costs if more lithium is required. And regular fast-charging might shorten a battery's life. The trick in getting the balance right depends on the battery materials that are chosen.

Material issues

Start with cathodes, the most expensive component in a Li-ion battery. In theory, solid-state batteries are fairly agnostic about which type to use. The two most common varieties of cathodes are so-called NMcs, which contain coatings of lithium along with various ratios of nickel, manganese and cobalt; and LFps, made from a blend of lithium iron phosphate. By avoiding the use of expensive nickel and cobalt, LFps are gaining in popularity. They are a particular Chinese speciality. But with a lower storage capacity than NMcs, they tend to be used in vehicles that do not require a high level of performance.

With hundreds of laboratories around the world working on new battery materials, other types of cathodes are bound to appear. Umicore, for example, has teamed up with Idemitsu Kosan, a Japanese producer of electrolytes, to develop a type of material called a catholyte, which combines cathode chemicals with a solid electrolyte to form a single layer. If it works, this would make battery construction even simpler. Scientists are also working on using sodium instead of lithium as a source of ions in a battery. Sodium is abundant and cheap, though lithium, as the lightest metal of all, would still have the edge in some transport applications.

As for anodes, changes are also afoot. At present, most anodes are made from graphite, a pure form of carbon extracted from a handful of mines, mostly in Mozambique or China, or produced synthetically in petrochemical works using carbon-intensive processes. Because a solid electrolyte reduces the risk of adverse reactions, materials such as silicon and certain metals, particularly lithium in its metal form, can be used instead. These can store more energy in less space than graphite, which allows batteries to be made smaller and lighter. Additional space is saved because a solid electrolyte can also double up as a separator.

Some solid-state batteries will be "anode-free" (also shown in chart 2). This is the direction taken by QuantumScape. It uses a proprietary ceramic that acts as both separator and electrolyte, and which is placed between a cathode and a metal foil. When the battery is charged, lithium ions migrate through the solid electrolyte and ►

build up on the foil, effectively plating it with lithium to form a working anode. When the battery discharges, the ions migrate back and the anode shrinks away.

Forming an anode this way does mean that the battery expands and contracts. This also happens in traditional Li-ion cells, by about 4% or so compared to some 15% in a QuantumScape cell, says Tim Holme, a co-founder of the company. This movement is accommodated for in the packaging of the cells, which are stacked into layers to form the modules that make up a complete EV battery.

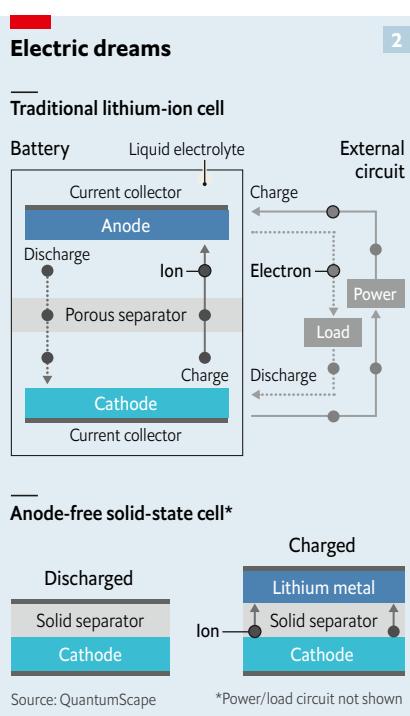
Besides a long range and a fast charging time, QuantumScape says its battery will also have an extended "cycle life". This is a measure of how many times it can be charged and discharged before the battery's capacity degrades to below 90% and its performance level starts to fall. The QuantumScape battery should be good for at least 800 cycles, says Dr Holme. So, if each charge provided only an average range of around 500km, it would still give an EV a lifetime range of some 400,000km—which is good for any vehicle. Being ceramic, the battery's separator also resists the formation of dendrites, adds Dr Holme. These are finger-like metallic microstructures which can grow inside a liquid electrolyte and cause a short circuit. Semi-solid batteries, including the condensed variety, could still be vulnerable to this.

On the production line

Just how good these new batteries turn out to be will not really be known until they arrive in cars and manufacturers' claims can be tested. The advertised range of existing EVs can be unachievable in real driving conditions. The first semi-solid batteries should appear in cars in 2025-26, says Xiaoxi He of IDTechEx, a firm of analysts. She expects the first all-solid versions, like those being developed by Toyota and others, to appear in 2028.

At first the numbers will be small as companies embark on trial production before investing billions of dollars in converting existing "gigafactories" to make the new batteries or building new ones. That means the batteries will be expensive with early applications in luxury and high-performance vehicles, adds Dr He. So it could be well into the 2030s before cheaper solid-state batteries become widely available in family cars.

To a large extent, just how successful mass production is in bringing down costs will depend on how raw material prices develop over the next decade. "Solid-state batteries will significantly consume more lithium," says Fabian Duffner, of Porsche Consulting, which is run as an independent part of the German sports-car manufacturer. Depending on how they are made,



he estimates batteries containing higher-capacity cathodes and anodes will need 40-100% more lithium. At the same time, producers will also need additional lithium as they increasingly switch more of their production away from combustion-engine vehicles to making EVs.

Sometimes called "white gold", lithium prices have been on a rollercoaster. Much of the lithium market is dominated by China. Towards the end of last year prices for battery-grade lithium carbonate shot to around 600,000 yuan (some \$80,000) a tonne, but have since slipped back to around 250,000 yuan—still about twice what it was two years ago. Nickel prices have also been volatile.

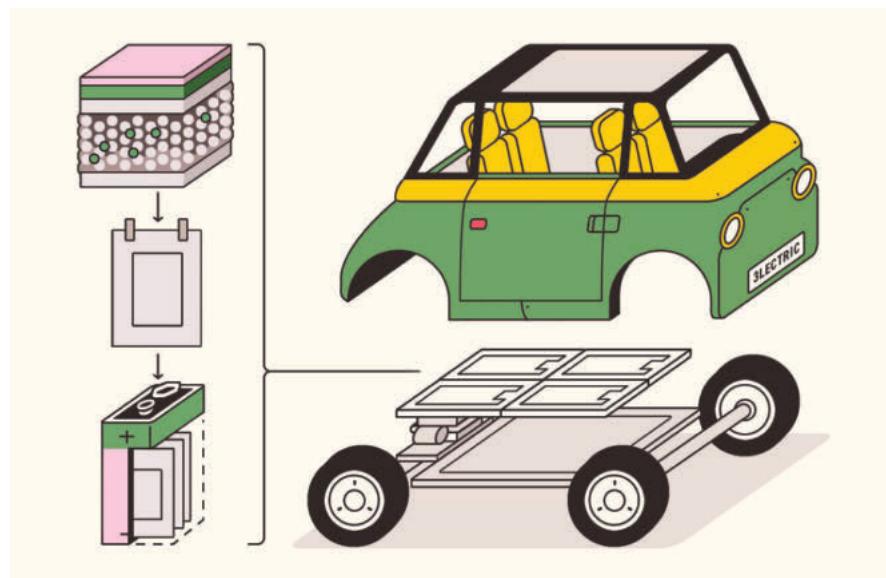
In such a mercurial market companies need to secure their supply lines, adds Dr Duffner. That will be difficult because even though some new mines for lithium and other battery materials are being developed, particularly outside China, they can take a decade or more before they reach their full production.

