

# The Economist

An American startup boom

China, Russia and the grey zone

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Economists and God

MAY 18TH-24TH 2024

**IS AMERICA  
DICTATOR-  
PROOF?**





May 18th 2024

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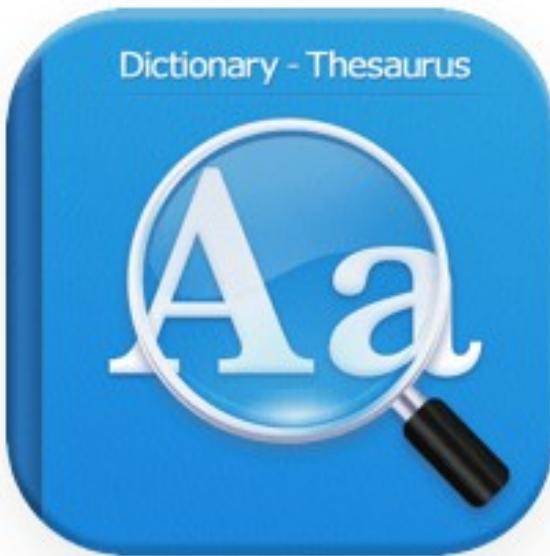


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# The world this week

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The world this week

## Politics

May 16th 2024



AP

In a surprise shake-up of **Russia's** security apparatus, Vladimir Putin moved [Sergei Shoigu](#) from his job as minister of defence, a role he has held since 2012, to the national security council. His replacement is Andrei Belousov, an economist with no experience of security matters but who has worked extensively on military budgets. The changing of the guard will have little effect on operations in Ukraine. Mr Putin prefers to speak directly to Valery Gerasimov, his senior general in the field. Mr Belousov said his task was to achieve victory, but “with minimal human losses”, presumably just on the Russian side.

Mr Putin met his Chinese counterpart, [Xi Jinping](#), in Beijing. It was his first trip abroad since winning a sham election in March. The leaders reaffirmed their support for each other. Mr Xi has been accused by Western officials of propping up Mr Putin’s war machine in Ukraine.

Antony Blinken, America's secretary of state, visited **Ukraine**, where he held talks with Volodymyr Zelensky, the president, about the arms that are being sent to the country following Congress's passage of a military-aid bill. Mr Zelensky said more missile-defence systems were needed. Mr Blinken showed off his guitar skills in Kyiv, joining a local rock band to play Neil Young's "Rockin' in the Free World".

The Russians said they had entered Vovchansk, a border town in Ukraine's north-east close to **Kharkiv**, the country's second-biggest city and where many civilians have sought refuge. Russia has deployed five battalions in its advance into the area, one of its biggest ground attacks since the start of the war.

Robert Fico, the prime minister of **Slovakia**, was shot and seriously wounded while visiting the town of Handlova. The interior minister described the attack as politically motivated. A suspect was arrested. Mr Fico, a populist-nationalist, has sought closer ties with Russia and wants to defang the country's public broadcaster.

## Learning from Big Brother

**Georgia's** parliament passed a law that will require NGOS and media groups that receive at least 20% of their funding from abroad to register as foreign agents. Fighting broke out among MPS as the vote was held. Called the "Russia law" by critics because of its similarity to rules that stifle dissent in Russia, the legislation has brought tens of thousands of protesters out onto the streets. The European Union has warned that the measures threaten the country's chances of joining the bloc.

Pro-independence parties lost their majority in Catalonia's regional election, which for the first time gave the most seats to the Socialists. The result ends more than a decade in power by parties seeking to secede from **Spain**. The conservative People's Party increased its number of seats from three to 15. The Socialists will try to form a coalition government with other parties.

The UN said that 600,000 people had fled Rafah in south **Gaza**, as **Israel** stepped up its incursion into the area. Fighting also intensified in north Gaza, where Israel had been winding down its operations. Meanwhile America's

State Department said it was “reasonable to assess” that Israel may have used American weapons in a way that is “inconsistent” with its obligations under international law, but that there was “no direct indication of Israel intentionally targeting civilians”. The White House moved forward with a plan to send another \$1bn-worth of arms to Israel.

A small group of Israeli protesters vandalised **food-aid** packages that were en route to Gaza from Jordan. America condemned the “looting”. Meanwhile Israel opened a new aid crossing at Erez that the <sup>UN</sup> hopes will enable a constant stream of supplies into Gaza.

Celebrations to mark **Israel's founding** in 1948 were muted. Fireworks were cancelled and the families of the hostages being held in Gaza organised an alternative event to protest against the government’s failure to bring the captives home. Binyamin Netanyahu, the prime minister, was heckled during a speech.

A Swiss court convicted Ousman Sonko, who was interior minister under **The Gambia’s** former dictator, Yahya Jammeh, of crimes against humanity between 2000 and 2016, including murder and torture. Mr Sonko is the highest-ranking official to be convicted in Europe under the principle of universal jurisdiction, whereby a person who commits a crime in one country can be tried and jailed in another.



[Lawrence Wong](#) was sworn in as **Singapore's** prime minister in a carefully crafted handover of power arranged by Lee Hsien Loong, who had held the job for 20 years. Mr Wong retains his role as finance minister, but has relinquished his chairmanship of the central bank to Gan Kim Yong, who is also deputy prime minister.

## Trouble in paradise

Four people were killed during rioting in **New Caledonia**, a French Pacific-island territory, after the French National Assembly passed a law allowing French citizens who have lived there for ten years to vote in elections. Locals fear the law will dilute the political power of the Kanak people.

Several days of protests against rising food and electricity prices left four people dead in Pakistan-administered **Kashmir**. The violence ended after the Pakistani government promised to provide subsidies.

The <sup>UN</sup> said that Flash flooding in northern **Afghanistan** had killed more than 300 people. An exceptionally dry winter has hardened the soil, which takes longer to absorb heavy rainfall. In **Indonesia** scores of people were killed in floods in the province of West Sumatra.

The director of Britain's GCHQ, which handles signals intelligence, said that China, more than Russia or Iran, poses the biggest risk to **cyber-security**. Anne Keast-Butler criticised China's "irresponsible actions". Meanwhile, three men were charged in London with spying for Hong Kong's intelligence agency.

The IMF's staff praised **Argentina's** "better-than-expected performance" and recommended the country receive the next tranche of loans under a bail-out agreement. President Javier Milei has undertaken a number of painful economic reforms and spending cuts; unions recently held a general strike. Argentina's annual inflation rate stood at 289% in April, though the month-on-month rate has eased, allowing the central bank to cut its key interest rate from 50% to 40%.

Joe Biden and Donald Trump agreed to hold two presidential televised **debates**, on June 27th and September 10th. The dates are much earlier than normal in the election cycle and have been arranged outside the auspices of the commission that decides the timings. The candidates may want early debates so that they can recover in the polls if they trip up.

The world this week

## Business

May 16th 2024



Getty Images

Joe Biden imposed another round of tariffs on Chinese exports to America, most notably increasing the duties on [electric vehicles](#) to 100%. America imports relatively few Chinese EVs but Mr Biden suggested his steps were pre-emptive. Chinese carmakers are expanding in Europe, but “We’re not going to let China flood our market,” said the president, with one eye on votes in Michigan, the centre of America’s car industry and a crucial state in November’s election. Tariffs are also going up on semiconductors, solar cells and critical minerals. A furious China described the decision as “political manipulation” and vowed to retaliate.

**Anglo American** decided to break up its business to fend off a revised takeover bid from [BHP](#), valued at £34bn (\$43bn). Anglo will divest its coking coal assets and spin off its platinum and De Beers diamonds divisions. It is also considering the options for its nickel business in order to focus on

copper, iron ore and crop nutrients. The mining giant's headquarters are in London but it employs 45,000 people in South Africa, where it was founded in 1917; the government there will want a say in any demerger or sale process.

The Brazilian government replaced Jean Paul Prates as chief executive of **Petrobras**, the state oil company, with Magda Chambriard, the former head of the energy regulator. Markets took a dim view. The move will be cheered by left-wing politicians who want Petrobras to lower prices and invest more to create jobs.

The competition accelerated in **artificial-intelligence** services. OpenAI updated its chatbot model to GPT-4o (the “o” stands for omni, or all-encompassing). The latest version is able to interpret voice commands to hold a “conversation”. And Alphabet unveiled Project Astra, an AI assistant that also responds to voice commands.

All the energy used to power data centres for AI is causing tech companies' carbon emissions to rise. **Microsoft** reported a 31% increase in its indirect (Scope 3) emissions last year from building more data centres (including the carbon found in construction materials) as well as from semiconductors, servers and racks.

**Tencent** announced a sharp increase in quarterly net profit to 42bn yuan (\$5.8bn), boosted by advertising and e-commerce. The Chinese tech giant's gaming business also showed improvement, which Tencent hopes will be boosted by the forthcoming release in China of “Dungeon & Fighter”, a popular mobile game.

## Hope springs eternal

The annual **inflation** rate in America dipped to 3.4% in April, following two consecutive monthly rises. Investors are poring over every detail of the monthly consumer-price indices for clues about when the Federal Reserve might cut interest rates. The slightly lower inflation data delighted markets, propelling the S&P 500, NASDAQ Composite and Dow Jones Industrial Average to record levels.

Higher prices in **Japan** that are causing consumers to tighten their belts were the main factor behind the economy shrinking by 0.5% in the first three months of the year, quarter on quarter. An earthquake at the start of 2024 also dented output.

**Britain's economy** pulled out of recession in the first quarter of 2024, growing by 0.6% compared with the last quarter of 2023. That was a faster pace of growth than America's 0.4% and the euro zone's 0.3% on the same basis. But compared with the first quarter of 2023, <sup>GDP</sup> rose by only 0.2%.



The Economist

The **meme stocks** at the centre of a day-traders' frenzy during the pandemic came roaring back. GameStop's share price surged by 74% and <sup>AMC</sup> Entertainment's by 78% in a day. The cause was a sudden burst of activity on the Roaring Kitty account on X, which had been dormant since June 2021. Roaring Kitty is the brainchild of Keith Gill, a small trader who posts video clips and images as clues about his investment tips without mentioning the name of the company.

Despite turning a profit in the first three months of 2024, **SoftBank** reported another annual net loss, of ¥228bn (\$1.4bn) for the 12 months ending March 31st. The Japanese tech investment company is banking on <sup>AI</sup> for its future

growth, based on the performance of Arm, a chip designer that floated on the stockmarket in September and in which SoftBank owns a 90% stake.

## Now you can own a piece of Pi

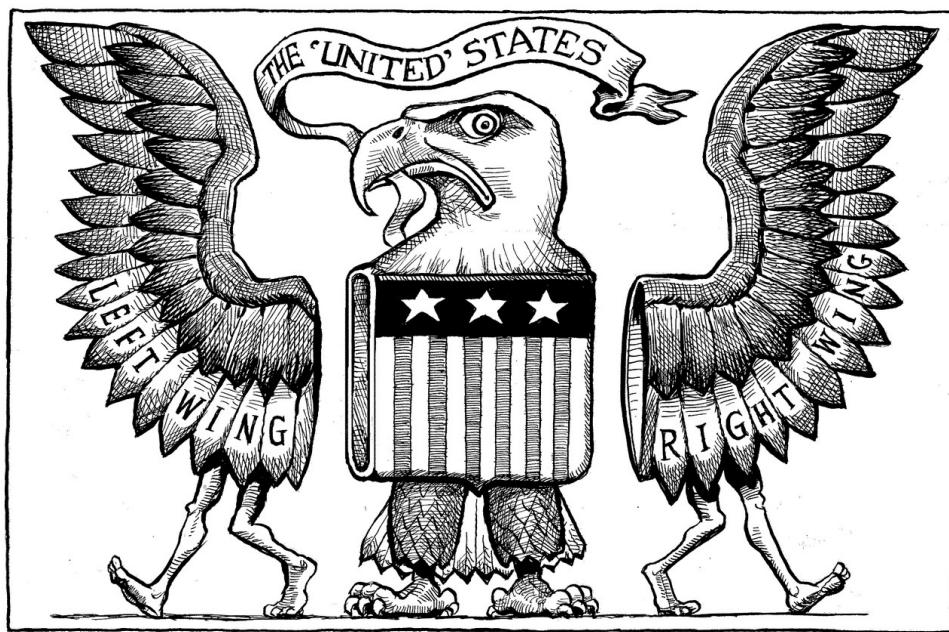
**Raspberry Pi** announced its intention to list shares on the London Stock Exchange. The firm, based in Cambridge, has sold over 60m low-cost single-board computers and modules since it began trading in 2012. It grew out of a charitable foundation to promote the study of computing, allowing children (and their parents) to build their own <sup>pc</sup> and learn coding. It has a dedicated fan base.

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The world this week

## KAL's cartoon

May 16th 2024



Economist.com

Kal

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

[After a season of Gaza protests, America's university graduates are polarised but resilient](#)

[True swing voters are extraordinarily rare in America](#)

[American states are now Petri dishes of polarisation \(Sept 2022\)](#)

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

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# Leaders

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# Is America dictator-proof?

*The many vulnerabilities, and enduring strengths, of America's republic*

May 16th 2024



HOW HAS it come to this? After victory in the cold war, the American model seemed unassailable. A generation on, Americans themselves are losing confidence in it. Feckless war-making, a financial crisis and institutional rot have let loose a ferocity in America's politics that has given presidential contests seemingly existential stakes. Americans have heard their leaders denounce the integrity of their democracy. They have seen fellow citizens try to block the transfer of power from one administration to the next. They have good reason to wonder how much protection their system guarantees them against the authoritarian impulse rising around the world.

The answer is that, if Americans believe that their constitution alone can safeguard the republic from a Caesar on the Potomac, then they are too

sanguine. Preserving democracy depends today, as it always has, on the courage and convictions of countless people all across America—especially those charged with writing and upholding its laws.

As our briefing explains, the [constitutional order is vulnerable](#). A would-be dictator could start off without flouting the letter of the constitution, because later laws have created loopholes big enough for troops to march through. As a young country, America was worried not only about a home-grown despot but also about powerful foes, having just defeated one. Congresses granted the president emergency powers to keep order in times of crisis. Under the Insurrection Act, a president can deploy the army or navy against a domestic uprising or when federal law is ignored. Presidents have invoked this authority 30 times, to break strikes, overcome segregation and, most recently, to stop riots in Los Angeles in 1992.

The Brennan Centre, a think-tank, lists 135 extraordinary powers a president can claim by calling a national emergency—some of the most serious freeze bank accounts and shut down the internet. The president can decide what counts as an emergency. Over 40 remain in force, some years old. Donald Trump invoked one to fund his border wall; Joe Biden, to forgive student loans. Congress is supposed to consider terminating emergencies every six months. It never has. Neither has it removed a president through impeachment.

That makes complacency a danger. And yet so is alarmism, because an emergency, real or concocted, is the strongman's ally. When they believed the American project was at stake, even great presidents asserted extra-constitutional powers. During the civil war Abraham Lincoln suspended habeas corpus; Franklin Roosevelt interned Americans without trial.

Among the biggest constitutional obstacles to dictatorship is the 22nd Amendment, which limits a president to two terms. But what would happen if an iron-willed autocrat stacked the Pentagon with lackeys and, with an army at his shoulder, refused to go? The United States has 247 years of history, but its constitution was copied by several young Latin American republics in the 19th century and they succumbed to strongmen.

The lesson is that what sustains the American project, as with any democracy, is not black-letter laws but the values of citizens, judges and public servants. And the good news is that even the most determined, inventive and organised of would-be despots would struggle to overcome them.

The army remains among America's healthiest institutions, its ranks filled with people mindful of their oaths to the constitution. States have wealth and tremendous authority over their own affairs. The vast majority of police officers work for state and local officials, not the president. The press has become more partisan, but it also prizes its independence, and it remains too diffuse for any one party to control. The next president may increase his power to fire tens of thousands of civil servants, but that would still leave a "deep state" of close to 3m workers spread across hundreds of agencies and 15 departments. These people could cause a lot of trouble.

Americans rightly lament the erosion of norms, yet the abuse of executive power has sometimes led to new ones. After Richard Nixon resigned over Watergate, the Justice Department began to take decisions about investigation and prosecution without regard to a president's wishes. Mr Trump has said he would do away with all that, yet any would-be Caesar who invoked emergency powers or the Insurrection Act would still have to overcome the independence of the courts. A lawbreaker would also have to reckon with the resistance of professional prosecutors and the integrity of juries.

Each candidate for president this year has accused the other of trying to destroy American democracy. But Mr Biden is an institutionalist, with reverence for the old ways of politics. Mr Trump, who has mused about being a dictator, if only for a day, is different. His refusal to concede in 2020 led to the attack on the Capitol on January 6th 2021, and it prompted a record number of lawmakers to oppose certifying the vote. Now Mr Trump's suggestion that he may reject another loss has raised the risk that congressional Republicans try to block certification. For their part, some Democratic representatives have suggested they might not certify a Trump victory, believing that he disqualified himself from the presidency by taking part in an insurrection. Thus can one president's disregard for a norm erode the pillars of the system as a whole.