As a result, Dr Duffner expects many of the large carmakers to become more vertically integrated by teaming up with battery producers and materials companies. In Japan, Toyota, Nissan and Honda have already joined with Panasonic and GS Yuasa, a pair of battery-makers, to form a consortium to develop solid-state batteries.

Recycling materials will help somewhat. Most operations already recycle batteries from consumer electronics and will scale up to deal with what will be a growing number of batteries as older EVs reach the end of the road. The methods are well advanced—once the battery cells are isolated, they are ground up and materials such as lithium, cobalt, nickel and manganese can be recovered and purified.

Redwood Materials, a battery recycler based in Nevada, uses some of the materials it recycles to make new cathodes and anodes. Northvolt, a Swedish battery-maker with a number of gigafactories in Europe, hopes by the end of the decade to obtain about half the materials it needs from recycled batteries.

One way or another, then, solid-state Li-ion batteries are coming down the road. They look promising enough to finally allow EVs to compete with vehicles using dirty, old-fashioned internal-combustion engines on range, performance and convenience. At present, standard Li-ion batteries account for some 40% of the cost of an EV. That proportion will have to fall if solid-state superbatteries are to allow electric cars to compete on price as well. ■





The Monkey King

A superhero with Chinese characteristics

A talking monkey is one of China's oldest and most successful cultural exports

THE MONKEY KING, like many iconic fictional heroes—Harry Potter, Batman, Little Orphan Annie—had an unhappy childhood. Sprung from a rock on a mythical mountain, he overcame early hardship to hone his fighting skills, learning to somersault clouds and to turn each hair on his body into a miniature version of his warrior self. With his mix of mischief and might, he resembles the Hollywood pantheon's many superheroes. But the Monkey King is different: he is more than 400 years old and comes from China.

Released on Netflix on August 18th, a new animated version of "The Monkey King" is full of bust-ups and slapstick, as Monkey faces down 100 demons and tries to achieve immortality. The film is the latest in a long line of adaptations of "Journey to the West", the most famous novel in Chinese literature, published in 1592. Chinese children still study the book in school, and Xi Jinping, China's leader, was charmed by the Monkey King as a boy. He has used the character as an ice-breaker when he speaks

to crowds, including most recently with a group of children in Xinjiang.

The novel is a fantastical retelling of a journey undertaken by a monk in the seventh century to find sacred Buddhist scriptures; the "West" in its title refers to India, where he travelled. But the ancient story has since conquered the world. It is a rare example of successful Chinese soft power, enduring the many ups and downs in relations between China and America.

In the past century the book has been adapted into more than 60 films, countless TV shows, children's books, video games, a

theme park and Lego toys. In May an award-winning graphic novel, "American Born Chinese" by Gene Luen Yang, which incorporates the myth into a tale of teen angst at an American high school, was turned into a TV series by Disney. Japan has been behind several successful adaptations, including "Dragon Ball", a manga version of the story that has sold millions of copies and was spun out into a gaming franchise, and "Monkey", a badly dubbed television show that became popular in Britain and Australia in the 1980s.

The original novel is irreverent—at one point Monkey King urinates on the Buddha's hand. It tells the story of a monk upstaged by his mischievous companions, including a pig whose ears became wings, a sulky sand monster and the famous talking monkey, also known as Sun Wukong. But with fiction considered a disreputable pastime during the Ming dynasty, the novel was published anonymously and only later ascribed—with scant evidence—to Wu Cheng'en, a clerk's son who repeatedly failed the exam to get a government job.

As in all good storytelling, from Shakespeare to Star Wars, the ultimate fight in this story is for the protagonist's soul. Monkey King's physical journey is overlaid with a mental one. (Spoiler alert: the rebellious hero finally finds peace.)

Each Monkey King retelling has served as a mirror on its times, reflecting the anxieties of its creators. Some interpretations ➤

→ Also in this section

71 A history of four philosophers

72 Ukrainian music goes on tour

73 A divisive debut

73 The biggest, least known swindler

74 Back Story: The casting wars

► have concentrated on the need for discipline to quell the inner voice. Others stress the democratising theme of a lowly being rising to great heights.

Flexible interpretation of the novel's message has allowed the story to thrive in Communist China, even when other aspects of traditional culture were crushed. Mao Zedong admired Monkey King, who repeatedly challenged the hierarchies of Heaven, as a "wrecking ball who battles the forces of tradition", says Julia Lovell, who translated the novel into English in 2021. A stage adaptation in 1955 praised Monkey's "working-class wisdom" in defeating his oppressive rulers, the court of the mythical Jade Emperor. During the Cultural Revolution some of Mao's Red Guards likened themselves to Monkey Kings, rebelling against the Party as Monkey did against the immortals.

Netflix's film offers a pseudo-Freudian version, with Monkey's self-doubt stemming from a desperate need to be loved and to belong. It will resonate with navel-gazing viewers in the West. As most versions have done, it situates the legend in a stereotyped ancient China, with wispy-bearded men, curved rooftops, pagodas and red lanterns. On-screen adaptations often feel reductionist as a result, particularly since most retell the book's first seven chapters—Monkey's bid for eternal life—and ignore the 93 chapters that describe the monk's journey to find the scriptures.

At first glance, Netflix's "Monkey King" seems like an example of a successful Chinese cultural export. The real picture is more complex. Developed as an idea by a Shanghai-based studio in collaboration with Stephen Chow, a film director in Hong Kong, and then sold to Netflix, the film was ultimately made by an American studio. (So was the recent adaptation of the graphic novel.) Though the story of a mischievous monkey has crossed borders, genres and generations, Communist China has produced few international box-office hits or stories that endure elsewhere. It took Disney to popularise the ancient Chinese folk legend of "Mulan", first in 1998 and then again in 2020.

China's state media regularly boast about the success of new Chinese films and TV series abroad, yet in truth most are flops. "The Great Wall" starring Matt Damon—the most expensive film ever made in China when it came out in 2016—was panned. With improvements in Chinese film-making technique, special effects and scriptwriting, many films now become blockbusters at home, but few gain traction beyond China's borders. "Crouching Tiger, Hidden Dragon" and "Hero", two Chinese-made martial arts films, performed well in the West, but that was more than 20 years ago.

Much of this has to do with creative

constraints. Mr Xi has made clear that the primary job of film-makers is a political one: to "tell China's story well". In the past five years even slightly edgy social issues have become taboo, says Chris Berry, a professor of film studies at King's College London. Propaganda, even with whizzy special effects, rarely makes great art.

An animated version of the Monkey King should be the perfect vehicle to transcend national boundaries, with no need for awkward dubbing or distractingly strange facial hair on human actors. But this "Monkey King" again reflects its times.

Netflix is not available in China, and the streaming service has no plans to release the film on a Chinese platform.

With geopolitical tensions between China and America rising, even this beloved cultural icon is raising hackles. Netizens in China who watched the trailer complained that the cartoon creature looked too "Western" and criticised the film as yet another attempt to stereotype the "mysterious power of the East". As a seventh-century monk must once have observed, there are always obstacles on a journey to the West. ■

Philosophy

Women who shaped the world

A sharp new book explains the legacy of four women everyone should know

The Visionaries: Arendt, Beauvoir, Rand, Weil and the Power of Philosophy in Dark Times. By Wolfram Eilenberger. Translated by Shaun Whiteside. Penguin Press; 400 pages; \$32. Allen Lane; £25

IN FEBRUARY 1933 the Reichstag, home of Germany's parliament, caught fire. The country's new chancellor, Adolf Hitler, claimed arson and used it as an excuse to revoke civil liberties. For 26-year-old Hannah Arendt, toiling in an archive to collect "everyday anti-Semitic expressions", Hitler's reaction demonstrated the ruthlessness of totalitarianism. Soon she was interrogated by the secret police—an experience that catalysed a long career as a scholarly observer of persecution and mob rule.

Arendt is one of four women whose lives and thoughts Wolfram Eilenberger, a

philosopher, recounts in this lively book, which spans the turbulent years from 1933 to 1943 (when Hitler was staring down defeat). The others are Simone de Beauvoir, a pioneering feminist; Simone Weil, a trade-union activist who combined mysticism with a yen for social justice; and Ayn Rand, a Russia-born critic of communism who immigrated to America and later shaped the doctrine of libertarianism (although she did not identify with it).

The book is translated from German, and its original title, "Feuer der Freiheit" ("Fire of Freedom"), suggests what links the quartet. They barely met, but the imminence and then eruption of European conflict stirred each to explore alternatives to political violence.

Mr Eilenberger applauds Arendt's integrity and toughness. But, after an exciting start, she is not a vivid presence on the page. Weil is more sharply drawn—squabbling with her parents' tenant, Leon Trotsky, and, as a volunteer in the Spanish civil war, scalding her feet in a pot of boiling oil. Between stints working in a factory and flights of religious ecstasy, she wrote tirelessly, hardly eating or sleeping as she crafted essays on the empty rhetoric of extremism and man's "need for roots".

Rand, based in New York and distanced from Europe's turmoil, could surround herself with "intellectual aristocrats" and keep a journal expounding her elitism and hatred of religion. After a decade of literary obscurity—her efforts included a courtroom drama play called "Penthouse Legend", in which members of the audience were chosen as the jury—she broke through in 1943 with her novel "The Fountainhead". Marketed by her publisher as a love story set among architects, it was ►



Ayn Rand looking laissez-faire

▶ actually a manifesto. Readers, undeterred by terrible reviews, lapped up her paean to individualism and rationality, which became a word-of-mouth hit. Given Rand's reputation for egotism, one of the book's most memorable details is how she addresses her husband in a letter ("Cubby Sweet") and signs off ("Your Fluff").

Unlike the other three, de Beauvoir was not from a Jewish family. Nazism impinged on her less directly, and during this period she channelled much of her energy into a liaison with a fellow philosopher, Jean-Paul Sartre. The couple had many lovers, who formed a "network of asymmetrical relationships and dependencies that eluded any kind of benevolent description", writes Mr Eilenberger. These entanglements exhausted her. But, in illustrating the ways society thwarted women's independence, they provided rich material for her masterpiece of 1949, "The Second Sex", which argues that women are sidelined by men. Her theories were so controversial that the Vatican put "The Second Sex" on its list of prohibited books, but it became a seminal text of feminism, inspiring campaigners for women's rights.

In his previous book, "Time of the Magicians" (published in English in 2020), Mr Eilenberger wove together the lives of four male intellectuals of the 1920s, and "The Visionaries" reproduces its historical sweep, snappy chapter headings and inevitable affection for the adverb "meanwhile". Sometimes he insists too firmly on the parallels between the four women's lives, whether claiming that, for each of them in 1937, "the chief source of joy...was a gramophone" or that a letter of Rand's "could have been committed to paper with equal aptness" by any of the others.

Attempts to capture the immediacy of his characters' thoughts can sometimes result in portentousness. Weil, for example, leaps "out from the ivory tower of theory, into the everyday suffering of the workers" and concludes that "to truly liberate humanity from this planetary nightmare, a comprehensive cultural U-turn would be necessary". But Mr Eilenberger's most valuable achievement is his focus on Weil, who died at the age of 34 in a sanatorium in Kent. In the 1950s Albert Camus declared her "the only great mind of our time", responsible for "a body of work whose full impact we can as yet only guess".

This is still broadly true. Sickly and lonely yet courageous, she championed the oppressed, extolled the dignity of work and teased out the similarities between the politics of the far left and the far right. Most strikingly, as she foresaw a future riddled with narcissism and constant distraction, she preached the virtues of contemplating not the self, but the world's beauty and fragility. "Attention", she declared, "is the rarest and purest form of generosity." ■

Ukrainian culture

A different tour of duty

Interest in Ukrainian culture is rising, as a new symphonic tour shows

ON AUGUST 20TH the Ukrainian Freedom Orchestra—composed of 75 musicians based in their homeland or abroad, some of them refugees—began their second international tour with Beethoven's Ninth Symphony in Warsaw. In collaboration with the New York Metropolitan Opera and Polish National Opera, the tour will hold eight performances in Germany, Switzerland, the Netherlands and Britain. Keri Lynn Wilson (pictured), a Canadian conductor of Ukrainian descent, has translated into Ukrainian the words of "Ode to Joy", which has been used as a protest song before, including by students in Tiananmen Square. "I have never conducted before as I have with this orchestra," she says, praising the group's "extraordinary intensity and intimacy".

Russia's invasion of Ukraine in 2022 was not only a military contest. It was a cultural siege. Yet far from being obliterated, Ukrainian culture has survived, and interest in it has surged. Condemnation of Russia's aggression has been accompanied by "a newfound global acknowledgment of and respect for Ukrainian culture", says Boris Dralyuk, a Ukrainian-American author.

The sale of foreign rights for Ukrainian books nearly doubled in 2022. Data for 2023 are not yet available, but Andrey Kurkov, a leading Ukrainian writer, says that "over the past year and a half, more Ukrainian books have been translated into foreign languages than in the previous 20 years." Recently Simon & Schuster, a large publishing house, bought the English

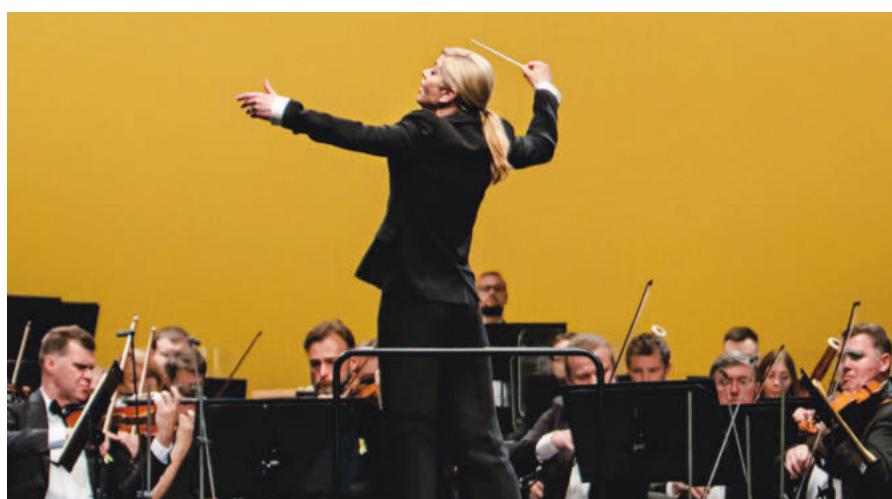
rights to one of Ukraine's most celebrated novels, Sofia Andrukovich's "Amadoka", an epic tale of a protagonist who suffers from amnesia after fighting Russians.