Mr Trump is surely unequal to the task of turning himself into a dictator, even if he wanted to. He is too easily distracted, scatterbrained and anxious to evade responsibility. The greater danger is that his contempt for norms and institutions further diminishes Americans' faith in their government. That matters, because the American project depends on its people. Barely a quarter of them say they are satisfied with democracy.

They have voted for change time after time, but still their politicians fail to meet their needs. "A republic, if you can keep it," Benjamin Franklin is said to have declared when he was asked, on leaving the Constitutional Convention, whether the founders had created a monarchy or a republic. As an election beckons, it is fair for ordinary Americans to turn Franklin's challenge back on the many state and federal politicians who lead their republic: can they keep it? ■

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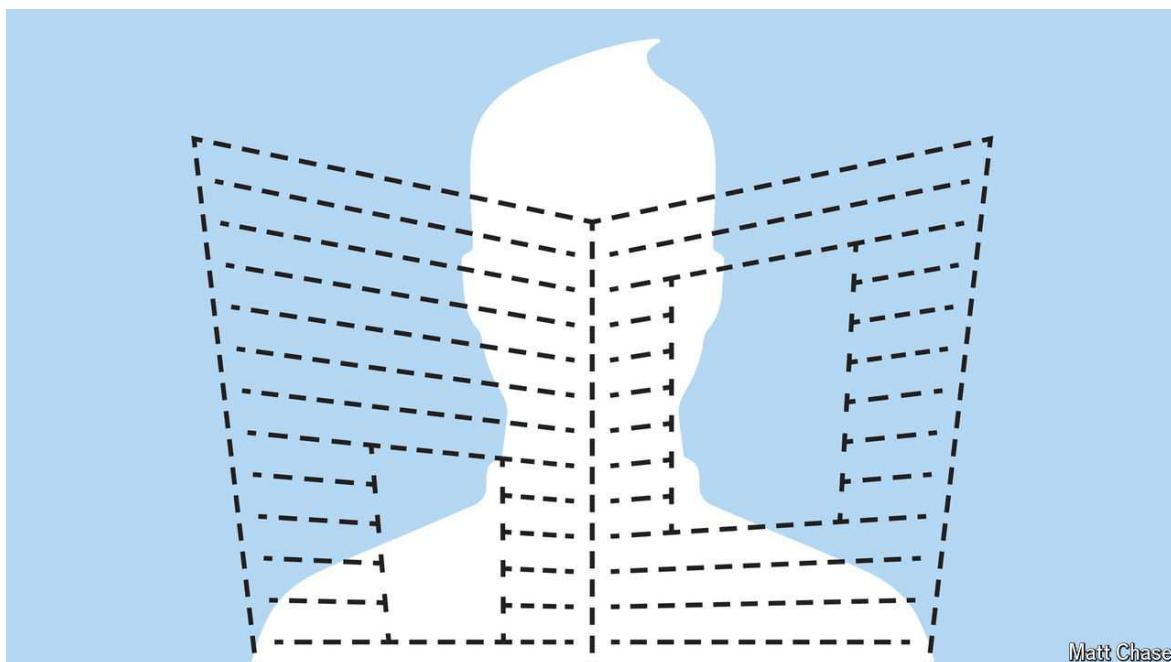
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Leaders | No news is bad news

## Canada's law to help news outlets is harming them instead

*Funding journalism with cash from big tech has become a fiasco*

May 16th 2024



Three years ago journalists took unusual interest in an amendment to Australian competition law. The “news media bargaining code”, passed in 2021, obliged Google and Facebook to pay news outlets when search results or social-media feeds linked to their articles. Some wondered why the tech firms owed publishers money just for linking to their sites. But such doubts were quickly forgotten when the code wrung more than \$100m out of the two tech giants in its first year. Other places rushed to copy it: Brazil, Britain, Canada, South Africa and California have explored similar measures.

The rationale for the bargaining code was always dubious. Forcing one company to pay another for linking to its site undermines a basic principle of the internet, not to mention free speech. It is hard to believe that news outlets are harmed by links to their stories appearing on Google and Facebook, the internet's most powerful discovery mechanisms—especially when most news organisations have teams of people dedicated to making their stories spread as far as possible on the platforms. Nor is it clear why news publishers alone deserve to be paid for links, when no one else is. Bargaining codes look uncomfortably like a shakedown of foreign tech firms, urged on by domestic media sore about being out-competed in the digital advertising market.

Now the codes are backfiring. In Canada, which passed an Australian-style law last year, Google opened its chequebook again. But Facebook's parent company, Meta, called the government's bluff and blocked news links from being shared on its platforms, rather than paying up. For nine months there has been a [news blackout](#) on Facebook and Instagram, where a third of Canadians go to stay informed.

The news ban has been ruinous for the outlets the law was meant to help. Some small sites, which rely on Facebook as their main means of distribution, have lost more than half their audience. It has harmed Canadian readers, too. Some have resorted to sharing screenshots of headlines. Others are posting links to influencers or alternative news sources not covered by the blackout. There are signs of an uptick in misinformation—just as campaigners gear up for a general election next year.

The one party unaffected is Meta itself. Facebook and Instagram are being downloaded and used by just as many Canadians as before the blackout. The company's ad revenue does not seem to have been dented. It has long argued that news is of little value to its platforms, whose users prefer frothier fare; unfortunately for journalists, and perhaps society, that has turned out to be true. Meta is now taking a harder line elsewhere. In Australia, where it reluctantly paid up when the code was introduced, it now says it will not renew its deals with publishers. If a stand-off ensues, it may well calculate that it has nothing to lose from another news blackout.

Canada's government and some news organisations blame Meta for the disastrous outcome there. Ministers have vowed to pursue the company for allowing users to share news through loopholes like screenshots, amending the law if necessary. This is desperate and wrong.

If governments want to subsidise ailing news organisations, they should be honest about it, rather than imposing a spurious duty to pay on a more successful industry. Publishers should drop the comforting fiction that the tech giants stole their advertising revenue unfairly and owe them millions for linking to their stories. And other countries thinking of copying Australia's code should look at Canada's experience, take their draft proposals, and spike them. ■

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**Leaders** | Biden's baleful barriers

# America's 100% tariffs on Chinese EVs: bad policy, worse leadership

*The global trade system is disintegrating as you read this*

May 15th 2024

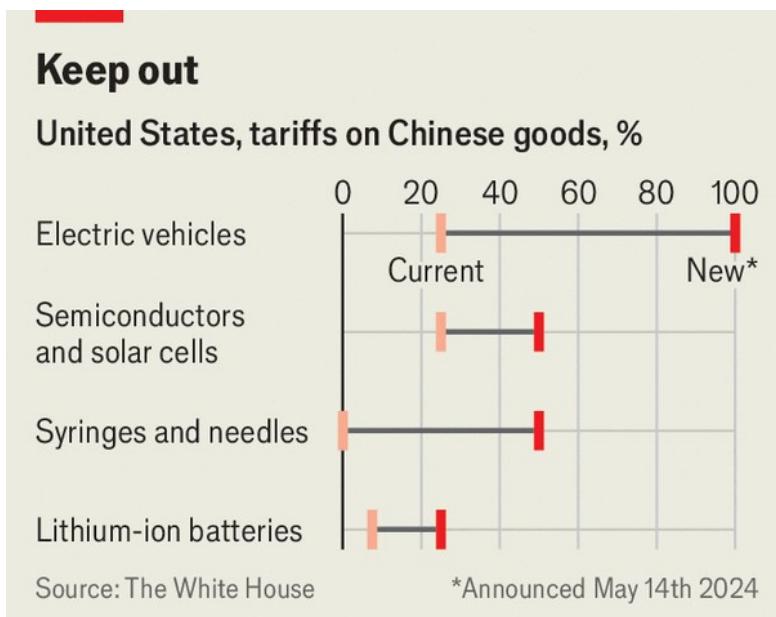


Getty Images

Although it is unfashionable to say so these days, one of the great accomplishments of the past half-century was the remarkable decrease in global tariffs. This reduction, from average levies on imports of more than 10% in the 1970s to 3% today, helped fuel a boom in international commerce and a near-tripling in global GDP per person. The more that countries opened up, the more they flourished. So it is deeply regrettable that President Joe Biden has decided to impose tariffs of 100% on electric vehicles (EVs) made in China.

Because trade benefits consumers broadly, but harms specific workers and companies that are able to organise resistance, it has always carried political

costs. Today those costs loom large in politicians' minds. The consensus required to underpin an open trading system is disintegrating, a process accelerated by the fact that China is not playing fair, as well as the rise of Donald Trump's America-first vision.



The Economist

Politicians in America from both parties argue that they need to increase tariffs on a wide range of goods. China is heavily subsidising its manufacturers, giving them an edge in global markets. And, they add, the security risk of letting in Chinese cars is too great, since EVs are easily tracked and monitored. There is something to these concerns. But Mr Biden's tariffs are a blunt tool for dealing with them and will bring underappreciated economic harms to America and the world.

Return, for a moment, to first principles. As David Ricardo laid out more than two centuries ago and experience has since shown, it makes sense for governments to open their borders to imports even when others throw up barriers. Residents in the liberalising country enjoy lower prices and greater variety, while companies focus on what they are best at producing. By contrast, tariffs coddle inefficient firms and harm consumers.

America learned this the hard way in the 1980s, when Japanese carmakers—in Washington's crosshairs—agreed to quotas, driving up their prices in

America. And for what? The “big three” carmakers continued to churn out clunkers. Today’s American firms fear competition from BYD’s Seagull, some versions of which cost less than \$10,000 in China. Now, they can sell inferior cars for three times the price. This gives American motorists little incentive to [switch to greener wheels](#), as Mr Biden says he wants them to. You might argue that tariffs were inevitable, because America’s green subsidies would otherwise flow to Chinese firms. That is true, but it shows how one inefficient policy leads to the next.

Even less excusable is how the Biden administration went about imposing its tariffs. Governments are rightly keen to manage the political costs of trade. That is why the rules-based trading system has mechanisms against unfair competition. Although economists welcome cheap imports, politicians can fight back if they worry that an influx would hurt specific industries and towns. Since the second world war, America has generally used the power of example to establish the trade-off between economic efficiency and political reality.

No longer. The latest tariffs reject such mechanisms. The administration could have set out how Chinese EVS had gained from huge subsidies and then hit them with calibrated countervailing duties. It could have documented the security threat it claims they pose, rather than offering scary conjectures. Instead, it covered its protectionist aims with a fig-leaf: the new tariffs were put on top of Mr Trump’s, which were themselves originally justified by China’s theft of American technology. How farcical. The real fear about Chinese EVS today is not that they are stealing from America, but that they have left American cars in the dust.

America’s blatant disdain for the need to make a rigorous case has dangerous consequences. At home it invites more firms to seek protection. Republicans and Democrats are already vying to offer the steepest barriers: Mr Trump has warned that he will put tariffs of 200% on cars made by Chinese-owned plants in Mexico. Abroad, protectionists will follow suit as China exports its surplus around the world, dealing another blow to the trading system that America once championed. Brazil is increasing tariffs on EVS and the European Union may soon do so, too. America is still leading global trade policy—but in the wrong direction. ■

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**Leaders** | The challenge posed by China

# **Xi Jinping is subtler than Vladimir Putin—yet equally disruptive**

*How to deal with Chinese actions that lie between war and peace*

May 16th 2024



Getty Images

TWO YEARS after Xi Jinping declared a “no limits” partnership with Vladimir Putin, and as the leaders meet again in Beijing on May 16th and 17th, the world is getting a good look at what China’s approach means in practice. It is not pretty. As we explain this week, Chinese firms are sustaining Mr Putin’s war in Ukraine by selling Russia items needed to make weapons. China’s coastguard is bullying vessels in the South China Sea, enforcing its bogus territorial claims. And China’s spies are allegedly meddling in Britain and elsewhere.

Mr Xi’s challenge to the world is more subtle than that posed by the warmongering Mr Putin. Yet it is still a problem. He craves a might-makes-

right order, letting China do as it pleases. Its support for pariah states is meant to defy and divide the West, while avoiding a direct clash. Its “[grey-zone coercion](#)” in the South China Sea falls short of war, but is intended to weaken foes. China thinks these tactics can be sustained without tipping into conflict. The question for any country that supports global rules is how far to let Mr Xi go.

When it comes to Russia, China’s leader has already gone quite far. Mr Xi ignores Western pleas that he tone down his support for Mr Putin, viewing Russia as an [indispensable partner](#) in his campaign to dismantle the American-led order. The two countries have been deepening their military and trade ties. America, in turn, has been tightening sanctions, and [imposing tariffs](#) on China in other areas. Of most concern are Chinese components and machinery flowing to Russian arms manufacturers. Antony Blinken, America’s top diplomat, has said that Russia would struggle to carry on in Ukraine without China’s support. China is not a participant in the crisis, nor a party to it, bristles Mr Xi. But a long war that tests Western unity is to his advantage.

On the other side of the world, it is the risk of a conflict caused by China that worries America and its allies. The South China Sea is larger than the Mediterranean, but increasingly difficult to cross without encountering Chinese coastguard vessels doing dangerous things. Near two disputed shoals, Chinese guardsmen routinely blast Philippine vessels with water-cannons powerful enough to bend metal. Farther south, Chinese vessels harass Malaysian ships looking for oil and gas in Malaysia’s exclusive economic zone, waters that China calls its own.

The Philippines’ defence treaty with America turns Chinese bullying into a superpower stand-off. The stakes are as high over Taiwan, which is preparing to swear in Lai Ching-te as its new president on May 20th. China increasingly acts as if the island’s air and maritime boundaries do not exist. America and its allies have been preparing for the worst-case scenario: a Chinese invasion of Taiwan. But for now the bigger danger lies in the grey zone, where Chinese actions risk causing a spiral of escalation.

By design, China’s actions in Europe, Asia and elsewhere often lie between war and peace. A forceful response risks seeming like an over-reaction.

Doing nothing, though, means ceding incremental gains to China. So the first task is for Western countries to expose China's actions for what they are: a glimpse of the world order that Chinese leaders seek, in which no country cares, or dares, to challenge their power. Shining daylight on China helps avoid complacency. (Before the invasion of Ukraine, European states took too long to believe American warnings about Russia's malign intentions.) And information can shift public opinion. Polls in some countries that are a target of China's bullying suggest growing distrust.

That all makes a second task easier. America must stand by its allies, not as an act of charity, but because they are a superpower asset that China lacks. Relentless Chinese and Russian attempts to divide alliances, from <sup>NATO</sup> to America's defence network in Asia, are a backhanded compliment. Autocrats respect strength, and there is strength in numbers.