After the war began last year, galleries in Europe and North America rushed to put on shows of Ukrainian art. Germany currently boasts major surveys in Dresden and Cologne. In October the fifth edition of the Kyiv Biennial art exhibition will open in Ukraine before travelling to Vienna, Warsaw and Berlin.

This new visibility has led to fresh encounters and reframed histories. The Ukrainian Freedom Orchestra has introduced works by the composers Valentyn Silvestrov and Yevhen Stankovych, whom many outside of Ukraine have never heard of. Their music unites local and global influences, with wistful echoes of Ukraine's traditional melodies and harmonies.

More contentiously, museums have re-labelled painters such as Sonia Delaunay and Kazimir Malevich as Ukrainian rather than Russian. Peter Doroshenko, director of the Ukrainian Museum in Manhattan, notes a passion among artists for "decolonising Ukrainian art history from 200 years of Russia's long shadow of repression, lies and propaganda".

Some worry that if military support for Ukraine's defence erodes in the West, the groundswell of interest in Ukrainian culture may diminish. Others point out that cultural charm offensives do not always alter political outcomes. During the Spanish civil war in the 1930s, stars such as Pablo Picasso and the cellist Pablo Casals inspired recruits abroad and at home to the Republican cause. But they still lost to the Nationalists in 1939. In his poem, "Spain 1937", W.H. Auden lamented, "History to the defeated/May say Alas but cannot help or pardon". However, as the Ukrainian Freedom Orchestra performs, "alas" is hard to contemplate, as the music's majesty mixes with the righteousness of the cause. ■



Beethoven, not bombs

America's top song

Minstrel of the moment

A musical critique of Washington has excited the internet

HE SPORTS A red beard fit for a Viking, prays before he performs and strums his guitar with his three hounds slumped by his boots. Oliver Anthony is an unlikely star. And yet his song, "Rich Men North of Richmond", released on August 11th, is crowning the charts, having racked up more than 34m streams on YouTube. He is the first musician to debut in the number-one slot on the *Billboard* Hot 100 without having had another song in the charts before. How did an unsigned, unknown artist become the minstrel of the moment?

The song's substance helps explain its success. With the nostalgic twang of Appalachian folk, the bearded bard is singing of Americans' struggles. When Mr Anthony laments "your dollar ain't shit/And it's taxed to no end" and repeats the chorus ("It's a damn shame/What the world's gotten to/For people like me/And people like you"), he is speaking directly to the anger millions of listeners feel, as they struggle with inflation, high living costs and disillusionment with Washington.

Mr Anthony is also parroting frequent complaints heard from populists on the American right, crooning that obese people use welfare funds to buy fudge and that northern elites travel to private islands to abuse minors (a reference to Jeffrey Epstein and his ties to Democratic politicians). Conservative pundits including Joe Rogan, a podcast host, and Kari Lake, an ally of Donald Trump who ran unsuccessfully for office in Arizona, praised Mr Anthony's authenticity online to their social-media followers. These endorsements helped "Rich Men" go viral, says Jada Watson, who studies country music.

For years America's political divisions have played out on cable news. Now they are shifting to the music charts. In May Jason Aldean, a country singer, released "Try That in a Small Town", a warning to urban protesters. Critics deemed the music video racist; Nikki Haley, a Republican presidential hopeful, added it to her campaign playlist; and the row drove the song to number one in early August.

Mr Anthony maintains that he is centrist. He claims to have rejected a proposed \$8m record deal, saying that he does not want to buy a private jet and tour buses, play shows at stadiums or be in the spotlight. But that will not stop conservative voters and right-wing politicians using his music as their theme song. ■



Fraudsters

Going for gold

One of the world's biggest, and least known, con men

Anansi's Gold: The Man Who Swindled the World. By Yepoka Yeebo. Bloomsbury; 400 pages; \$29.99 and £20

FROM BERNIE MADOFF to Jordan "Wolf of Wall Street" Belfort and Elizabeth "The ranos" Holmes, swindlers bring colour to the often-monochrome world of money. John Ackah Blay-Miezah is no such household name, at least outside his native Ghana. But Yepoka Yeebo, a British-Ghanaian journalist, makes a strong case for why he should be.

For two decades, from the 1970s to the 1990s, he peddled lies and rode his luck, spinning a remarkable story that helped him bilk hundreds (and perhaps thousands) of investors on several continents. Blay-Miezah is a contender for world's greatest con artist. He is certainly Africa's.

His story unfolds after the ousting of Kwame Nkrumah, Ghana's first post-independence leader, by a military coup in 1966. Rumours swirled that Nkrumah had stashed the nation's gold overseas. No one was quite sure how much the gold was worth: perhaps hundreds of millions, billions or even tens of billions of dollars. The stories were probably nonsense, but many Ghanaians believed them.

Blay-Miezah was born poor but made his way as a young man to America. There he got a taste for enterprise and sensed a golden opportunity. He buzzed around America, Europe and Asia—always staying in swanky hotels, always on someone else's dime—peddling the story that he had

been made custodian of Nkrumah's trust fund for the gold. He promised that those who funded his efforts to retrieve the bounty would share handsomely in it. The gold, of course, never appeared.

The question, as so often with big frauds, is how Blay-Miezah kept it going for so long. One answer is his aptitude for deceit. He had a gift for financial sleight-of-hand, from cheque-deposit fraud to document forgery. A portly, sharp-dressed, cigar-chomping charmer, he had almost superhuman powers of persuasion. Ms Yeebo likens him to Anansi, the trickster god, part-man part-spider, from west African mythology. He understood the importance of assembling a cast of credible backers: among those he persuaded to promote his story were several top Ghanaian officials, Swiss bankers and Richard Nixon's former attorney-general, John Mitchell. He understood, too, that a good story needs a convincing set: offices in London and Zurich, glossy brochures, and so on.

But none of it would have been possible without greed: his own and others'. So many investors—whom he preferred to call "supporters", so as not to fall foul of securities regulators—should have known better but swallowed the fiction. Among those willing not only to invest but to keep ploughing in more were financiers, business owners and lawyers from New York, London and Seoul.

"Some of them had heard dozens, maybe hundreds of 'soons,'" Ms Yeebo writes. "Something always came up. Someone had died. There had been some unrest." Shirley ►

Back Story Acts of faith



Calls for actors' backgrounds to match those of their characters have gone too far

POSTERITY HOLDS much crueler fates for politicians than to be reincarnated as Helen Mirren. Such is Golda Meir's lot in "Golda", which dramatises the trials of Israel's only female prime minister during the Yom Kippur war of 1973 (ignited by a surprise attack from Egypt and Syria). Ms Mirren (pictured) movingly portrays a lone woman in a coterie of military men, a chain-smoking lymphoma sufferer whose country is threatened with extinction.