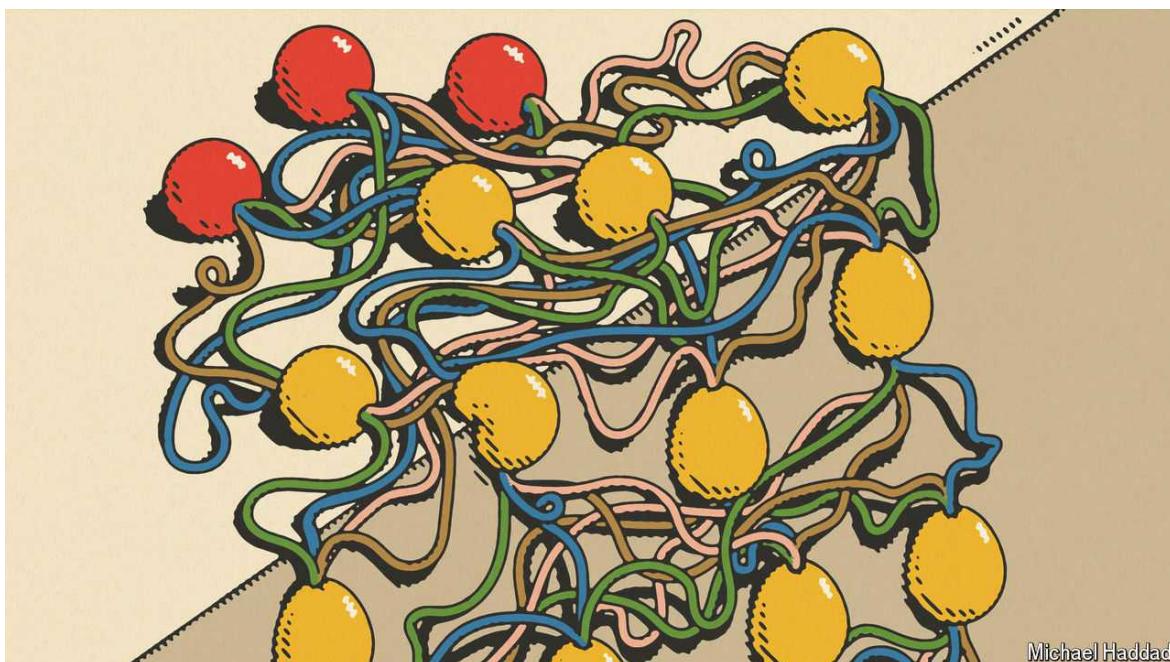
Last, the West needs to exploit the fact that Mr Xi's country has a stake in stability. China's leader is not about to abandon Mr Putin. But unlike his Russian friend, he does not gain from chaos. Mr Blinken has credited China with persuading Russia not to use a nuclear weapon in Ukraine. Nor has China supplied it with lethal weapons. There are, in fact, limits to their relationship, just as there are lines that China seems reluctant to cross in the South China Sea. Naive dreams of changing China lie in the past: its every-country-for-itself worldview is all too clear. But Mr Xi's calculating approach to the world is an opportunity, too. As China's economy slows, it has an interest in avoiding a complete break with the West. The best way to temper Mr Xi's aggression and grey-zone bullying is to show that it comes with costs. ■

Leaders | A trillion-dollar AI arms race

# Big tech's capex splurge may be irrationally exuberant

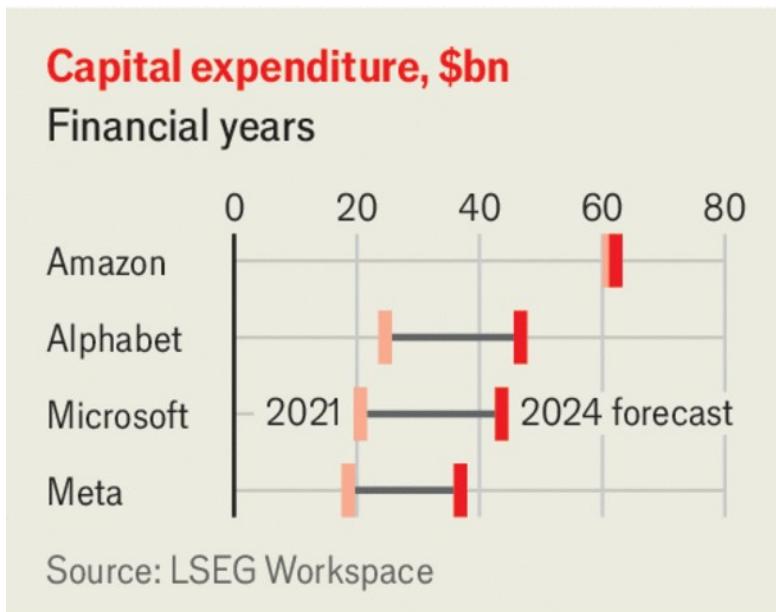
*Beware of overhype and overbuild*

May 16th 2024



From the 19th-century railway mania to the telecoms boom at the dawn of the internet age, cautionary tales abound of over-investment in infrastructure fuelled by excitement over a new technology. With the rise of generative artificial intelligence (AI), history is repeating itself. In recent weeks four tech giants—Alphabet, Amazon, Meta and Microsoft—have pledged to spend close to a total of \$200bn this year, mostly on data centres, chips and other gear for building, training and deploying generative-AI models. That is 45% more than last year's blowout. Tech barons such as Meta's Mark Zuckerberg admit that it may be years before this investment generates returns. It is an AI arms race.

The tech firms are not only buying infrastructure. In the past few years they have joined a stampede to put venture capital (<sub>vc</sub>) into OpenAI, Anthropic and other makers of foundational models. Traditional <sub>vc</sub> firms bellyache that they have not seen such corporate big-fooding since the dotcom boom. The tech giants are flush with cash—they can afford to splash out. But, if the past is any guide, a bust is coming and the firms carry such weight in the stockmarket that, should their overexcitement lead to overcapacity, the consequences would be huge.



The Economist

History is illustrative. In the early days railway track was laid for locomotives that were soon superseded by more powerful ones. As the rolling stock grew heavier, lines had to be replaced with sturdier stuff. During the 1990s telecoms firms increased capital expenditure by three-and-a-half times and laid 600m km of cable, according to Morgan Stanley, believing that people would be willing to pay high fees to go online. But users thought the internet should be free. The bank draws an analogy with today's data centres, which may be ill-equipped to cope with increasingly powerful graphics-processing units, the chips used to train and run generative AI. The tech giants' assumptions about people's willingness to pay for chatbots and other whizzy "gen-AI" tools may be just as misplaced.

All the signs are that big tech has succumbed to irrational exuberance. Runaway spending is one of the risks. Wall Street is already pencilling in expectations that the four firms' capex could come to an eye-popping \$1trn over the next five years (Apple is taking a more cautious approach). Revenues may rise as a result, but so will costs. These include juicy salaries for brilliant engineers and mammoth electricity bills for data centres that can handle the heavy demands of generative AI. Even now, investors are lukewarm about such gambles. In recent weeks they have applauded Google's capex plans but thrown cold water on Meta's. Given the way Mr Zuckerberg and others have blown money on Pharaonic projects before, they have good reason to be jittery.

Another risk is that models will be commodified. The cloud-computing "hyperscalers", namely Alphabet, Amazon and Microsoft, have built and invested in large proprietary AIs that are considered state-of-the-art. They also run smaller, open-source alternatives, including those made by Meta, which are getting better and cheaper. Hugging Face, a hub for AI enthusiasts, lists more than 650,000 models. The more market share these take from the large proprietary models, the lower the likely returns on investment.

A last risk is that scale brings diminishing returns. With more computing power and data, the giants' models are getting bigger. But nobody should assume that they will get proportionally better as more money is thrown at them. On May 13th OpenAI launched a new version of its GPT-4 model, called GPT-4o. It is faster and its linguistic skills mean that you get more chat for your GPT. But it was not the brand new GPT-5 that some wonks had hoped for. Will ever-bigger models pass the bang-for-the-buck test?

As in any arms race, the driving force behind the spending is as much defensive as offensive. None of the four wants to be left behind, lest it fall victim to disruption. Fortunately, the damage to society at large is likely to be limited. As with railway tracks and telecoms cables, overcapacity makes things cheaper. In many infrastructure booms, the benefits accrue to the users more than to those who lay the foundations. Do not be surprised if that happens again. ■

**Leaders** | Five more years?

## Volodymyr Zelensky's presidential term expires on May 20th

*What does that mean for his country?*

May 16th 2024



Imago

ABRAHAM LINCOLN won a presidential election in civil-war-torn America in 1864, and <sup>FDR</sup> secured his fourth term in 1944 while American troops were in action across the globe. Winston Churchill, by contrast, avoided the electorate until the war in Europe was over in 1945, at which point he was turfed out. Holding an election when enemies are occupying your territory or raining bombs on it, and when huge numbers of your citizens are away fighting, is tricky. Not holding one is tricky in a different way, opening those in power to the charge of illegitimacy. That is the bind that Ukraine's president, [Volodymyr Zelensky](#), finds himself in, as his five-year term expires on May 20th. He cannot hold elections now, but he must prepare to hold them eventually.

Ukraine's constitution is confusing. Article 103 states that the president is elected for a five-year term; but Article 108 says that he or she exercises power until a new president is inaugurated. A longstanding law (though not a constitutional provision) says that elections cannot be held when martial law is in force, as it has been in Ukraine since Russia began its full-scale invasion in February 2022.

[Read more of our recent coverage of the Ukraine war](#)

Russian propagandists will crow that Mr Zelensky is “illegitimate” after May 20th, tactfully ignoring the pantomime of Vladimir Putin’s re-election earlier this year. Ukraine’s Western backers and most jurists insist that Mr Zelensky’s position is nothing to worry about. In Kyiv, though, the president’s enemies mutter that the situation is untenable, and there are rumours of senior resignations or even (though this seems fanciful) of a coup.

The fighting could last for years, which means martial law could, too. On May 12th Mr Putin fired his defence minister, Sergei Shoigu, replacing him with a technocrat; a sign that he expects a long war of attrition and wants a better military-industrial base with which to sustain it. As long as he is not losing, which for now he is not, war suits Mr Putin: it is his most persuasive excuse for the repression that keeps him in power.

As the war drags on, Mr Zelensky’s popularity will be tested further. Already his star power is waning. Some Ukrainians wonder if a different leader could have fought more effectively, or found a way to negotiate some kind of peace. The president insists his aim is still to recover all of Ukraine’s lost land, which seems unachievable. The government is under fire for alleged corruption and the centralisation of power in the hands of a tiny circle. It has bungled the mobilisation of fresh troops: many front-line units are down to 70% or so of their strength. After a long delay, a new conscription law is in place, but it will take months for its effects to be felt on the battlefield.

In principle holding elections would buttress the legitimacy of Ukraine’s government, improve accountability and ensure that the country’s liberal character is preserved. But holding them now is impractical. The Russians

are pressing on. Heavy missile barrages that restarted in March have knocked out most of Ukraine's non-nuclear power generation, causing rolling blackouts. And on May 10th Russia launched a push back into Kharkiv province, from which it was expelled by the Ukrainians in September 2022. Its objective is not yet clear; one aim may simply be to force Ukraine to pull troops back to defend the country's second city, making it easier for Russia to make gains in the Donbas region farther south. Another may be to bring artillery within range of the city and make it uninhabitable.

Ukraine should be able to resist, and in the coming months it will be bolstered by a new package of military and financial aid approved by America's Congress in April. But still, Mr Zelensky needs to address rather than evade the questions raised by the end of his formal presidential term. He should acknowledge that he needs eventually to hold an election, and lay out plans for how one might be organised. It will be hard: Russia will doubtless bar voting in areas it occupies and bomb polling booths in areas it doesn't. But a country as ingenious as Ukraine can surely find ways to give its people a proper say in how they are governed. One of the many reasons why they don't want to be swallowed by Russia is that Russians under Mr Putin have no such choice. Rather than suspend democracy indefinitely, Mr Zelensky should lay out plans to strengthen it. ■

# Briefing

- America's democratic system is not as robust as it seems

Briefing | In the worst case

# America's democratic system is not as robust as it seems

*Why America is vulnerable to a despot*

May 16th 2024



Harol Bustos

PRESIDENT OF THE UNITED STATES is a coveted job, at least among a certain type of power-crazed geriatric man. America's founders nearly made the office more exalted still. John Adams, the first vice-president, thought the president should be known as His Elective Majesty or His Mightiness. The Senate endorsed another form of address: His Highness, the President of the United States and Protector of their Liberties. But the House of Representatives rejected grand titles, and George Washington went along with it to dispel claims that he had monarchical ambitions. The accusations flew anyway, and have been repeated whenever one party dislikes what the president is up to, which is to say most of the time.

Novelists have taken such fears further, imagining the overthrow of American democracy by a charismatic dictator: President Buzz Windrip in Sinclair Lewis's "It Can't Happen Here" (1935), Nehemiah Scudder in Robert Heinlein's sci-fi series "If This Goes On" (1941), Charles Lindbergh in Philip Roth's "The Plot Against America" (2004). President Scudder, a preacher-turned-politician from the boondocks, wins the election of 2012. The election of 2016 is then cancelled.

As November's election draws near, it is not just novelists who are imagining similar scenarios. Democrats see Donald Trump as a would-be tyrant because of his attempt to remain in office after losing the election of 2020. Mr Trump, for his part, denounces Joe Biden, who won the election despite Mr Trump's scheming, as a usurper. Mr Trump claims Mr Biden is abusing his authority to initiate bogus legal proceedings and so get Mr Trump locked up. Mr Biden, together "with a band of his closest thugs, misfits and Marxists", is trying "to destroy American democracy".

Mr Trump's efforts to overturn the election flopped, the courts regularly overruled his administration and, even if he is re-elected, he will be limited by the constitution to just one more term. Even so, some of his critics argue that America's democracy is vulnerable, and dismiss those who say otherwise as naive. Last year Robert Kagan, a former foreign-policy adviser to various Republicans, wrote an essay for the *Washington Post* arguing, "There is a clear path to dictatorship in the United States and it is getting shorter every day." It is not just Mr Trump's opponents who talk this way. One of his former cabinet secretaries observes, "The constitution works because it's employed with rules and norms that we all abide by." Mr Trump, in his view, "will and has continued to erode those rules and norms" and is therefore "a threat to democracy as we know it".

The former president, who likes to comment on his actions as if he were an observer of them, has joined in the debate. Last year he was asked on Fox News whether he would be a dictator were he to be re-elected. Mr Trump entertained the idea before dismissing it. As so often with him, it was hard to know which of his conflicting statements to take seriously, if any. In a less theoretical sense, the Supreme Court is weighing whether and under what circumstances presidents can be prosecuted. At least some of the justices

will probably agree with Mr Trump's view, "You can't have a president without immunity."

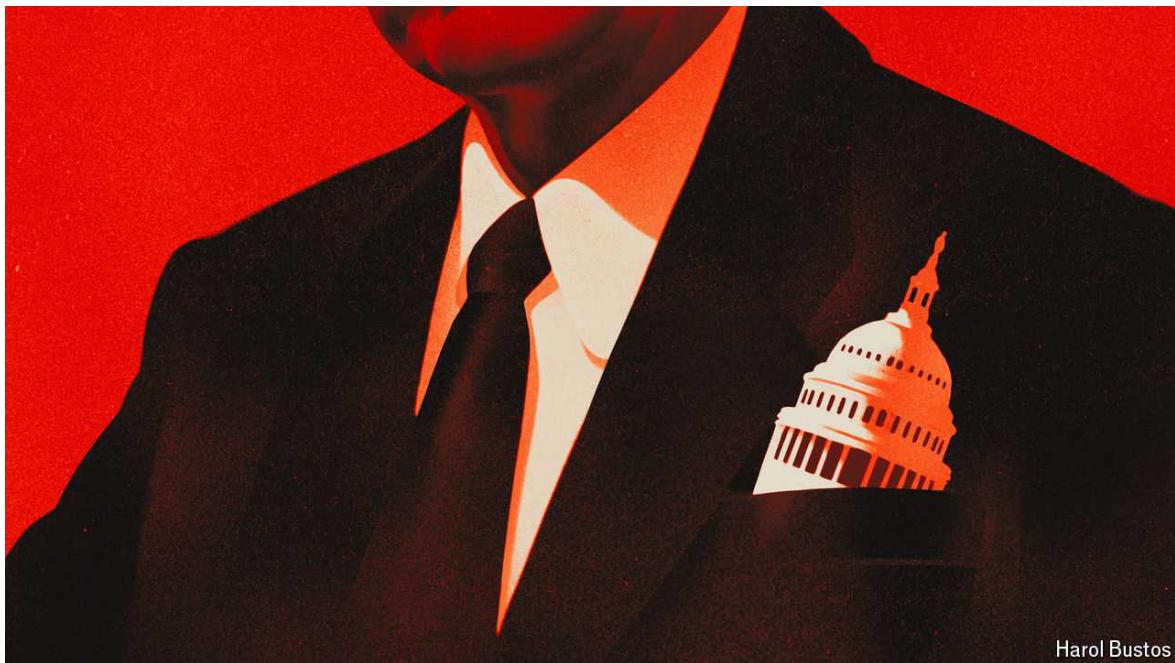
## Make authoritarianism great again

When thinking through what a second Trump term would bring, it is hard to avoid veering into either hysteria or complacency. It is likely, given Mr Trump's instincts, past behaviour and dominion over his party, that he would further degrade democracy in a second term. But assessing the probability of the worst-case scenario is impossible. There is another way to ponder how bad things could get, though, which is to depersonalise the analysis. Setting aside the unknowable—what Messrs Trump and Biden truly intend and how far they are prepared to go—what are the constraints on the presidency, whoever holds the office? If someone became president who had the administrative dexterity and fixed resolve to undermine the constitution (descriptions that probably do not fit Mr Trump), how much damage could he or she do? Or, to put the question in more alarming terms, how dictator-proof is America?

For most of the first century of presiding, the idea that one man could rule the country seemed absurd. The office was too weak for that. Under Washington the entire executive branch consisted of four cabinet secretaries and five actual secretaries. It was not until after the first world war, when the federal government had grown dramatically and fascists and communists were taking over European democracies, that the question started to seem relevant and the idea even vaguely plausible. By the end of the second world war the number of federal employees had increased to 2.5m. In the 1940s and 1950s it became common for Americans to refer to their president as the "commander-in-chief". An office that originally came with a handful of staff now presided over millions, not to mention a button that could destroy other countries and invite America's destruction in return.

Even as the power of the president has vastly increased, the legal constraints on the exercise of that power have not grown in proportion. There have been just two significant constitutional amendments that might curb a president running amok: that no president can be elected to more than two terms (the 22nd Amendment) and that the vice-president will take over if the Congress

decides the president is incapacitated (the 25th). Neither restricts the day-to-day exercise of presidential power.



In the inter-war years, dictatorship had a certain chic among elite Americans. Eleanor Roosevelt suggested to her husband that the country might need a “benevolent dictator” to drag it out of the Depression. “If ever this country needed a Mussolini, it needs one now,” declared a senator from Pennsylvania. This sort of talk was only silenced by the attack on Pearl Harbour.

That nothing like the dictatorships imagined by Lewis, Heinlein or Roth has happened is largely owing to the fact that nobody like Windrip, Scudder or Lindbergh has ever been elected president. Civics classes teach that it also has something to do with the constitution. America is so big and political power so diffuse, with so much authority devolved to the states, that one-man rule still seems impractical as much as anything. Military coups—dictators’ most common route to power—are nigh on impossible in America. The army is among the healthiest political institutions in the country, with leaders who are determined to stay out of politics. The vast majority of police officers work for state and local governments, not the president, so repression by a police state would be hard to organise, too. That sort of tyranny can safely be discounted.

The courts are independent and wilful—even the one where three of the nine justices were appointed by one of this year’s presidential candidates. The press is too diffuse for one party to control along the lines of Viktor Orban and his Fidesz party in Hungary. Even with a determined assault on the federal bureaucracy of the type that some Trumpy think-tankers have in mind, getting any organisation that employs 25,000 lawyers to do one person’s bidding is hard. Both the current and the former president have seen relatively mundane policies slow-walked or thwarted by procedural challenges: imagine what would happen if the president tried to cancel the 2028 election.

Many of these restraints depend on democratic habits and norms rather than on what is written in law. Some of the most important conventions curbing the presidency are younger than the people currently competing for the office. The notion that the Department of Justice cannot just do the president’s bidding has existed only since the disco era. As the people in office change, norms can change with them, leaving the constitution, acts of Congress and the Supreme Court as a backstop. This is where things get more worrying.

## **Start the steal**

The civics-class view of American government depicts the constitution as a far-sighted and masterful protection against tyranny. Yet replicas of America’s constitution have been adopted in other countries and failed to keep tyrants at bay. In the 19th century Latin America’s new republics copied the template—federalism, a supreme court, a legislature and a president—and their democracies were overturned by men with guns. In the 20th the Philippines cut and pasted America’s constitution, yet Ferdinand Marcos managed to undermine democracy and install himself as a strongman ruler for more than 20 years. In contrast, where America has helped set up parliamentary systems, such as in Iraq, Italy and Japan, the institutions have endured. That prompts a heretical thought: what if America has been dictator-proof despite the constitution, rather than because of it?

The civics-class interpretation of the constitution dwells on the checks and balances that prevent any part of the government from becoming too

powerful. Yet the most explicit check on the president, impeachment, does not work. Although three presidents have been sent by the House for trial in the Senate (Mr Trump twice), the upper chamber has never actually removed one from office. Even when Mitch McConnell, the Senate majority leader at the time, said Mr Trump was “practically and morally responsible” for the mayhem of January 6th 2021, he and his colleagues decided against removing him from office. The reason he gave was that Mr Trump had clearly committed a crime and that the right place to prosecute him was in the courts. But the January 6th trial, much delayed and on questionable legal ground, shows how uncertain the legal system’s capacity to limit presidential power is.

Jack Smith, the prosecutor in the case, is pursuing an untested legal theory that the president was part of a conspiracy to defraud the United States. Before the case can go further, the Supreme Court has to decide when the president is and is not immune from prosecution, a question the constitution does not help with. Mr Trump’s legal team has backed away from its initial claim that a president should have immunity even if he were to have a political rival assassinated. Its new position is that presidents are immune from prosecution when performing their official duties—a view some members of the Supreme Court seem minded to accept. But it is the things done in an official capacity that are the most worrying for the country, not small acts of personal corruption or feuds with rivals. If presidents are immune from prosecution for what they do as president, and if they have political immunity because impeachment is not a real check, then they are above the law.

This was not part of the original plan. The Founding Fathers did not anticipate the rise of partisanship, which has hollowed out the impeachment clause. Some of the powers early Congresses handed the president, though, were designed to make what Americans would now call autocracy a bit easier. Although the Founders wanted to prevent a home-grown dictator, they had also just lived through a war for independence against a powerful enemy and wanted to give the president the means to maintain order in times of crisis.

The Brennan Center, a think-tank at New York University, has identified 135 statutory powers that accrue to the president when he declares a national

emergency. These include things like the power to freeze Americans' bank accounts or, under a law giving the president emergency powers over communications that was passed in 1942, to shut down the internet (which thankfully would be pretty hard in practice). In theory Congress is meant to review and potentially revoke the president's declarations after six or 12 months. In practice it is casual about curtailing them. Over 40 emergencies are currently in force. Some of them are more than a decade old.



In wartime, emergency powers have been used to close down newspapers (under Woodrow Wilson), to suspend the right to a trial before being locked up (Franklin Roosevelt) and to justify surveillance of Americans and torture of foreigners (George W. Bush). But plenty of these powers can be used even when the threat to the nation is remote. An emergency is an emergency when the president says it is and his lawyers agree. Most emergencies are declared to deploy federal resources when there is a natural disaster, which is how the power should work. But as it has become harder to pass legislation, presidents have found this escape route too tempting to leave unexploited. Mr Trump's border wall was built under emergency authority. President Joe Biden's forgiveness of student debt, which has cost 0.6% of GDP so far, was also done under emergency presidential authority.

Presidents Windrip, Scudder and Lindbergh had something more sinister than wall-building or student-loan forgiveness on their minds when they seized power, though. To get closer to the nightmares imagined in those novels probably requires troops on the streets. Here, too, the past is not wholly reassuring. There have been close to 70 occasions in American history when state or local governments have declared martial law. Despite some contemporary worries about the possibility of a repeat, what is mainly striking about this variant of emergency power is how it has fallen out of fashion. The last time martial law was declared was in Cambridge, Maryland, in 1963 to quell unrest after a cinema forced black moviegoers to sit in the back rows of the balcony. The Maryland National Guard stayed for a year.

Nowadays the deployment of troops and suspension of liberties on American soil by the federal government is hard to imagine. Yet if a tyrannical president wished to do so, he would have the power to send in the troops under the Insurrection Act. This law, dating from 1807, gives the president the authority to deploy the army or the navy in the case of a domestic uprising or where federal law is being ignored. The act states that this can be done when lawful, without defining when that means. “It’s a loaded gun for any president. There are practically no constraints,” says Jack Goldsmith, a former attorney-general and current scholar of presidential power who is part of an effort to reform the act.

Armed with the Insurrection Act, what could a determined, malign president do? The law has been used to break strikes, to desegregate the South and, under George H.W. Bush, was invoked during race riots in Los Angeles in 1992. Mr Trump may have considered using it in 2020, when some protests turned violent after police in Minneapolis killed George Floyd, a handcuffed black suspect. In the end, despite a call from a Republican senator to do so, he demurred. “He understood that the Insurrection Act is a break-glass thing,” says a former senior official in the Trump administration. “And anyway, the Department of Defence is not in a rush to operate against American citizens.”

## **Lock whoever up**

Mr Trump's contemporaries at the New York Military Academy, which he attended as a teenager, recall drills, occasional sadism and votes for the school's "lady's man of the year"—the first election that Mr Trump ever won. The place appealed to wealthy parents who thought their children could use some military discipline. It was also favoured by Latin American dictators, who presumably thought their offspring would learn valuable lessons in the exercise of authority. The former and perhaps future president has ignored election results he does not like, encouraged mob violence and mused about using the National Guard to deport millions of migrants who are in the country illegally. His disciples are better prepared for office than before. There is no clear limit to what his party will accept from him. That, in turn, means that some Democrats are prepared to disregard norms to prevent him from returning to power, a dynamic that, unchecked, leads to mutual destruction.

And yet scholars of democratic decline—thanks to the 45th president, a booming field—point out that the most dangerous moments for government by the people are during a crisis, which a president may exploit to seize extraordinary powers and then not let go. When faced with two such crises during his presidency—covid-19 and nationwide protests after Mr Floyd's murder—Mr Trump retreated into commentator mode, pointing out what a poor job everyone else was doing. Even his worst acts as president, such as the pressure on Georgia's secretary of state to stuff ballot boxes on his behalf, were more improvised chaos than cunning subversion. He wondered out loud about shooting protesters in 2020, but didn't do so. A more disciplined despot-in-waiting (or a more malignant version of Mr Trump), however, would have ample scope to subvert America's democracy. Partially by design, America is not dictator-proof. ■

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# United States

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United States | Spreading like a weed

## Marijuana is already legal for a majority of Americans

*National prohibition has not stifled budding entrepreneurs*

May 16th 2024



Getty Images

From the outside, the production facility in Webberville, a small town in central Michigan, does not look like much. The bare warehouse could be any sort of industrial facility. Even the sign with the company name, c3 Industries, does not give much away. But for those of a certain disposition, getting the chance to enter would be a bit like winning a golden ticket to Willy Wonka's factory. For this facility is one of America's larger cannabis-production facilities. Within its walls are roughly 125,000 square feet of greenhouses, filled with thousands of spiky plants, each with a distinctive yellow tag hanging from it. Sneak away and taste the product and you will not literally float like Mr Wonka's visitors. But it might feel like it.

In a year the factory will produce 40,000 pounds (18,100 kilograms) of weed, with fewer than 100 workers. All manner of high-tech wizardry is involved. In the greenhouses temperature, light and moisture are all automatically adjusted. At harvest, threshing machines separate the bud, leaves and stems. Distillation machines heat some of the produce to break out pure <sub>THC</sub>—the primary active ingredient of marijuana. Another machine automatically mixes this with glycerin to make vape juice. All through the process those yellow tags follow the produce, allowing officials to trace the provenance of any cannabis product made in the factory.



The Economist

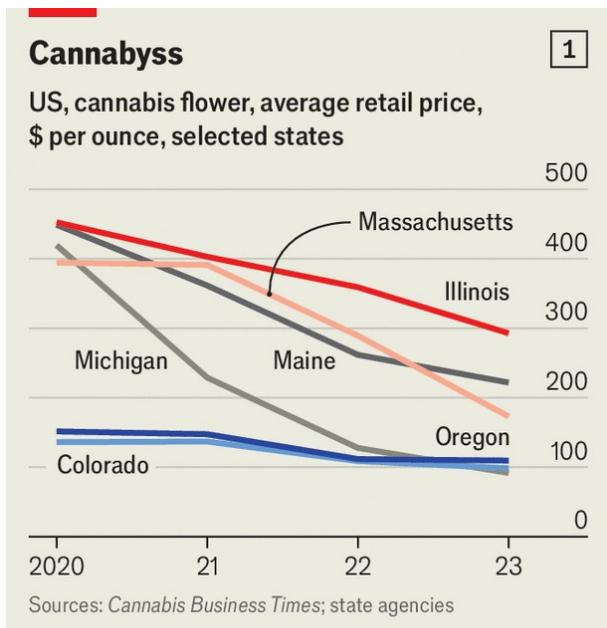
The legal cannabis industry in America—indeed, worldwide—is barely a decade old. At the start of 2014 adults could not legally purchase weed simply to get high, rather than to ease pain, anywhere in America. Recreational use is now legal in 24 out of 50 states, home to just over half of Americans (see map). Medical use is legal in 38. By the end of this summer, the first recreational dispensaries ought to have opened in Ohio, which legalised possession at the end of last year. In November voters in Florida will decide whether to end the prohibition there (though a daunting 60% vote-share is needed for the measure to pass).

This constitutes a colossal experiment. With the sole exception of Canada, which followed many American states in legalising the drug in 2018, no

other rich country has embraced legal weed quite like America. And yet in the eyes of the federal government, cannabis remains a dangerous, illegal narcotic. On April 30th the Justice Department announced that it will recommend that the drug be reclassified in such a way as to recognise some legitimate uses. But legalisation remains a distant dream. Instead, the experiment is playing out state by state, in a way more reminiscent of the 19th century than the 21st. Not everywhere is getting it right.

c3 Industries, with its factory in Michigan, is a good firm to look at, because it is one of perhaps two dozen or so that represent the most likely future of cannabis in America. The company was founded in Michigan in 2018; it now operates in five states in the Midwest and north-east, with one more, Connecticut, on the way. Its founders, Vishal and Ankur Rungta, the president and CEO respectively, brought the ability to raise large sums of money. Both previously worked at Moelis & Company, an investment bank. Vishal has also worked at Google and TPG, a private-equity firm. But, crucially, both were also, as Ankur puts it, “involved in the cannabis culture” long before legalisation. They are blazers who wear blazers.

Many states levy hefty taxes on legal weed, while also imposing extensive and costly regulation—such as those track-and-trace tags. Even the biggest legal cannabis firms are generally stuck dealing with small, regional banks, and their deposits are not federally insured. Loans are hard to come by and firms cannot raise equity on American stock exchanges—forcing those that want to go public to do so in Canada. Legal producers have struggled to compete with the illicit market.



The Economist

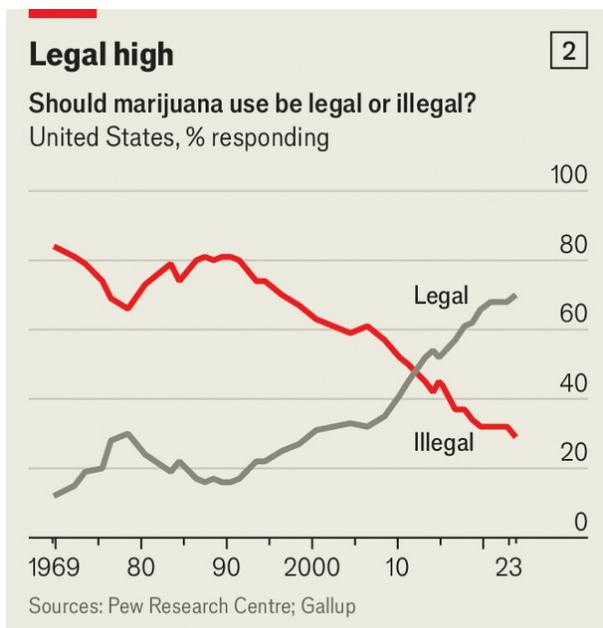
That, however, is beginning to change. Inhalation has defied inflation, as mechanisation has lowered prices. “It is a commoditised marketplace,” says Ankur. “Cost of production is critical.” In Michigan the cost of an ounce of legal weed (28g) has fallen from over \$400 in 2020 to around \$90 now (see chart 1). That is cheap enough to compete with the illicit market, say Robin Goldstein and Daniel Sumner, economists who have studied the cannabis industry extensively. Where weed remains illegal, in states like Texas, much of what dealers sell is now grown legally elsewhere and smuggled in. In nine states weed taxes now raise more revenue than liquor taxes.

What does this mean for America at large? In 1980 Ronald Reagan declared that cannabis was “probably the most dangerous drug in the United States”. Yet legalisation has not produced an obvious public-health crisis. Data gathered by the Substance Abuse and Mental Health Services Administration, a federal agency, suggest that use of the drug has increased only modestly. In 2014, 44% of Americans over the age of 12 said that they had tried the drug. By 2022, the figure had risen to just 47%. Regular use by adolescents is still much lower than it was in the 1970s.

Some fear that super-strength commercial pot is fuelling mental-health breakdowns. But the evidence for this is thin. An extensive study published last year in the journal *Psychological Medicine* found that people who live in

states where weed is legal consume more than their identical-twin siblings in states where it is not. But they are no more likely to suffer mental, physical, relationship or financial problems. Another study looked at health-insurance data to see whether states with legal cannabis saw more claims for psychosis. The authors found no relationship.

In fact the most obvious losers so far from legalisation have been people who invested in the business. Shares of most of the firms listed in Canada collapsed in value in 2021 and are only gently recovering. Even though many weed firms are now making healthy operating profits, rising interest rates are munching into margins. “We pay hundreds of basis points more in interest than a similar-sized non-cannabis firm,” says John Hartmann, the <sup>CEO</sup> of Ascend Wellness Holdings, a listed firm.



The Economist

In New York the state initially intended to give licences to sell legal weed exclusively to former felons convicted of selling it when it was illegal. The idea, says Mr Goldstein, came “from wanting to correct the wrongs of the drug wars”. But in implementation, the idea proved half-baked. Former felons rarely had the skills or networks to develop profitable businesses. Hopeful entrepreneurs were left high and dry, while the illegal market thrived.

Nevertheless, polling by Pew suggests that almost three-fifths of Americans now say cannabis ought to be legal for recreational use, and 88% say it should be legal for medicinal use. On May 1st, the day after the Justice Department announced it would recommend reclassifying the drug, Senate Democrats reintroduced a bill that would legalise it nationally. Yet few expect them to be able to hash out a deal with Republicans to pass the bill into law. Indeed, support is lukewarm even among many in the industry. New firms could be snuffed out by well-funded competitors.