The film is out in America on August 25th. Before its release, though, it has been criticised by some for casting a gentile as a Jewish luminary—as have "Oppenheimer" and "Maestro", an upcoming biopic of Leonard Bernstein starring Bradley Cooper (in a controversial prosthetic nose). Those concerns are part of a wider ruckus over "authenticity" in casting, or who can play whom. As with many cultural rows, a reasonable course is discernible amid the shouting.

These days hardly anyone thinks every actor is eligible for absolutely any part. The practice of white actors donning make-up for black roles is now unconscionable, not least because of its roots in the ignoble tradition of blackface minstrelsy. Originating in the 1830s and popular for much of the 20th century, minstrelsy demeaned black people and mocked their aspirations. Its link to oppression is captured in the name of an early blackface persona: Jim Crow.

Similar forms of racial mimicry are no-nos, too. Today's strife tends to involve other strictures, which are proliferating. Some in showbiz and beyond think depictions of many marginalised groups should be reserved for members of them. Straight performers should not take gay parts; only trans actors should play trans roles, and only deaf actors deaf

ones. Artists with dwarfism have decried Hugh Grant's appearance as an Oompa-Loompa in a forthcoming Willy Wonka film. Brendan Fraser's recent turn as the obese protagonist of "The Whale", for which he wore a "fat suit" (and won an Oscar), irked some plus-size observers.

Part of the grievance is that deaf actors, say, or those with dwarfism, are routinely overlooked by casting directors and resent missing out on the rare work that mirrors their experience. But the objections involve justice as well as jobs. As with black-face, runs the argument, casting non-disabled actors as disabled characters or gentiles as Jews can lead to caricature and distortion. And those can cause misconceptions and prejudice, which seep from stage and screen into the real world.

This argument is winning. If it seems an age since Laurence Olivier wore dark make-up to play Othello in 1965, even Eddie Redmayne's trans role in "The Danish Girl" in 2015 now seems antiquated. Mr Redmayne has since said taking that part was a mistake, one of several stars and directors to express regret for bygone



violations of the new orthodoxy.

Orthodoxies, however, can calcify into dogma, and pendulums swing too far. Dissenting voices worry—rightly—that the promise and privileges of art are being wilfully renounced.

Always and only viewing roles in terms of groups and categories is impractical. In the case of a gay Irish part, for instance, which is more essential, a gay actor or an Irish one? It is simplistic, as "Golda" shows: the crux of Ms Mirren's character is that she must make decisions over soldiers' lives and deaths, a burden few people of any race or nation have carried, none of them actors. Above all, rigid identity-matching is soulless. Rounded characters, like people, are more than the sum of their labels. Acting can illuminate prejudices and difference, yet at its finest it surmounts them in leaps of imagination and empathy.

Film-makers have the right to cast whomever they like. Still, a fair and politic approach is for roles to go to the best-qualified performers—on criteria that include background alongside other factors. Those from underrepresented groups should be considered and get a better shot than in the past; but if there are sound artistic reasons, such as talent or screen chemistry, someone else may be cast. The lame king in "Richard III" need not always be played by a disabled actor. But disabled actors should get a crack at him (as Arthur Hughes did last year at the Royal Shakespeare Theatre).

In other words, judge the output not the inputs—and judge it, first, as art. This bargain over casting has a final condition for actors and directors: do your research on unfamiliar lives, do your best, then be prepared for criticism. Activists should not have an audition-room veto. But, like everyone, they are entitled to an opinion.

► Temple Black, the former child star, was one of the few sceptics to raise questions about Blay-Miezah while she served as ambassador to Ghana, at one point even cabling Henry Kissinger, then the secretary of state, with her concerns.

Many of the investors simply could not admit to themselves that they had been scammed. It was less painful to keep giving Anansi one last chance. In this sense the fraud, for all its audacity, was like so many others before and since. The high life Blay-Miezah enjoyed for so long owed much to the sunk-cost fallacy. After American law-

enforcement finally twigged on to the scam, it took years to unravel. Blay-Miezah returned to Ghana but was never fully held to account, dying at his home in 1992 after a few years of house arrest.

The backdrop to Blay-Miezah's shenanigans is a nation blessed with resources (gold, cocoa and, increasingly, oil) but perennially exploited by slave-traders, colonists and corrupt politicians. Nkrumah's offshore gold may have been illusory, but Ghana's natural wealth is real. Its decades-long betrayal by rapacious colonisers, leaders and sharks like Blay-Miezah is the

book's central tragedy.

With many of the relevant documents destroyed in coups or by those hoping to cover up their involvement, Ms Yeebo had to dig tenaciously to reveal the full story of Blay-Miezah's exploits. In addition to interviewing dozens of people who crossed paths with or were scammed by him, she drew on unpublished memoirs and family archives, tracked down missing official records and sifted through files compiled by the FBI and American prosecutors. "Anansi's Gold" is a welcome, if belated, addition to the canon on great swindlers. ■



Planning a New Career Challenge?

Unique Access to Confidential Opportunities

InterExec is the global leader in assisting Top Executives to access £200k to £2m+ unadvertised vacancies worldwide.

We act discreetly through our 15,000 strong Headhunter network.

london@interexec.net www.interexec.net +44 (0)20 7256 5085

Inter Exec
UNIQUE NETWORK ♦ OUTSTANDING TALENT

Courses

1884

"MAKE AN INVESTMENT IN YOURSELF THAT WILL BE PROFITABLE"