Reclassification is a more modest change. It could, for example, help reduce tax bills (the cost of growing illegal drugs cannot currently be deducted as a business expense), and it could ease access to some finance. The Rungta brothers point out that it took decades for the liquor industry to emerge fully from prohibition. The future of weed is probably that, for quite a while, it will be both legal and illegal everywhere simultaneously. It is a silly situation. But things can change rather quickly. To be blunt, the future is hazy. ■

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United States | Bombs, away

## The Biden administration is trying to walk a fine line in arming Israel

*It may please no one as a result*

May 16th 2024



After failing for months to unite behind major legislation, Republicans in the House of Representatives have turned to an agenda better suited to their disposition: trolling Democrats with tough votes on divisive issues. And Republican leaders started with the starker policy disagreement within the Democratic Party today. The Israel Security Assistance Support Act would stop Joe Biden from blocking military assistance to Israel. Republicans were aiming to bring it up for a vote no later than May 17th, and the White House quickly became worried that pro-Israel Democrats would defy the president.

While Mr Biden repeatedly has vowed “ironclad” support for Israel, he also imposed a pause on some munitions transfers earlier this month and

threatened to withhold them entirely if Israel invades Rafah, in southern Gaza. A State Department report published on May 10th criticised Israel's conduct but did not trigger any policy changes. Has the White House's support for the Israel Defence Forces violated the law or administration guidelines? Would stopping aid have a material effect on <sup>IDF</sup> operations?

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A constellation of laws and policies ostensibly restricts how American arms can be used by allies. The 2023 Conventional Arms Transfer policy states that the <sup>us</sup> cannot send armaments if they are “more likely than not” to violate international human-rights or humanitarian law. The “Leahy Laws” prohibit support for forces or units that commit a “gross violation of human rights”. They have been on the books for decades but leave the term undefined. A provision of the Foreign Assistance Act also blocks military aid to a government that restricts <sup>us</sup> humanitarian assistance.

The State Department report declares it “reasonable to assess” that weapons used by Israel have been “inconsistent” with its human-rights-law obligations or other practices to reduce civilian harm. But it also concludes that Israel isn’t blocking humanitarian aid “within the meaning” of the Foreign Assistance Act.

“The administration ducked all the hard questions,” Chris Van Hollen, a Democratic senator from Maryland, said after the report appeared. “They recognise how bad the situation is, but they don’t want to have to take any action.” Mr Biden’s critics call this an abdication of leadership. But the administration has legal flexibility.

Making a determination in the absence of politics would still be hard. Israeli- and American-made missiles and bombs are often mixed together in payloads, rendering it difficult to connect specific munitions to specific strikes. Casualty estimates from Gaza’s Hamas-controlled health ministry don’t distinguish between combatants and civilians, which makes it hard to know how the ratio between the two compares with similar military

campaigns. Israel's targeting approach is more permissive than the one practised by America in Iraq and Syria, but how to define a "gross violation of human rights" is open to debate.

While legal constraints are unlikely to force Mr Biden's hand, his administration has already paused the transfer of around 3,500 bombs to Israel. Holding back these weapons will have little effect on current operations in Gaza, even as Hamas fighters move back into parts of the territory previously cleared by Israeli forces and Binyamin Netanyahu, the prime minister, has yet to articulate a post-war plan.

"The real risk starts to accumulate up north," reckons Aaron MacLean, a fellow at the Hudson Institute, a think-tank. "If things suddenly escalate with Hizbulah that will be intense and require reserves of guided munitions," especially since the Lebanon-based Iranian proxy may possess as many as 200,000 rockets and missiles.

Mr Biden has felt rising heat from his left over conditions in Gaza, while casting doubt on continued American support has angered Republicans and some Democrats to his right. But no one is watching the president closer than Israelis themselves. "Their military planners have to think about longer-term weapons supplies," says Martin Indyk, at the Council on Foreign Relations, another think-tank. "They cannot afford a crisis in weapons supplies with the <sup>us</sup> and I'm quite sure they're telling Netanyahu this." ■

*Read all our coverage of the war between Israel and Hamas in our [dedicated hub](#).*

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United States | Hush puppy

## A mano-a-mano contest between Michael Cohen and Donald Trump

*The hush-money trial hinges on the testimony of the former president's former fixer*

May 15th 2024



Reuters

Jurors heard the voice before they saw the man. And what a voice: pushy, impolite, pure Long Island. A *fu<sup>h</sup>geddaboudit* accent. Sometimes boastful, sometimes defensive, sometimes self-pitying, always mouthy. Days before he appeared in court to testify against his ex-boss and sworn enemy, prosecutors played a recording of a phone call during which Michael Cohen sounded terribly sorry for Michael Cohen. Or as he complained to the guy on the other end of the line: “Nobody is thinking about Michael. You understand?”

Now everybody is thinking about Michael. The man who once called himself Donald Trump’s “thug, pit bull and lawless lawyer” is the star witness in Manhattan prosecutors’ case against the former president. Only Mr Cohen can directly tie Mr Trump to the charged crimes. On the stand he was measured and doleful: less pit bull, more basset hound. He followed directions. And he told prosecutors exactly what they wanted to hear.

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Mr Cohen started working for Mr Trump in 2007 as a lawyer and fixer. Praise from The Boss, he wrote years later, was an aphrodisiac. He could think of “nothing better” than pleasing him. He especially liked it when Mr Trump encouraged him in negotiations to “be rough”. He liked it less when it looked as though Mr Trump might stiff him. Just before the election in 2016 Mr Cohen paid Stormy Daniels, a former porn star, to keep quiet about an alleged sexual encounter with Mr Trump from years earlier. According to Mr Cohen, Mr Trump was slow to repay him. Mr Cohen says that eventually The Boss and another executive at the Trump Organisation agreed to reimburse him in 12 instalments, and record the payments as legal fees in the company books. Prosecutors accuse Mr Trump of falsifying business records to cover up the hush money, which they contend was an illicit campaign contribution. He denies it all.

In court Mr Cohen told prosecutors that he had paid the hush money “at the direction and for the benefit of” the defendant, to protect him. In fact he said some variation of that 28 times, lest anyone miss it. Next came the cross-examination. Mr Trump’s lawyer opened it with a considered question: “You went on TikTok and called me a crying little shit, didn’t you?” “Sounds like something I would say,” replied the witness. Mr Cohen does indeed maintain a prolific output of podcasts (four episodes a week) and TikTok live-streams (almost daily) devoted to denigrating his former boss. He and his guests pathologise Mr Trump, then he invites them over for lasagne.

This case comes down to Mr Cohen’s credibility. He went to prison for a campaign-finance violation related to the hush money (and other crimes),

and now wants revenge. He even wrote a book called “Revenge”. He is a prodigious liar who loves validation. That last part helps prosecutors. Consider the telling testimony of Hope Hicks, a former aide to Mr Trump. Asked if it would have been like Mr Cohen to pay the hush money out of kindness, she said that, no, it would not have been: “I didn’t know Michael to be an especially charitable person, um, or selfless person.” In other words, he was a thug in a suit. The Boss’s thug in a suit. ■

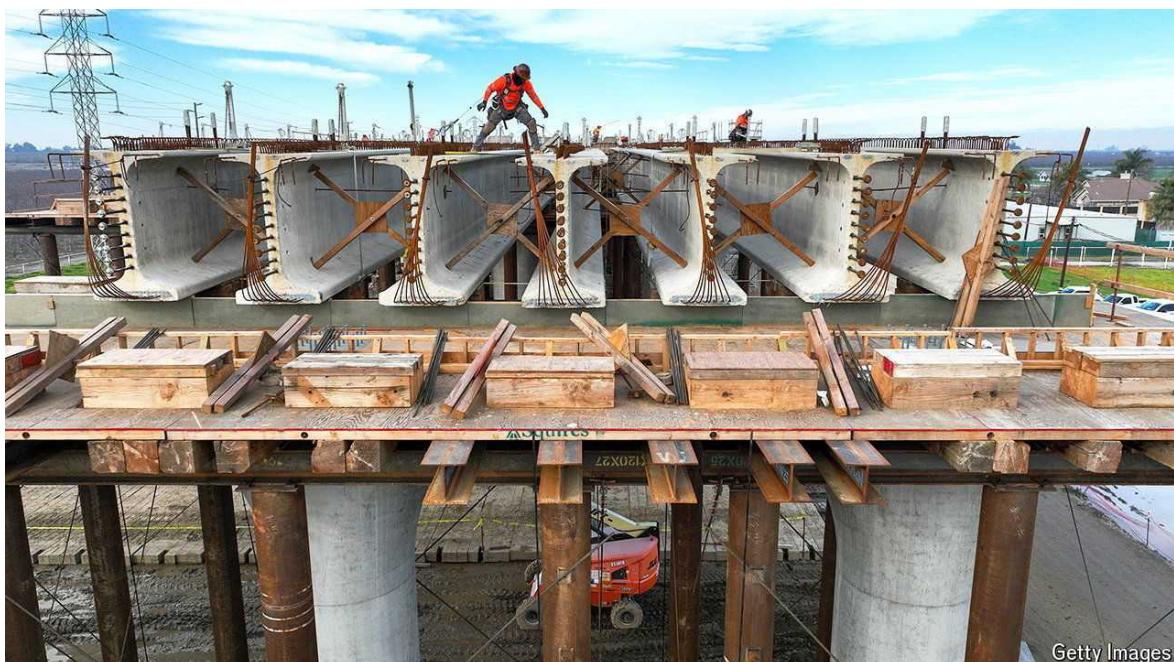
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United States | High-speed rail

## The world's slowest bullet train trundles ahead in California

*An extra \$3bn of federal funding is nice; as for the other \$80bn, dream on*

May 16th 2024



Getty Images

The Central Valley of California is a vast expanse of flat farmland, far from the bustling cities on the state's coast. How surprising, then, to drive along its straight highways and suddenly see rising on concrete pillars one of America's most ambitious infrastructure projects in decades: a bullet-train line planned to run between Los Angeles and San Francisco.

The surprise comes not just from its incongruous setting, among almond and plum orchards, but also from the fact that progress in construction is actually visible. The high-speed railway is better known for its ultra-low speed of development. California began planning it three decades ago. In 2008, when the state's voters approved nearly \$10bn in bonds for the train, it was

thought that the total cost would run to \$33bn and that it would be done by 2020. Now it expects to spend up to \$35bn plus another decade just to finish the middle section—171 miles from Bakersfield to Merced, the easiest terrain for building.

Understandably, many in the state have given up on the bullet train. Yet the past half-year has fuelled some optimism. In December the Biden administration granted \$3bn to the project. In January the rail authority shortlisted two suppliers for train sets. And throughout the spring construction work has moved ahead, so that the goal to begin testing the line by 2028 may just be attainable. Garth Fernandez, the railway's Central Valley director, sees that as a potential tipping-point, which will bring it more public and political support. "People getting to touch and feel this, it's going to make a difference," he says.

But obstacles big and small still stand in the way. In March, the Legislative Analyst's Office (<sup>LAO</sup>), a non-partisan fiscal adviser to California's legislature, estimated that even after the federal grant, the funding shortfall for the rail line is a whopping \$80bn—more than double the state's annual transport budget. There is no credible plan for raising that money.

Meanwhile, the wildlife is pesky. Fences are designed to keep protected animals out of the building sites, but work must halt if any get in. Recently, the invader was a blunt-nosed leopard lizard. Thankfully, Mr Fernandez reports that the on-site biological monitor was able to coax the four-inch reptile to leave, averting a longer stoppage. Count that as a triumph amid decades of disappointment. ■

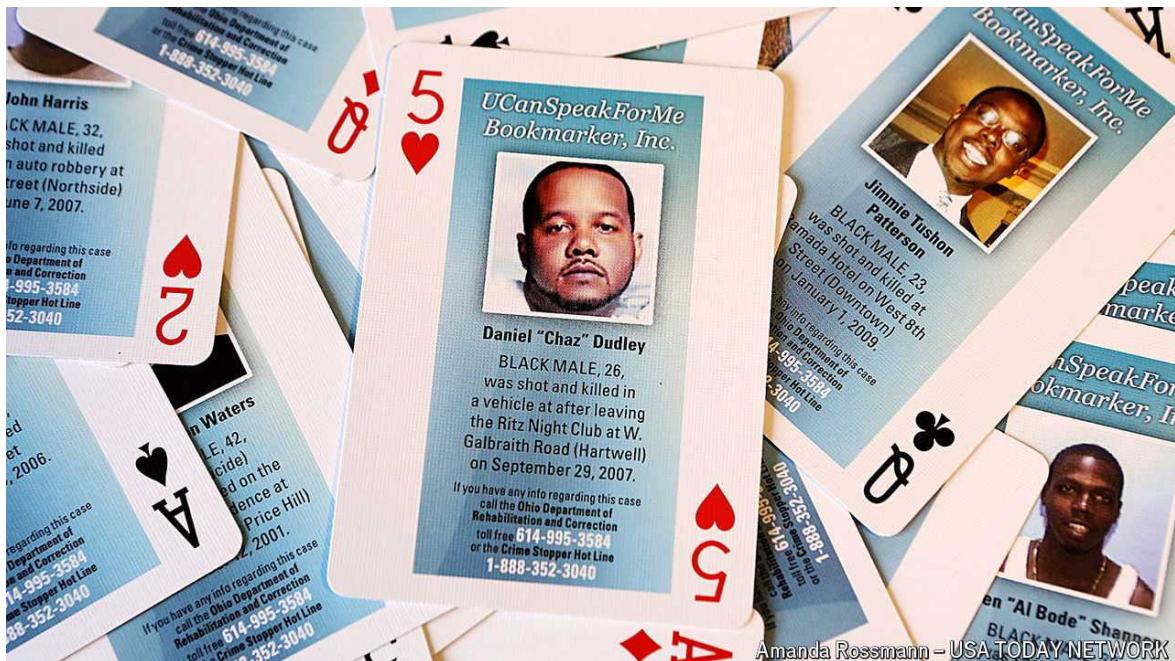
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United States | Stacking the deck

## Can playing cards help catch criminals?

*A novel idea for solving cold cases comes with high-stakes risks*

May 16th 2024



Despite facial recognition and other leapfrogs in technology it seems cops are getting no better at cracking crime. For the past decade the share of murders that has gone unsolved has risen. Since the pandemic it has climbed to around 50% for the first time since the FBI started counting. With more murderers at large, investigators are getting creative.

Last month Mississippi Coast Crime Stoppers, a group that feeds anonymous tips from the public to the police, sent 2,500 decks of playing cards to inmates in seven county prisons and jails. Instead of jacks and queens, each card has the photo of a gulf-coaster who disappeared or was mysteriously killed. The group hopes that while prisoners pass time playing spades or gin rummy, they will come across a case they know something

about and call in. The strategy reportedly worked elsewhere: authorities in Connecticut say that over the years decks like these have helped the state solve 20 cold cases; South Carolina claims at least eight and Florida two.

Because criminals operate in networks, the logic goes, inmates may know unidentified killers on the run. That could be true. But someone sitting in a cell may also have a lot more to gain from snitching than reward money. Crime Stoppers offers \$2,500 for tips that lead to felony arrests, but that pales in comparison with the sentence reductions prosecutors frequently offer in exchange for information. Put simply, a shot at going home gives convicts a big incentive to lie.

According to the Innocence Project, a non-profit organisation, inmate testimony is a leading cause of wrongful conviction. Data from the National Registry of Exonerations show that 15% of murder convictions and 14% of life sentences that have been overturned since 1989 involved tips from prisoners. “Nobody ever presents a jailhouse informant as an untarnished good Samaritan,” says Ken Otterbourg, a researcher at the registry. But jurors required to judge the credibility of such witnesses are often in the dark about the deals prosecutors strike with them to reduce their time.

In March Donald “Amen” Raynor was acquitted at a retrial after a decade in prison for a Connecticut murder. Mr Raynor’s lawyer says his conviction had hinged on the testimony of a prisoner, Jose Rivera, who claimed the two were “real close friends”. Mr Rivera, who was serving 42 years for a slew of killings and gun crimes, told prosecutors that Mr Raynor shot a rival gang-member dead from the back seat of a black Acura that Mr Rivera was driving.

The timing of his testimony was suspect. The murder was committed in 2007. Speaking to a grand jury in 2009, Mr Rivera did not mention the shooting. He came forward only once he was arrested for murder two years later. At the time he told prosecutors he was co-operating because he knew he was “hit”, meaning done for. They promised him a sentence reduction in cases where he was already convicted and concessions about how he might serve sentences if convicted in other ones. The result would be substantially less prison time. “As soon as he got caught for murder his narrative changed, so how can you vet the truth?” asks Mr Raynor. “My life was on the line

based on a person who couldn't pass a background check to work at McDonald's."