Fareda Sands, CBMBA Graduate
President, Initium Novum Enterprises Ltd,
Bahamas



PRIFYSGOL
BANGOR
UNIVERSITY

EXECUTIVE EDUCATION

*Cutting edge & innovative learning for
the global financial services sector*

Chartered Banker MBA

Financial Crime & Compliance MBA

bangor.ac.uk/Executive-Education

Economic data

	Gross domestic product			Consumer prices		Unemployment rate		Current-account balance		Budget balance		Interest rates		Currency units	
	% change on year ago latest	quarter*	2023†	% change on year ago latest	2023†	%		% of GDP, 2023†		% of GDP, 2023†		10-yr gov't bonds latest,%	change on year ago, bp	per \$ Aug 23rd	% change on year ago
United States	2.6	Q2	2.4	1.8	3.2	Jul	3.9	3.5	Jul	-2.8	-5.7	4.2	114	-	-
China	6.3	Q2	3.2	5.2	-0.3	Jul	0.8	5.3	Jul‡	2.0	-2.8	2.4	§§	-4.0	7.29
Japan	2.0	Q2	6.0	1.3	3.3	Jul	2.9	2.5	Jun	2.9	-5.2	0.7	45.0	145	-5.9
Britain	0.4	Q2	0.8	0.3	6.8	Jul	6.7	4.2	May††	-3.3	-4.3	4.8	228	0.79	6.3
Canada	2.2	Q1	3.1	1.7	3.3	Jul	3.4	5.5	Jul	-0.6	-0.9	3.6	61.0	1.36	-4.4
Euro area	0.6	Q2	1.0	0.9	5.3	Jul	5.4	6.4	Jun	2.0	-3.3	2.5	117	0.92	8.7
Austria	1.9	Q1	0.4‡	0.8	7.0	Jul	7.3	5.1	Jun	2.0	-2.4	3.1	117	0.92	8.7
Belgium	0.9	Q2	0.8	0.9	1.7	Jul	3.2	5.7	Jun	-2.8	-4.7	3.2	125	0.92	8.7
France	0.9	Q2	2.2	1.0	5.1	Jul	5.4	7.1	Jun	-1.7	-5.0	3.2	144	0.92	8.7
Germany	-0.1	Q2	0.1	-0.1	6.5	Jul	5.9	3.0	Jun	5.3	-2.3	2.5	117	0.92	8.7
Greece	2.3	Q1	-0.3	2.4	3.5	Jul	3.8	11.1	Jun	-5.9	-1.8	3.9	-15.0	0.92	8.7
Italy	0.6	Q2	-1.4	1.1	6.3	Jul	6.1	7.4	Jun	0.9	-4.8	4.2	51.0	0.92	8.7
Netherlands	-0.3	Q2	-1.3	0.9	5.3	Jul	5.3	3.6	Jul	7.5	-2.3	2.9	121	0.92	8.7
Spain	1.8	Q2	1.7	2.3	2.1	Jul	3.1	11.7	Jun	1.8	-4.1	3.7	133	0.92	8.7
Czech Republic	-0.2	Q1	0.4	0.2	8.8	Jul	10.5	2.6	Jun‡	-1.2	-4.5	4.4	-18.0	22.2	11.1
Denmark	1.9	Q1	0.8	2.0	3.1	Jul	4.0	2.8	Jun	10.5	1.5	2.8	111	6.87	8.4
Norway	0.7	Q2	0.1	1.6	5.4	Jul	4.8	3.3	May‡‡	17.6	12.5	1.4	76.0	10.6	-8.7
Poland	-0.5	Q2	-14.0	1.3	10.8	Jul	11.9	5.0	Jul‡	-0.2	-4.8	5.7	-67.0	4.12	16.0
Russia	4.9	Q2	na	-0.6	4.3	Jul	6.0	3.1	Jun‡	2.4	-3.7	11.3	233	94.3	-36.2
Sweden	-0.9	Q2	-5.9	1.0	9.3	Jul	7.1	9.2	Jun‡	4.2	-0.3	2.9	121	10.9	-3.2
Switzerland	0.6	Q1	1.1	1.2	1.6	Jul	2.2	2.1	Jul	6.8	-0.7	1.0	24.0	0.88	9.1
Turkey	4.0	Q1	1.3	3.2	47.8	Jul	46.3	9.0	Jun‡	-5.4	-4.8	18.4	540	27.2	-33.4
Australia	2.3	Q1	0.9	1.6	6.0	Q2	5.5	3.7	Jul	1.5	0.2	4.2	60.0	1.55	-7.1
Hong Kong	1.5	Q2	-5.2	3.5	1.8	Jul	1.9	2.8	Jul‡‡	9.1	-1.5	4.0	112	7.84	0.1
India	6.1	Q1	5.3	6.2	7.4	Jul	5.5	8.1	Apr	-1.3	-5.9	7.2	-9.0	82.7	-3.4
Indonesia	5.2	Q2	na	4.9	3.1	Jul	3.8	5.5	Q1‡	0.9	-2.6	6.6	-46.0	15,295	-3.0
Malaysia	2.9	Q2	na	4.2	2.4	Jun	2.7	3.4	Jun‡	2.9	-5.0	3.9	-11.0	4.66	-3.6
Pakistan	1.7	2023**	na	1.7	28.3	Jul	32.2	6.3	2021	-1.7	-7.0	16.2	†††	370	-27.7
Philippines	4.3	Q2	-3.6	5.4	4.7	Jul	5.5	4.5	Q2‡	-5.3	-7.0	6.6	55.0	56.7	-1.1
Singapore	0.5	Q2	0.3	1.0	4.1	Jul	5.0	1.9	Q2	16.2	-0.7	3.2	44.0	1.35	3.0
South Korea	0.8	Q2	2.4	1.3	2.3	Jul	3.0	2.7	Jul‡	1.7	-2.7	3.9	54.0	1,340	0.5
Taiwan	1.4	Q2	5.6	0.8	1.9	Jul	2.0	3.4	Jul	13.2	-0.4	1.2	-3.0	31.9	-5.4
Thailand	1.8	Q2	0.7	3.2	0.4	Jul	1.5	0.9	Jun‡	1.1	-2.7	2.8	28.0	35.1	3.0
Argentina	1.3	Q1	2.7	-2.4	114	Jul	116.1	6.9	Q1‡	-2.3	-4.2	na	na	350	-60.9
Brazil	4.0	Q1	8.0	2.4	4.0	Jul	4.5	8.0	Jun‡‡	-1.9	-7.6	11.1	-107	4.89	4.1
Chile	-1.1	Q2	-1.2	0.1	6.5	Jul	7.5	8.5	Jun‡‡	-3.6	-1.9	5.9	-111	860	7.9
Colombia	0.3	Q2	-4.1	1.6	11.8	Jul	11.5	9.3	Jun‡	-4.0	-4.2	10.8	-128	4,081	7.3
Mexico	3.7	Q2	3.6	2.4	4.8	Jul	5.0	2.7	Jun	-1.9	-3.5	9.3	38.0	16.8	18.9
Peru	-0.4	Q1	-2.2	1.3	5.9	Jul	6.5	6.7	Jul‡	-1.3	-2.0	7.0	-81.0	3.71	4.0
Egypt	3.9	Q1	na	3.8	36.4	Jul	36.2	7.0	Q2‡	-1.5	-6.9	na	na	30.9	-38.0
Israel	3.3	Q2	3.0	3.0	3.3	Jul	4.1	3.4	Jul	4.7	-2.0	3.9	121	3.76	-13.3
Saudi Arabia	8.7	2022	na	1.0	2.3	Jul	2.2	5.1	Q1	3.2	-1.4	na	na	3.75	0.3
South Africa	0.2	Q1	1.4	0.5	4.8	Jul	5.7	32.6	Q2‡	-1.8	-5.7	10.3	-6.0	18.5	-8.3

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. §§5-year yield. †††Dollar-denominated bonds. Note: Euro area consumer prices are harmonised.