Mr Rivera implicated several others while inside. What was it that apparently jogged his memory in multiple cases? A set of cold-case playing cards.■

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United States | The kids are still alright

## After a season of Gaza protests, America's university graduates are polarised but resilient

*After enduring covid and turmoil over free speech, the class of 2024 finally takes its bow*

May 16th 2024



Bing Guan/The New York Times/Redux/Eyevine

The graduation speech is a dismal genre, typically a sermon about showing grit and finding your own path, leavened by dad jokes. America's university graduating classes of 2024 are unlikely to mind. The great majority of them started college four years ago, amid peak covid. This spring, protests over the war in Gaza disrupted many campuses and led to nearly 3,000 arrests nationwide. At the hotspot of Columbia University in New York, classes went online again, triggering covid flashbacks. University leaders and police prepared this month for tense scenes at graduation ceremonies.

Instead, something like normality has broken out. Despite the cancellation of the university-wide commencement, the scene was joyous at the smaller ceremony for Columbia's main undergraduate college. Many students carried yellow inflated lions, the university mascot. Kathy Fang, the valedictorian, was among a couple of dozen students who wore *keffiyehs*, in solidarity with Palestinians, and when she walked across the stage to receive her diploma, she carried a sign saying “<sup>DIVEST.</sup>” But her peaceful protest—like many others at graduations elsewhere—was enveloped by the university’s cap-and-gown rituals. For once the clichés seemed apt. By showing grit over several years, the class of 2024 enjoyed the graduations many craved.

“The norm for this class is adapt, adapt, adapt,” says Katherine Rowe, the president of William & Mary, a public liberal-arts university in Virginia. Dr Rowe is proud of her students. She says they managed to properly follow covid protocols four years ago, and so her college never experienced a covid outbreak. “They had to be flexible every day,” she says. “They were ready to make an adjustment in any week, so that they could stay together.”

Many comparisons have been made between the current cohort and the protesting baby-boomers of the 1960s and 1970s, but they differ in significant ways. For one, many more people are enrolled in college nowadays. Nearly 16m students enrolled in an undergraduate programme in 2020 compared with about 9m in 1976. This class is also more racially diverse. Nearly half of students who started college in 2020 were non-white compared with less than a fifth in 1976. Gender dynamics have changed too. Females were the majority of entering college students in 2020 (58%) compared with just under half in 1976.

The class of 2024 is probably more politically polarised than boomers were at the same age. Almost half of college juniors say they would rather not room with someone who supported a different presidential candidate in the last election, and about two-thirds said they could not see themselves marrying someone who voted differently, a poll by <sup>NBC</sup> News/GenerationLab found. Those attitudes mirror polarisation among older Americans.

## Things they do look awful cold

Those graduating are also pessimistic. They are entering a strong job market, yet only 9% see America as “generally headed in the right direction,” according to this spring’s annual Harvard Youth Poll. Nearly two-thirds of the poll’s 18- to 29-year-old respondents named inflation as the most important issue facing the country. Health care came next at 59%. Just over half listed “protecting democracy” as a concern, while 34% named Israel-Palestine. Young women are more liberal than young men, reflecting a global trend. Among likely voters, young men favoured Joe Biden over Donald Trump by six points; among young women, Biden’s lead was 33 points.

Despite the turmoil on dozens of campuses over Gaza, the majority of universities faced only peaceful protests this spring, if they experienced protests at all. Timid university leaders cancelled provocative speakers nonetheless. Xavier University of Louisiana rescinded its offer to their scheduled graduation speaker, America’s ambassador to the United Nations, after students objected to her vote against the ceasefire in Gaza. Duke University commendably went forward with an address by Jerry Seinfeld, who has expressed strong pro-Israel views since October 7th. The result was a largely civil display of dissent—some students walked out as he began to speak—but the comedian delivered his talk, with better-than-average jokes.

On a recent afternoon at the University of Maryland, the campus offers a sharp contrast to this spring’s images of tent encampments and arrests. Students slurp iced coffees and bubble tea in the packed food court. Eager young volunteers man a table outside the union with flyers about the health-care centre and bowls filled to the brim with colourful free condoms.

There are protesters. A group of about 20 pro-Palestine activists have collected on a hill outside the student union with large banners. Administrators at the University of Maryland increased security this month for Israel Fest, an annual university event hosted by the Jewish Student Union. Protesters chanted outside, but no major incidents were reported.

“I respect the protests,” says Luke Needham, a graduating senior studying atmospheric and oceanic science. “Being able to see people voice their opinion, and be passionate about the things they’re passionate about, I think that’s a great thing.” However, Mr Needham has already missed one

graduation—his high-school commencement in 2020—and he does not want to think about the university potentially cancelling his college graduation scheduled for May 20th. “I’m walking across that stage no matter what,” he says with a large smile across his face.■

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# The Americas

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The Americas | Nothing to see here

# Facebook turned off the news in Canada. What happened next?

*A law intended to help small publishers is harming them*

May 16th 2024



Matt Chase

As owner, EDITOR and sole reporter of Ku'ku'kwas News, Maureen Googoo starts the day by publishing her latest scoops about Canada's indigenous communities. Tracking the number of people that flocked to read those stories used to be a pleasure. Nowadays, Ms Googoo says, she dreads it. Until last summer her website got about 12,000 monthly visits. Now it gets perhaps a quarter of that.

This is not what Canada's government envisaged when it passed the Online News Act last June. The law promised "fairness in the Canadian digital-news marketplace". The idea, inspired by a similar law in Australia, was to force Google and Meta, the kings of search and social media, to pay news outlets when their articles appear in search results and social feeds. Publishers and broadcasters have long complained that the tech firms have

gobbled up their advertising market. The act was meant to claw some of that money back.

In November Google agreed to pay C\$100m (\$74m) a year into a government-run fund for Canadian newsrooms. But Meta declined. News makes up less than 3% of the Facebook feed globally, the firm said, and is of little value to it. Publishers benefit when their stories are shared, it added, which is why most post their own content themselves. Instead of paying, Meta said it would block news links from its apps. Since August, users of Facebook and Instagram in Canada have been unable to view or share links to any news site, from Ku'ku'kwes News to Economist.com.

Nine months later, the number of people using Facebook and Instagram in Canada hasn't budged. The apps are being downloaded as much as ever, according to Sensor Tower, a market-intelligence firm. Nor does the lack of news seem to be hurting Meta's pocket, despite an ad boycott led by Canada's government. The firm does not break out Canadian earnings, but its ad revenue across the United States and Canada has grown 19% in the nine months since the news blackout began, compared with the same period in the previous year.

For news organisations, the impact has been more dramatic. A study published in April by researchers at McGill University and the University of Toronto found that, six months after the blackout, the Facebook pages of Canadian national news outlets had lost 64% of their "engagement" (likes, comments and so on), while those of local outlets had lost 85%. Almost half of local titles had stopped posting on Facebook at all, "gutting the visibility of local news content", the researchers found.

Large publications, with their own apps and widely known brands, are well placed to weather the ban. But for some digital-only titles, Meta's blackout has been "absolutely devastating", says Paul Deegan, head of News Media Canada, which represents publishers. Adam Reaburn, editor of Energetic City, a site covering what he says is otherwise a "news desert" in rural British Columbia, says the news ban initially cut his readership by 30-40%. "I don't understand why Google, Instagram and Facebook need to pay us when we use their platforms to share our articles," he wrote in his final Facebook post in August.

Readers are finding ways around the ban. Unable to share links, some are posting screenshots of articles. On “Only in Canada”, a Facebook group with half a million members, jokes and memes are interspersed with photos of headlines from blocked news sites, from the BBC to CTV, a Canadian television network. The sharing of news screenshots on Facebook has more than tripled since the blackout, largely replacing links as a source of engagement on political Facebook pages, the McGill and Toronto researchers found.

News outlets are adapting, too. Energetic City has signed up 5,000 readers to an email newsletter, built a mobile app and put up posters around town with QR codes leading to its website. “We basically have to reteach our readers how to find the news,” Mr Reaburn says. Ku’ku’kwes is courting audiences outside Canada. Indigenous communities in the United States, who can still share news on Facebook, are a growing share of readership; Ms Googoo is planning a reporting trip to Maine.

Some worry that dubious sources of information will fill the gap left by the mainstream sort. “With the ban on news, there has been an explosion of disinformation and misinformation,” says Pascale St-Onge, the minister responsible for the act. NewsGuard, a fact-checking organisation, found that “unreliable” sources accounted for 6.9% of engagement with news on Facebook in Canada in the 90 days after the blackout, compared with 2.2% in the 90 days before. (The McGill and Toronto researchers, by contrast, found no increase in misinformation.) On social media, “the clean drinking water and the sewage are going through the same pipe,” says Mr Deegan. “Without news, the only thing going through is the sewage.” He fears this lowers incentives for politicians to engage with journalists, prompting them to communicate directly through social media instead. “Without that level of scrutiny...that is bad for democracy,” he says. An election is due next year.

Canada’s communications regulator will decide later this year whether the fact that Meta has blocked news links excuses it from making payments. Ms St-Onge says Meta should still have to pay, because news content is still finding its way onto its platforms. If the regulator disagrees, then “we’ll see how it’s possible to amend that piece of legislation, because as long as we’re in government, we’re not going to give up,” she says. Any amendments would have to respect Meta’s freedom of expression and make sure that “we don’t infringe on that [by] obliging certain content to be shown,” she

acknowledges. News Media Canada, which supports the new law, is attacking Meta on another front, lodging a complaint with Canada's competition regulator, arguing that Meta's link-blocking is an abuse of its dominant position.

Canada's difficulties may cause countries mulling similar laws to think carefully. When Australia wrung a reported A\$200m (\$130m) per year out of Google and Meta using its news-media bargaining code, passed in 2021, countries including Britain, Brazil and South Africa pricked up their ears. But Meta appears emboldened by its Canadian experience. In February it said it would not renew the deals it had earlier struck in Australia. "For now, Meta has left the building," Jesper Doub, who was head of international news partnerships at Meta until last year, told a journalism conference in Italy in April. "If you want to measure the value [of news], take it away and see what happens. And they did in Canada ...Nothing happened." In future, whenever Meta faces demands for payment, "they will just walk away," Mr Doub said.

That will mean less news on the world's biggest social network, and fewer readers for small publishers. Ms Googoo hopes Meta's news blackout will one day lift, and in the meantime has applied for money from the Google fund. For now, however, the main effect of the new law is that fewer people are reading her stories. "The act is supposed to help us," she says. "But it's hurting us." ■

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The Americas | Elections in the Dominican Republic

## Luis Abinader is poised for a thumping re-election win

*Voters rate the management of economy and his fight against corruption*

May 16th 2024



Alamy

President Luis <sup>ABINADER</sup> of the Dominican Republic cuts a dull figure. First elected in 2020, the 56-year-old former businessman embodies the technocratic, market-friendly centrist that has long shaped Dominican politics. Yet his approval ratings hover around 70% and he is on course for a resounding re-election on May 19th. His Modern Revolutionary Party (<sup>PRM</sup>) is tipped to retain majorities in both houses of Congress.

Mr Abinader's opponents are weak and divided. The Dominican Liberation Party (<sup>PLD</sup>), which ruled for 20 of the past 28 years, has been damaged by corruption scandals. Leonel Fernández, a former three-term president who quit the <sup>PLD</sup> in 2019, is running as a third-party candidate.

Mr Abinader inherited a strong economy. Free-trade zones and tax incentives have drawn foreign investment to beach resorts and manufacturing, contributing to growth of 4.9% per year on average over the past 50 years. Living standards are rising faster than anywhere else in the region.

As president, Mr Abinader has been an effective steward in his own right. His decision to let in tourists without a negative covid test during the pandemic is credited with helping the country's quick recovery. Although voters worry about inflation, the <sup>PRM</sup>'s middle-class base tends to blame forces beyond government control.

Mr Abinader's anti-graft credentials have burnished his reputation. In 2020 he appointed a respected former Supreme Court judge as attorney-general, prompting an unprecedented anti-corruption drive. Oodles of former <sup>PLD</sup> officials have been ensnared. A landmark asset-forfeiture bill signed in 2022 aims to recoup some \$740m in embezzled cash and bribes. Transparency International, a monitor, praised the country for making "significant progress" in tackling corruption.

The president still hews to clientelism in various ways. The public sector has added 100,000 workers since he took office. A digital-payments system funnels cash to the needy when the government wants to shore up support. The notion that elites wield undue influence and reap disproportionately large benefits from the booming economy stalks the president.

Mr Abinader is weakest on security. Although he has reformed the police and removed corrupt officers, it remains voters' primary concern, based on a rising murder rate and the crisis next door in Haiti. But Haiti is also a convenient scapegoat. The <sup>PRM's</sup> tough approach to its violence-wracked neighbour has also won it support. In 2022 Mr Abinader's government approved the construction of a 164km (100-mile) border wall to stop migrant crossings. He has increased deportations of Haitians from 154,000 in 2022 to 250,000 last year. Haiti-bashing, notes Ernesto Sagás of Colorado State University, "plays out very well on the campaign trail". ■

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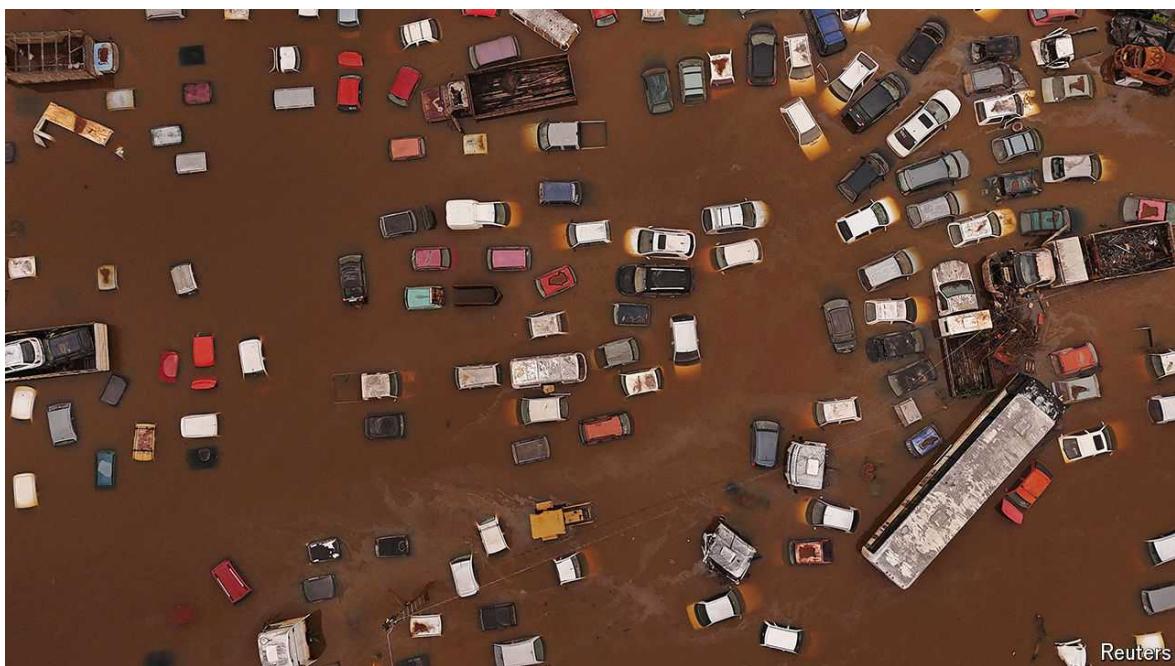
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The Americas | When the levee breaks

## Huge floods in Brazil's south are a harbinger of disasters to come

*Climate change is making weather events more extreme in the region*

May 16th 2024



Reuters

Torrential rains have been battering the southern Brazilian state of Rio Grande do Sul for almost three weeks. On May 2nd eight of the world's ten雨iest cities were in the state. At least 150 people have died and 130 are missing. Six hundred thousand people have been made homeless. Many have no drinking water or electricity. "It's like a war zone," says Bruna Travi, a volunteer in Porto Alegre, the state capital. Civilians are using fishing boats and jet-skis to pull survivors out of the filthy water and bring them to shelters, which are largely supported by donations.

Rio Grande do Sul is among Brazil's most prosperous states. Larger than Britain and home to 11m people, its fertile plains attracted millions of

immigrants in the late 19th and early 20th centuries. They turned it into an agricultural powerhouse. As in neighbouring Uruguay and Argentina, the state's people are called *gaúchos* for their cowboy skills. Its output accounts for around 6% of Brazil's <sup>GDP</sup>. It produces 70% of the country's rice and is the world's top exporter of tobacco. It is also a big producer of wheat, soy, cattle and cellulose. Just in the first four months of the year the state's agricultural products accounted for \$3bn in exports.