Markets

In local currency	Index Aug 23rd	% change on:			index Aug 23rd	one week	Dec 30th 2022	% change on:		
		one week	Dec 30th 2022	Dec 30th 2022				one week	month	year
United States S&P 500	4,436.0	0.7	15.5		47,418.6	-1.5	17.3			
United States NAScomp	13,721.0	1.8	31.1		3,174.2	-1.2	-2.4			
China Shanghai Comp	3,078.4	-2.3	-0.4		2,505.5	-0.8	12.0			
China Shenzhen Comp	1,901.9	-3.3	-3.7		16,576.9	0.8	17.3			
Japan Nikkei 225	32,010.3	0.8	22.7		1,549.0	1.9	-7.2			
Japan Topix	2,277.1	0.7	20.4		615,499.3	9.3	204.6			
Britain FTSE 100	7,320.5	-0.5	-1.8		118,134.6	2.2	7.7			
Canada S&P TSX	19,879.8	-0.1	2.6		53,635.3	-0.4	10.7			
Euro area EURO STOXX 50	4,266.7	-0.4	12.5		18,133.4	0.4	24.2			
France CAC 40	7,246.6	-0.2	11.9		1,876.3	0.6	4.2			
Germany DAX*	15,728.4	-0.4	13.0		11,367.1	-0.2	7.8			
Italy FTSE/MIB	28,233.8	0.2	19.1		74,022.6	-1.2	1.3			
Netherlands AEX	740.7	-2.1	7.5		2,937.7	0.4	12.9			
Spain IBEX 35	9,315.6	-0.4	13.2		970.2	-0.6	1.4			
Poland WIG	68,153.4	-1.1	18.6							
Russia RTS, \$ terms	1,051.2	3.6	8.3							
Switzerland SMI	10,973.6	-0.2	2.3							
Turkey BIST	7,602.2	-0.8	38.0							
Australia All Ord.	7,367.6	-0.6	2.0							
Hong Kong Hang Seng	17,845.9	-2.6	-9.8							
India BSE	65,433.3	-0.2	7.5							
Indonesia IDX	6,921.4	0.3	1.0							
Malaysia KLSE	1,440.1	-1.6	-3.7							

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 30th 2022
Investment grade	138	154
High-yield	433	502

Sources: Refinitiv Datastream; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

The Economist commodity-price index	2015=100	Aug 15th	Aug 22nd*	% change on month	% change on year
Dollar Index	All Items	140.5	143.2	-5.7	-6.3
	Food	131.8	131.5	-8.6	-8.5
Industrials	All	148.6	154.2	-3.3	-4.4
	Non-food agriculturals	111.3	111.4	-1.2	-27.7
	Metals	159.6	166.9	-3.7	2.1
Sterling Index	All items	168.2	171.7	-4.8	-12.7
Euro Index	All items	142.4	146.4	-4.0	-13.7
Gold	\$ per oz	1,908.2	1,897.1	-3.3	8.3
Brent	\$ per barrel	85.1	84.1	0.5	-16.1

Sources: Bloomberg; CME Group; Cotlook; Refinitiv Datastream; Fastmarkets; FT; ICCO; ICO; ISO; Live Rice Index; LME; NZ Wool Services; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

For more countries and additional data, visit economist.com/economic-and-financial-indicators

Carrion call

The sudden demise of Indian vultures killed thousands of people

THE SAME cast of characters features in most wildlife conservation campaigns: majestic tigers, adorable pandas or other creatures that tug human heartstrings.

Images of the blood-splattered bills of endangered vultures tend to evoke less sympathy, but a new study provides a reason to be concerned for their survival. The near-extinction of Indian vultures in the mid-1990s proved fatal for humans too, causing the mortality rate to rise by 4% in districts once populated by the birds.

Vultures act as nature's sanitation service. In India, their diet consisted largely of rotting livestock carcasses—numbering 30m a year in the cattle-revering country. A group of vultures can polish off a cow's carrion in 40 minutes. Their strongly acidic digestive tracts destroy most germs.

Historically, vultures were widespread in India. But between the 1990s and early 2000s their numbers plummeted by more than 90%, from around 40m. The cause was diclofenac, an anti-inflammatory drug that farmers began using to treat their cattle. Despite it being harmless to both cows and humans, birds that consumed animals treated with diclofenac suffered from kidney failure and died within weeks.

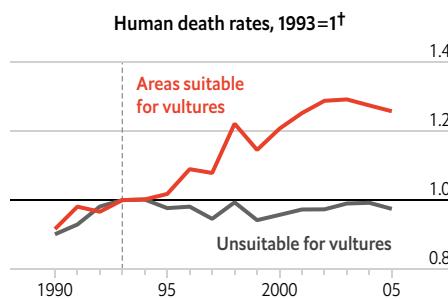
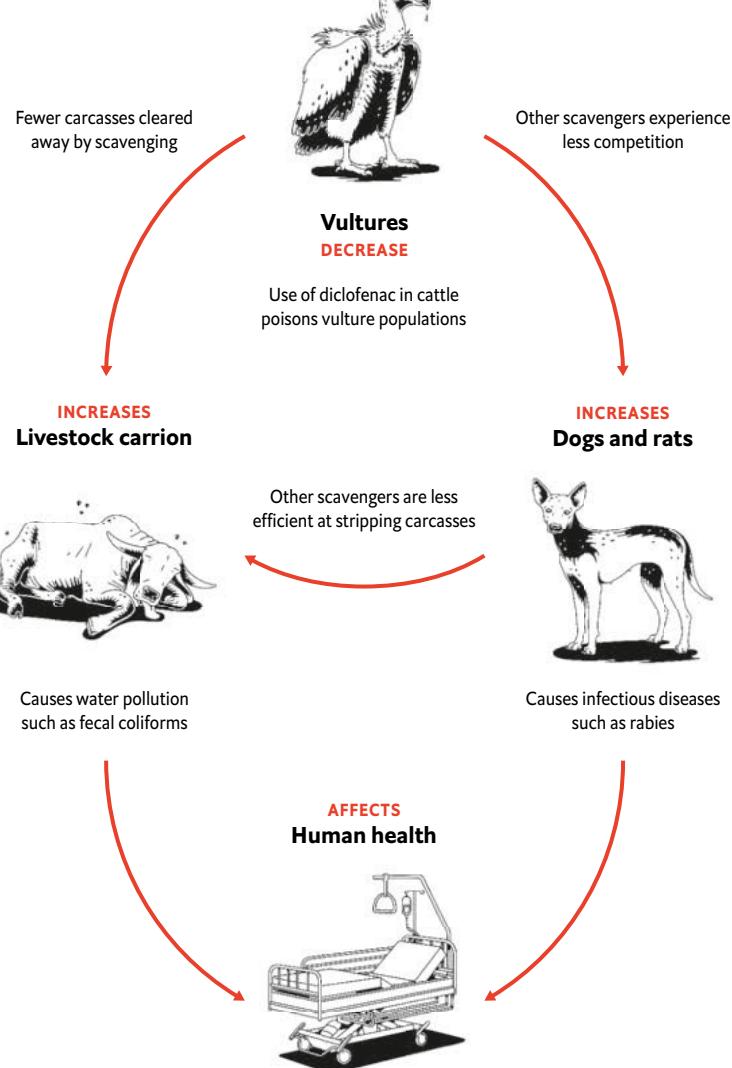
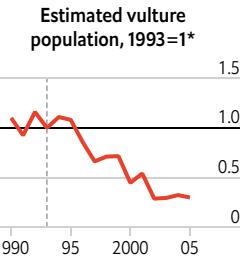
Without vultures, carcasses attracted feral dogs and rats. Not only do these animals carry rabies and other diseases that threaten humans, they are far less efficient at finishing off carrion. The rotting remains they left behind were full of pathogens that then spread to drinking water.