The rains arrived at the end of the rice and soyabean harvest. Between a tenth and a third of either may be lost. Some are already assessing a high economic cost. <sup>xp</sup> Asset Management, a Brazilian investment firm, has cut its growth forecast for the country this year from 2.4% to 2.1%. The government has announced a relief package of 60bn reais (\$12bn), or 0.6% of <sup>GDP</sup>, and has frozen Rio Grande do Sul's debt repayments to the federal government for three years. The true scale of the damage will become clear only when the water subsides, but some economists reckon the damage to infrastructure alone could come to 100bn reais.

The flooding is being caused by a confluence of weather events whose effects are being exacerbated by climate change. Last year marked the return of El Niño, a weather pattern which warms the eastern Pacific Ocean and brings more rain to the Southern Cone. Combined with unusually weak winds from Antarctica and a warming Atlantic Ocean, this is intensifying both floods and droughts in southern Brazil. The area's last great flood was in 1941. Then came a cyclone last September that killed 54 people, which in turn is dwarfed by the current deluge.

The disaster is not over yet. Heavy rains are still falling. Some small towns will have to rebuild on higher land to avoid future flooding. Millions living in Brazil's south are the latest victims of a changing climate, but they will not be the last. ■

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The Americas | The other 19,999

## Why Mexico's largest-ever election matters

*The results will determine the political environment in which Mexico's next president operates*

May 16th 2024



On June 2nd almost 100m Mexicans will be eligible to cast a vote to elect the country's next president. Claudia Sheinbaum of the ruling Morena party is likely to win comfortably. She holds a lead of 25 points in the opinion polls.

But the presidency is only one of some 20,000 jobs up for grabs in what will be Mexico's largest election ever, measured by the number of voters and available posts. Mexicans will also elect representatives to all 628 seats in Congress, nine governors, more than 1,000 local legislators and some 18,000 municipal roles. The results will determine the political environment in which the next president will operate. They may also define the future of

Mexico's traditional opposition parties, which have been discredited since their last stint in power. "What is at stake is the democratic viability of Mexico: the possibility of having a party system that reflects the democratic pluralism of the country," says Clemente Castañeda, a senator running for re-election with Citizens' Movement, a relatively young progressive party.

Mexicans face a choice between three groupings. Morena is allied with the Labour Party and the Ecologist Green Party of Mexico. The main opposition is the Strength and Heart coalition, which combines the traditional parties, including rivals with differing ideas and agendas: the Institutional Revolutionary Party (<sup>PRI</sup>) that ruled Mexico for seven decades, the National Action Party and the Party of the Democratic Revolution. Citizens' Movement is fielding candidates alone.

Morena's coalition is unlikely to win the congressional supermajority which would allow it to alter the constitution. (It won one in 2018 but lost it again in 2021.) President Andrés Manuel López Obrador introduced a package of changes in February to do just that. It includes electing judges by popular vote, closing independent regulatory agencies and increasing government control of the electoral oversight authority. This package looks unlikely to pass.

Seven of Mexico's 32 states are disproportionately important, accounting for close to 50% of all votes. They include Mexico City and Nuevo León, a northern state that is home to Monterrey, the business capital. Although Ms Sheinbaum is set to carry most of these key states in the presidential vote, the opposition could win in many of the other races.

Morena controls rural areas and poorer *barrios* of towns and cities. But places with richer, more educated populations tend to see more strategic voting patterns, says Daniel Linsker of Control Risks, a consultancy. Voters in Nuevo León and Jalisco, another important state for business, are expected to vote for Ms Sheinbaum, but for opposition parties in local elections.

Citizens' Movement is betting on such split voting. While its presidential candidate is polling in low double digits, the governors of both states were elected from the party. "In these elections, cross-voting is urgently necessary

to balance powers,” says Luis Donaldo Colosio, the Citizens’ Movement mayor of Monterrey.

Holding all the elections on one day will probably boost participation. But it is also likely to enforce a winner-takes-all dynamic that could favour the incumbent. According to Mr Linsker, this dynamic may be particularly strong in elections for Congress, since most Mexicans do not know their candidates. “So they simply end up voting for the same party as for the presidency,” he explains.

Morena, more of a López-Obrador fan club than a party, may lose steam once he leaves the presidency. A third of its governors elected since 2018 used to be members of PRI. They made Machiavellian jumps into Morena to stay in power. The elections are likely to leave Mexican politics in flux once again. ■

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# **Asia**

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**Asia** | Heirs in races

# Who could replace Narendra Modi?

*A leadership struggle is brewing in India's ruling party*

May 13th 2024



Arvind Kejriwal left prison determined to make up for lost time. Delhi's chief minister, who also leads an opposition party, had been in jail since March on corruption charges that he says were politically motivated. Released on interim bail on May 10th, midway through a six-week general election, he denounced the prime minister, Narendra Modi, as a "dictator" at a news conference the next day. Mr Kejriwal also lobbed an unexpected political grenade, claiming that if the Bharatiya Janata Party (<sup>BJP</sup>) wins a third consecutive election victory as expected, Mr Modi would step down next year when he hits the party's unofficial retirement age of 75.

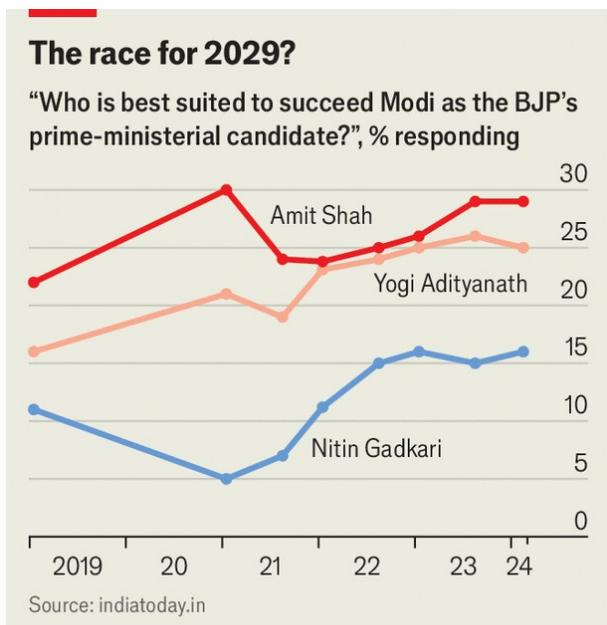
His replacement, Mr Kejriwal suggested, would be the steely 59-year-old home minister, Amit Shah, who has led the government's clampdown on

political dissent. Mr Shah quickly countered that the <sub>BJP</sub>'s constitution contained no retirement rule and Mr Modi would serve another full five-year term. Still, the timing was irksome for the Hindu-nationalist party, which has lately hardened its Islamophobic rhetoric following lower-than-expected voter turnout amid whispers of [Modi fatigue](#). Mr Kejriwal has touched upon one of the most delicate questions within the <sub>BJP</sub>: who could replace Mr Modi when he eventually retires?

Succession is not the <sub>BJP</sub>'s immediate concern. Although it used the unofficial retirement rule to oust several party veterans in 2019, the party is very unlikely to apply it to Mr Modi, given his popularity. If the <sub>BJP</sub> wins again in 2029, he could do another five years, surpassing Jawaharlal Nehru as India's longest-serving prime minister. Asked in an interview on May 6th whether he would stand again in 2029, Mr Modi prevaricated. "No country should run on the basis of one person," he said.

Even so, the <sub>BJP</sub> faces a succession problem. Mr Modi is its greatest asset. Around a third of those who voted for the <sub>BJP</sub> in 2019 said that they did so primarily because of him. This also makes the party vulnerable: surveys suggest that without Mr Modi at the helm, its support could drop to within striking distance of the opposition. And the <sub>BJP</sub> has long trumpeted its meritocratic culture in contrast to the Gandhi family's dominance of Congress, the main opposition party.

As a result, the <sub>BJP</sub> needs to start raising the profile of potential heirs in preparation for Mr Modi's retirement (or sudden ill-health). With several candidates in the running, though, it must tread carefully to avoid internecine conflict. Mr Modi also has an interest in picking a competent heir to preserve his legacy. But like other strongman leaders, he must be wary of anointing someone who could turn him into a lame duck. "The <sub>BJP</sub> is in uncharted territory," says Gilles Verniers of Amherst College in Massachusetts.



The Economist

Complicating matters further is the role of two stakeholders. One is the Rashtriya Swayamsevak Sangh, or RSS, the Hindu-nationalist organisation from which the BJP emerged and whose primary concern is religious identity. The other is big business, an important source of BJP funding.

Mr Shah is considered the front-runner, thanks largely to his close ties to Mr Modi, a political ally since the 1980s. But Mr Shah faces a strong challenge from Yogi Adityanath, a 51-year-old Hindu priest and chief minister of Uttar Pradesh (UP), India’s most populous state. In a survey in February, he was voted India’s most popular chief minister and a close runner-up behind Mr Shah as favourite to succeed Mr Modi. Nitin Gadkari, the 66-year-old roads minister, was in third place (see chart).

## Get in line

All three publicly play down their leadership aspirations. Still, there have been signs of friction backstage. Mr Adityanath first stirred controversy within the BJP after founding the Hindu Youth Force militia, or HYV, in 2002. As well as conducting violent attacks on Muslims, it often criticised the BJP for softening Hindutva (Hindu nationalism) and sometimes campaigned against BJP candidates in local elections. Some senior BJP figures did not want him as UP’s leader; Mr Modi at first favoured one of his own protégés.

Mr Adityanath is divisive outside the <sup>BJP</sup> too. Although the <sup>HYV</sup> has largely disbanded, he is still the most egregious purveyor of anti-Muslim rhetoric in the <sup>BJP</sup>'s top ranks. In 2019 the election commission banned him from campaigning for three days over Islamophobic remarks. He has also introduced controversial policies in <sup>UP</sup>, such as banning halal products and bulldozing the homes of many Muslims accused of criminality (his government says it only targets illegal homes). In April he accused Congress (without evidence) of wanting to enforce sharia law.

One concern for the <sup>BJP</sup> is that such antics limit his appeal beyond the Hindutva base. He lacks broad business support, too; some fear that he is less likely than Mr Shah to continue Mr Modi's approach to economic management. This is despite the fact that Mr Adityanath has recently overseen an economic boom in his state, where he is credited with building lots of new roads, attracting foreign investment and improving security. Earlier this year he oversaw the inauguration of a controversial Hindu temple and a big infrastructure upgrade around it.

Even so, Mr Shah has several advantages. He has Mr Modi's ear. He oversees the police and other security agencies. And as the <sup>BJP</sup>'s electoral strategist and a member of its decision-making parliamentary board, he has considerable say in personnel moves. One possibility is that Mr Adityanath is given "some innocuous" ministerial post in Delhi after the election, says Sharat Pradhan, author of a book on the <sup>UP</sup> chief minister. That would thwart his plan to remain as <sup>UP</sup>'s leader, a far more powerful role, and to emulate Mr Modi's jump from a province to the premiership.

But Mr Adityanath might well resist a move to Delhi by threatening to leave the party. And shifting him from <sup>UP</sup> could damage the <sup>BJP</sup>'s prospects there. Mr Shah, meanwhile, might harbour hopes that Mr Modi will anoint him as heir before retiring, perhaps with a promotion to deputy prime minister. But many suspect that Mr Modi would rather leave on a high and let others take responsibility for who comes next. In that case, Mr Shah's prospects would dim, as he is more feared than loved in the party and among business leaders.

Mr Shah's other vulnerability is a lack of charisma. Although he often makes inflammatory remarks, he is no orator. As a Hindutva icon he pales

alongside Mr Adityanath. His government record is less tangible than that of others such as Mr Gadkari, who has overseen a road-building splurge. Mr Gadkari also has strong backing from business and the RSS, whose headquarters are in his constituency. But Mr Gadkari's relative reticence on religion and outspokenness on other issues have irked some BJP leaders, including Mr Modi. In 2022 he was dropped from the party's parliamentary board.

How such dynamics evolve depends substantially on the election result. Another strong BJP victory, while giving Mr Modi more leeway to delay his retirement, would perpetuate his personalisation of power. A disappointing result, meanwhile, could prompt calls for an earlier succession, intensifying the struggle among leading contenders. Either way, the transition will be fraught with risk. ■

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**Asia** | A brutal civil war

# The military dictatorship controls less than 50% of Myanmar

*The junta has suffered severe losses but remains powerful*

May 16th 2024



AP

Ever since Myanmar's military junta seized power in a coup in 2021, hundreds of disparate resistance groups have been fighting back. Since late last year, the opposition has gained ground. The seizure on April 11th of Myawaddy, an important trading town on the border with Thailand, looked like a turning-point. Some analysts predicted that the junta would soon fall. But less than two weeks later, Myawaddy was back in the hands of Saw Chit Thu, a pro-military warlord. What would it take to topple the junta?



Myanmar's borderlands appear to be particularly vulnerable. Local ethnic armed groups have seized territory in Shan state next to China, and Chin state next to India and Bangladesh (see map). In western Rakhine state, the Arakan Army, an ethnic armed group, says it has captured at least nine out of 17 townships, home to around 1m people, making it the country's largest area not controlled by the government. The National Unity Government (<sup>NUG</sup>), a shadow administration that claims to lead the resistance, says that "revolutionary forces" and the <sup>NUG</sup> now have control of over 60% of the country. But although the junta's control is weaker in Myanmar's ethnic border states, it still holds sway over many key areas, including the big cities.

Three characteristics of the junta make it particularly hard to beat. The first is an obsession with control. "Fear is pervasive throughout the army," says Zin Yaw, a former captain in the army who served for 20 years before running away to join the resistance. It is almost impossible for soldiers to resign. Often, the only way out is to be killed. The one exception is for relatives of high-ranking officers, who may be able to request a transfer to departments such as customs or immigration. The families of soldiers live on military bases, in effect serving as hostages in case any front-line soldier considers defection. The army relies on online surveillance, phone taps, informers and plainclothes police to monitor civilians, too.

A second quality is the insularity of the armed forces. For decades the Tatmadaw, as Myanmar's army is known, was the only institution in the country that offered social mobility and a promising career. That made its cohesion and stability attractive for many. It also has its own media outlets, banks, schools and hospitals. "The military is a state within a state," says David Steinberg of Georgetown University in Washington. "All the services it provides mean that soldiers and their families are insulated from the rest of society."

That insularity was challenged when Myanmar opened up in the decade between 2011 and 2021, and the junta was officially replaced by civilian rule. Burmese people were able to connect to the world through the internet. The junta nonetheless maintained its power through a constitution that granted it authority over the government, control of key ministries, a quarter of all parliamentary seats and veto power over constitutional amendments.

The third advantage the junta has over the opposition is its relative wealth. The army's budget, at \$2.7bn, was a quarter of government expenditure in 2023. Since the coup, this has enabled it to import at least \$1bn in arms mostly from Russia and China, according to the United Nations. "The junta has more and better weapons than we do," says Saw Mya of the Karen National Liberation Army, the armed wing of the resistance group that captured and then lost Myawaddy last month.

The junta also owns Myanmar's main conglomerates, Myanmar Economic Holdings Limited (<sup>MEHL</sup>) and Myanmar Economic Corporation (<sup>MEC</sup>). An American diplomatic cable from 2009 stated that <sup>MEHL</sup> and <sup>MEC</sup> are "key components of the elaborate system of patronage the [army] uses to maintain power". Meanwhile regional military commanders often cut deals with local businessmen and ethnic armed groups to profit from activities such as illegal logging and mining.

Even so, the junta is not as powerful as it once was. In recent years many young people have refused to join the army. Some soldiers have defected, although not in significant numbers. Others have been killed. The army now has around 130,000 troops, estimates Ye Myo Hein of the United States Institute of Peace, a think-tank in Washington. In February the junta announced a draft of men between the ages of 23 and 31. This was partly

triggered by factions within the army that have criticised Min Aung Hlaing, the army chief, for being too weak and indecisive, says Thomas Kean of the International Crisis Group, another think-tank. Men have been banned from working abroad to prevent them avoiding conscription. Between 30,000 and 50,000 recruits have been drafted.

Some hope for a leadership change in Naypyidaw, the capital. But even if there were a way to remove General Min Aung Hlaing, the risk is he might be replaced by someone even more brutal. Meanwhile speculation is growing that the junta may completely lose control of the borders with Bangladesh, China, India and Thailand before the end of the year. This could lead to even more desperate and brutal behaviour by the army, says the Karen National Liberation Army's Mr Saw Mya. Indeed, according to America's annual intelligence-threat assessment in 2023, the army and the resistance "increasingly see their conflict in existential terms, effectively precluding compromise". ■

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## The murder that aroused a nation

*Despite a recent conviction, a culture of impunity persists among the well-connected*

May 16th 2024



IF YOUR PARTNER were lying unconscious after a frenzied assault, you would generally call an ambulance. Not Kuandyk Bishimbayev, a former minister in Kazakhstan. Instead, as his common-law wife lay dying, he phoned a clairvoyant, who assured him (mistakenly) she would be fine. Last year Saltanat Nukenova died of injuries inflicted by Mr Bishimbayev (pictured) in a fancy restaurant owned by his family in the country's glitzy capital, Astana. On May 13th a court handed him a 24-year prison sentence. Millions of Kazakhs had tuned into the live-streamed trial, which sparked anguished soul-searching over domestic violence—and highlighted the sense of entitlement and impunity among Kazakhstan's rich and powerful.