The abrupt demise of the vultures made it possible to quantify their impact on public health. A new working paper, by Anant Sudarshan of Warwick University and Eyal Frank of the University of Chicago, used a statistical method called "difference-in-differences" to compare changes in the death rate in districts with habitats suited to vultures (which presumably lost birds) with those in less suitable places (which never had them), as diclofenac use surged.

In districts with vulture-suitable habitats, more people began to die just as diclofenac sales increased. The effect was greatest in urban areas with large livestock populations. The authors estimated that, between 2000 and 2005, the loss of vultures caused 500,000 additional human deaths.

"Keystone species" like the vulture hold ecosystems together. Conserving these animals should be a priority. They may not be cute or cuddly, but they are important. ■

→ The loss of vultures had knock-on effects throughout India's ecosystem





Cleanliness, godliness

Bindeshwar Pathak, social reformer and champion of proper toilets in India, died on August 15th, aged 80

IT ALL BEGAN with a dare. Bindeshwar Pathak, then seven or so, wondered why the thin little woman who came through the back door sometimes, selling bamboo utensils to his Brahmin family, was called "untouchable". He wondered why his grandmother sprinkled holy Ganga water over the floor where the woman had walked, and was told she had polluted it. So, one day, he dared to touch her sari, to see what would happen to his body.

Nothing happened to it. But uproar broke out in the house. They called in the *pandit*; he said Bindeshwar must be banished. His mother intervened to save him from that, but the rest of the priest's remedy was almost as terrible. He had to plunge into cold Ganga water and, much worse, drink a mixture of milk, ghee, curd, cow urine and cow dung, to purify himself. Grandmother mixed it up fiercely and forced it down him.

Later he learned the reason for it. The poor, creeping woman belonged to the Valmiki community, the lowest caste. Its women mostly made a living by collecting night soil, cleaning it out from buckets and dry-pit toilets with a metal brush and pan but often with bare hands. They then carried it on their heads, in baskets, to some far place. For this work they were shunned, even after they had bathed. They could not use the wells unless some "clean" soul drew water for them. Shopkeepers threw them the goods they bought, and shook water over their money. It was fine to touch a dog, but not these human beings, who were exactly like him.

From 1950 the notion of "untouchable" was banned in India. It continued because their work did; because most Indians, if they had toilets in their homes, had pits that needed cleaning. The Pathak family did not employ anyone for that because, in their roomy and comfortable house, they had no toilet. It was not in the least unusual; most Indians had none then. Each day at 4am Bindeshwar would hear the women of the family set off to relieve themselves, safely in the dark and the trees.

So began his obsession with sanitation, which soon became a mission. The equation was simple. If Indians had proper flush toilets, they could clean them themselves. If the scavengers were not needed, they could, with training and support, find other jobs and lead dignified lives. India could become cleaner, healthier (since pit toilets spread disease) and, in time, more equal. Liberation of scavengers had been Mahatma Gandhi's dream, even more strongly than independence; now it was his. Helping another human being was a prayer to God. In 1970 he set up an organisation, Sulabh Shauchalaya, meaning simply "accessible toilet". Officials might not care to discuss his work over tea, but he sometimes felt he loved it more than his children or his wife.

The key to everything was his cheap pour-flush toilet, essentially a sieve-like clay-lined pit, flushable with only a litre of water, from which black- or grey-water leached into the soil and in which the dry solids gradually degraded into an odourless mulch that could fertilise fields. He designed it in 1969; in 1973 a local town in Bihar ordered two demonstration models for the municipal compound. They caught on. By 2020, 110m had been installed across the country. In 1974 he built India's first public lavatory, with 48 seats, urinals and 20 bathrooms. A pee cost one rupee, a poo two. When it opened in the city of Patna, 500 people used it on the first day. By this year almost any bus stand, railway station or market had its own *sulabh shauchalaya*; around 20m used them each day. The revenue subsidised smaller community toilets out in the villages and toilets in schools, which encouraged girls to attend.

That success had been born in struggle, some of it deliberate. Shortly after university he spent three months among scavengers in the town of Bettiah, enduring with them the stench, the humiliation and the filth that leaked into his hair. One day he saw a small boy killed by a bull because, since he was untouchable, no one would help him. This redoubled his determination to make his mission national, though few listened. His family were appalled by his peculiar, shameful obsession; his father-in-law disowned him. He ran out of funds to build the toilets, and had to sell his wife's ornaments to keep going.

As his inventions spread, however, so the scavengers began to rise. He established centres for the women where, in identical pale-blue saris, they could learn to read, write and open bank accounts, and could train as embroiderers and candlemakers. He also took them on trips to the Nathdwara temple, which banned such women, and the 5-star Maurya Sheraton restaurant in Delhi. At both places, those in charge begged him to take the women away; in his gentle Gandhian mode, he refused. By this year, by his estimate, some 200,000 women had been liberated.

Others, too, needed his help. He took on the case of the 10,000 widows of Vrindavan, abandoned by their families to live on mattresses in decrepit government shelters in the city of Krishna's childhood. Their condition was dire, but he gave them a little money each, medical care, and help to learn reading and writing. As with the scavengers, he also raised them up socially, urging them to swap their mourning white for forbidden bright clothes and to celebrate Holi, the festival of colour. He himself wore a scarlet jacket almost always, the vivid centre of crowds.

Awards came thick and fast. The prime minister, Narendra Modi, was a firm fan, declaring that toilets might be more important than temples. Change occurred; but large gaps remained. Although dry-pit toilets had been banned in 1993, two decades later 9.6m were still hand-emptied in India. In 2020 a fifth of the population still defecated in the open air, lining fields and cuttings as the dawn trains went past and dropped their own load of faeces on the track. And this in a country that was aiming to go to Mars.

Yet Dr Pathak was confident things would improve, if the will was there. One day all Indians, united in cleanliness, would worship together, dine together and bathe in the same pond. Even the likes of his grandmother would sit with the people they had thought filthy, and apply no Ganga water afterwards. ■

Space Economy Summit

October 11th in Los Angeles and October 12th online

Maximising returns to Earth

The burgeoning space economy offers substantial potential for commercial, social and environmental progress. Join us to discover the latest developments and opportunities for growth.



Eileen Vidrine
Chief data and artificial
intelligence officer
US Air Force



Jerry Porter
Chief R&D and innovation
officer, fabric and home
care, flavour and fragrance
Procter & Gamble



Susan M. Gordon
Former principal deputy
director of national
intelligence
US government



Peter Beck
Chief executive
Rocket Lab



Dylan Taylor
Chief executive
Voyager Space



Peter Diamandis
Chairman
X Prize Foundation



Register:
space.economist.com

Stratosphere sponsor

BLACK SKY

Troposphere sponsors

BANK OF AMERICA

LEOLABS

Atmospheric sponsor

MOSSADAMS

Associate sponsor

**DEEP SPACE
BIOLOGY**



"I HUMBLY SEARCH FOR
THE TRUE, THE GOOD,
THE BEAUTIFUL."

YIQING YIN,
HAUTE COUTURE CREATOR, WEARS THE
VACHERON CONSTANTIN PATRIMONY.


VACHERON CONSTANTIN
GENÈVE

ONE OF
NOT MANY.