Evidence in court included <sup>cctv</sup> footage of Mr Bishimbayev punching and kicking Ms Nukenova and dragging her by her hair. The prosecution said he was brutally abusive; the defence portrayed the deceased as an alcoholic who drove him to violence. Kazakh women posted photos of themselves clutching drinks, captioned: “If you see me with a glass of wine, that does not mean you can kill me.”

Politicians have tended to take domestic violence lightly in Kazakhstan. Yet every year one in six women is reckoned to face it. The government decriminalised most domestic-violence offences in 2017. Last year an <sup>MP</sup> suggested punishing women who “provoke” attacks. But Ms Nukenova’s murder has changed the equation. Last month Kassym-Jomart Tokayev, the president, approved legislation to stiffen penalties for such crimes.

This case has reverberated widely. Mr Bishimbayev, now 44, was a rising star until jailed for bribe-taking in 2017. His release less than three years into a ten-year sentence aroused criticism that the establishment is lenient to its own, whereas the courts routinely throw dissidents behind bars. The judge who heard Mr Bishimbayev’s murder trial recently sentenced an opposition leader, Nurzhan Altayev, to ten years on corruption charges that supporters said were politically motivated.

Mr Bishimbayev built his career under Nursultan Nazarbayev, the discredited former president, who resigned in 2019 after almost three decades of iron-fisted rule. Mr Tokayev, his handpicked successor, has distanced himself from his mentor and says he is building a “new Kazakhstan” free of corruption. He promises to uphold the rule of law and clean up the courts. But the real test of Mr Tokayev will be next time a political dissident is in the dock. ■

# Taiwan wants to prove that it is serious about defence

*Its incoming president, Lai Ching-te, will face new challenges*

May 16th 2024



Getty Images

THE LESSON drawn from Russia's invasion of Ukraine is obvious to Taiwanese officials: if you want the world to help in your struggle against an overbearing neighbour, you must first fight back fiercely yourselves. Taiwan's outgoing president, Tsai Ing-wen, has long seemed to understand as much. She has overhauled the island's approach to defence since coming to office in 2016.

Back then, Taiwan's defence spending had stagnated for nearly two decades and conscription was only four months long. By contrast China's defence budget had grown by about 10% every year from 2000 to 2016. It had developed missiles capable of striking American bases in Guam. By 2020 its

navy was the largest in the world. Even so, Taiwan's defence strategy involved preparing to take on China directly. No longer.

In a sign of closer alignment with American officials, Taiwan is moving towards an “asymmetric” strategy that uses many mobile, smaller and cheaper weapons to target China's weak points in case of invasion. Ms Tsai also extended conscription, reformed training and raised defence spending from 1.8% of GDP in 2016 to a record 2.5% in 2024. (In absolute terms this is \$19bn, equivalent to about a third of Japan's defence spending and less than a tenth of China's.) The government also invested in the domestic production of drones, jets, missiles and submarines. It raised soldiers' wages to improve morale and increased training with America.

Lai Ching-te, Ms Tsai's successor, has promised to continue her policies. But he will face new difficulties. His party has lost the majority it held in parliament through Ms Tsai's two terms. And China's use of [“grey-zone” tactics](#)—aggression and harassment below the threshold of war—looks likely to ramp up, in order to divide Taiwan's society and erode its sovereignty over his term. Mr Lai's inauguration on May 20th is already attracting unwanted Chinese attention.

The line between countering harassment and provoking war is treacherously thin. Mr Lai needs to rally Taiwan's people to prepare for their own defence without guarantees of any international support. And he will have to do this while Taiwan's most important partner, America, goes through a volatile election of its own.

Mr Lai is keeping most of Ms Tsai's security officials. His defence minister will be Wellington Koo, who led Taiwan's National Security Council for the past four years. The next defence budget will probably prioritise items for coastal defence such as anti-ship missiles and small, fast patrol ships, says Su Tzu-yun of the Institute for National Defence and Security Research (INDSR), a Taiwanese think-tank.

Taiwan's defence officials were sceptical of asymmetric warfare but have come around since the war in Ukraine—though they argue that they still need bigger planes and ships to combat China's grey-zone harassment. Mr

Koo is a lawyer rather than a military type. This suggests that Mr Lai aims to change the “political culture” of Taiwan’s armed forces, says Mr Su.

A major problem for Mr Lai will be domestic disunity. Both of Taiwan’s opposition parties said during the presidential campaign that they would raise defence spending to 3% of GDP. Polling shows nearly 60% of the public support that increase. But some legislators from the main opposition party, the Kuomintang (KMT), are causing trouble. One lawmaker is being sued by Taiwan’s foreign ministry for leaking classified plans about Taiwan providing aid to Ukraine through the Czech Republic. Another KMT legislator, Ma Wen-chun, has pressured the Tsai administration to visit Taiping, a disputed island controlled by Taiwan in the South China Sea. That is in spite of the foreign minister declaring that Taiwan should avoid “creating more difficulties” in the region. Ms Ma was due to lead a delegation of opposition legislators to Taiping on May 18th.

The KMT as a whole could be another headache for Mr Lai as China is eager to work with the party, circumventing Taiwan’s government. In late April KMT legislators travelled to China and met the Communist Party’s top officials working on Taiwan. Opposition politicians and media also criticise the ruling party for being too deferential to its “American daddy” and suggest that dialogue with China would make Taiwan safer.

These divisions will be especially troublesome if Donald Trump is elected in November. A recent study by researchers at INDSR found that Taiwanese people’s willingness to fight and confidence in their own armed forces both correlate with perceptions of American support.

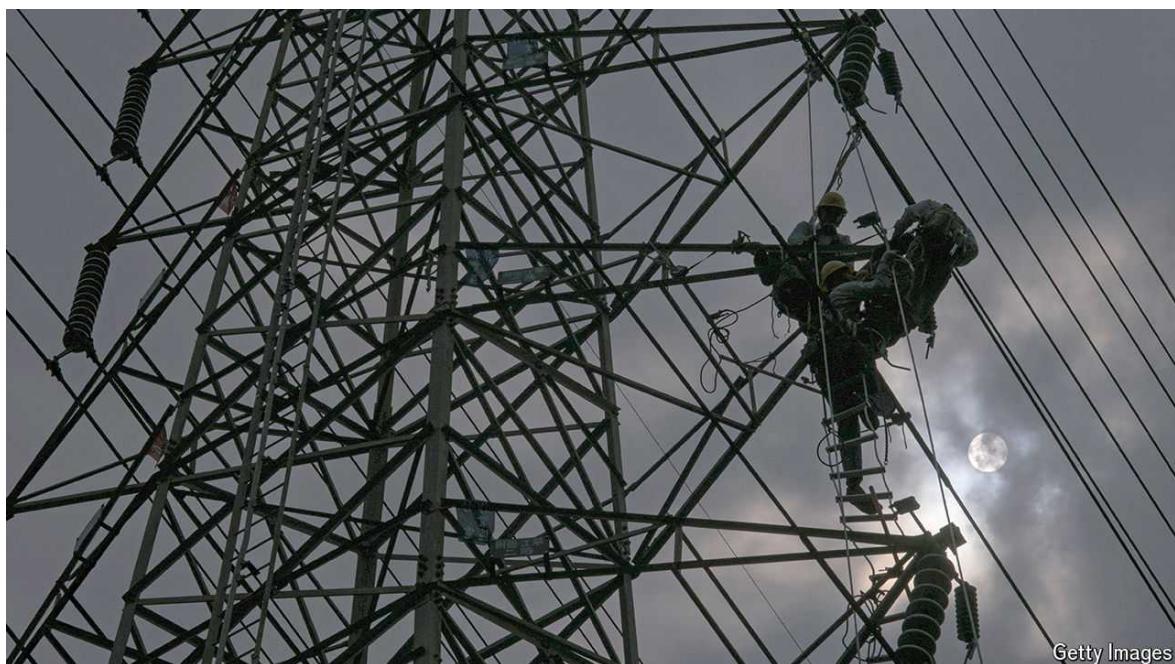
America has no binding commitment to defend Taiwan, but President Joe Biden has said four times that he would do so if China attacked. By contrast Mr Trump, when asked what he would do, made accusations that Taiwan took chipmaking jobs away from America. The Lai administration will keep trying to prove that Taiwan is ready to fight. But it will have a harder time reassuring Taiwan’s people that they will not be fighting alone. ■

**Asia** | A fragile grid

# Taiwan, the world's chipmaker, faces an energy crunch

*The island is already plagued by blackouts*

May 16th 2024



Getty Images

Lai Ching-te, who will take office as Taiwan's president on May 20th, has ambitious plans for the island's energy mix. He wants to push the proportion of renewable electricity production to 30% by 2030, up from 11% today. He also has plans to achieve net-zero carbon emissions by 2050. But some doubt he can fulfil these promises. Blackouts have been plaguing the island. Can Taiwan, the source of over 60% of the world's advanced semiconductors, avoid an energy crunch?

Upon taking office in 2016 Tsai Ing-wen, Taiwan's outgoing president, vowed to simultaneously reduce carbon emissions and phase out carbon-free nuclear energy, which then stood at 12% of the mix (it now accounts for less

than 7% of electricity generated). Ms Tsai and Mr Lai belong to a party that is avowedly anti-nuclear. While this task made ideological sense, it has turned out to be a struggle. Liang Chi-yuan at Taiwan's National Central University estimates that only a quarter of planned windpower projects were on schedule between 2017 and 2022.

Meanwhile the construction of terminals for liquefied natural gas (<sup>LNG</sup>), which is intended to supply half of Taiwan's power, is running behind schedule. Worries about reliance on <sup>LNG</sup> have also grown after China staged large military exercises simulating a blockade in 2022. Around 97% of Taiwan's energy, including <sup>LNG</sup>, is imported. By contrast, a very small amount of uranium can last a long time. Many argue that Taiwan should restart its ageing nuclear power plants and activate a nearly finished fourth nuclear plant that was mothballed in 2014.

Three massive blackouts have occurred in the past seven years, with many smaller disruptions. One of the big blackouts, in 2022, left more than 5m homes without electricity and reportedly cost semiconductor, petrochemical and steel businesses more than NT\$5bn (\$16m). "The electricity supply is getting unstable," says Yeh Tsung-kuang, a nuclear-power expert with National Tsing Hua University.

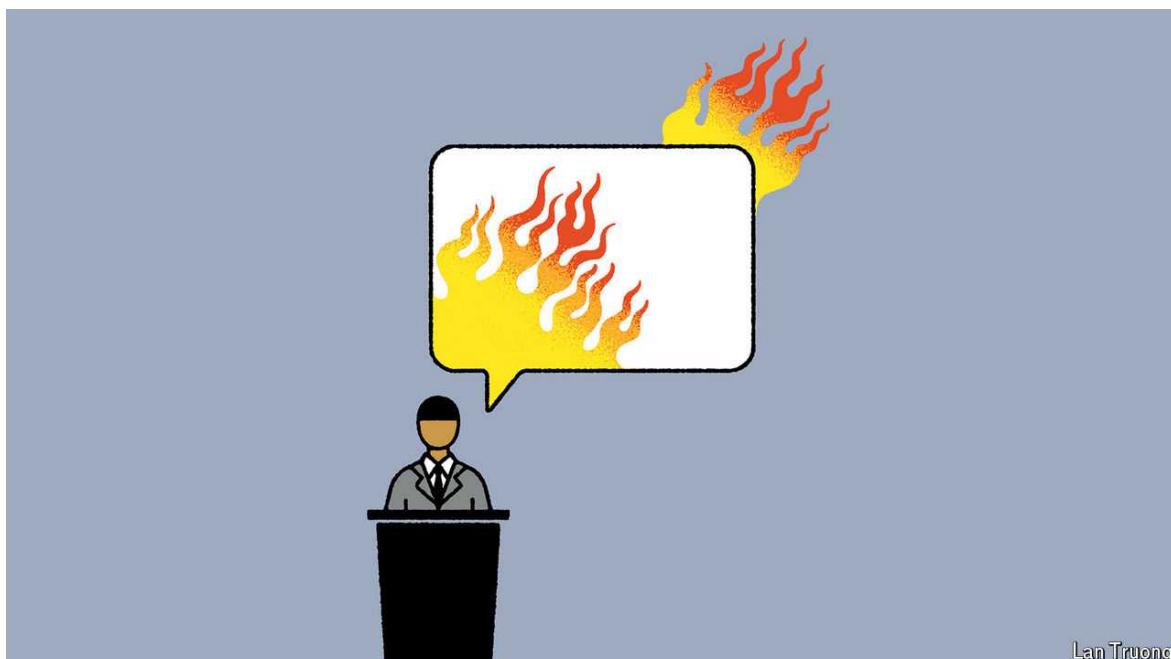
Some experts think the government did not plan for the amount of power demanded by the island's star tech companies. The semiconductor industry is especially electricity-intensive. Jordan McGillis at the Manhattan Institute, a think-tank in New York, reckons that electronics manufacturing (of all sorts) uses 37% of the country's power. Officials blame individual power outages on negligence from operators and an over-centralised grid. Taiwan's power is mostly generated in the south but is needed more in the north.

Mr Lai has said he will look into ways to make energy usage more efficient. He has even hinted that he might be open to nuclear power. Still, notes Mr Yeh, even if the ageing nuclear plants are reactivated, it would take around three years to get them up and running. ■

## Narendra Modi ramps up the Muslim-baiting

*Is the Indian prime minister confident, or worried?*

May 16th 2024



THE Themes used by the speaker were the usual Hindu-nationalist fare. The opposition Congress Party was planning to take away Indians' wealth, including women's *mangalsutras* (Hindu bridal ornaments), and give it to "infiltrators" who "have more children". The identity of the fecund intruders was left in no doubt: after all, the speaker alleged, Congress had argued in the past that Muslims should have the first claim to the country's resources.

What was more unusual was the speaker's identity: Narendra Modi, India's prime minister, addressing an election rally in the northern state of Rajasthan last month. Mr Modi's lieutenants in the ruling Bharatiya Janata Party (<sup>BJP</sup>) have never shied away from scapegoating India's 200m Muslims to rally

their Hindu base, something he has never condemned. Yet the prime minister himself has in recent years been careful to avoid explicit Muslim-baiting.

[Read more of our coverage of the Indian election](#)

Mr Modi's slogan, "*sabka saath, sabka vikas*", promises "prosperity for all". Even during the consecration in January of a controversial new Hindu temple in the northern city of Ayodhya, which was built on the ruins of a mosque demolished by a Hindu mob in 1992, he sought to portray the building as a symbol of national unity and social harmony.

Mr Modi and the BJP are still widely expected to win a third term in India's general election, which ends on June 4th. Yet halfway through the polls, their pitch has shifted. Mr Modi usually projects an image of a statesmanlike father of the nation who has brought economic success at home and growing clout abroad, leaving a weak and divided opposition in the dust. That has given way to something more worrying.

The BJP and the prime minister have turbocharged their Islamophobia. The party released explicitly anti-Muslim videos based on Mr Modi's Rajasthan remarks on Instagram and X. (The platforms eventually took them down for violating hate-speech rules.) Meanwhile Mr Modi, though he said this week that he did not mean Muslims when he talked about "infiltrators", has continued to revisit the theme. Last week he suggested Congress wanted Muslims to engage in what he called "vote jihad" (voting while Muslim) and was planning to lock up the grand new temple in Ayodhya that Mr Modi personally consecrated in fulfilment of a long-standing BJP promise.

In one telling, the change in tack is a sign of confidence. The election commission, the constitutional body charged with ensuring the polls are free and fair, has shown little inclination to rap Mr Modi or the BJP on the knuckles. The commission took four days to issue a notice to the BJP over the prime minister's remarks in Rajasthan. The notice was not addressed to Mr Modi and was accompanied by a near-identical one to Congress. The commission has been slow to respond to allegations of voter suppression or intimidation of candidates in the election, including in Gujarat, Mr Modi's home state. Combined with the silence of India's international partners on

threats to the country's democracy, this may have convinced Mr Modi that he had little to lose from boosting the rhetoric.

Perhaps. Yet there is also the possibility that Mr Modi and the <sub>BJP</sub> are not as certain of the result as they would like to be. The <sub>BJP</sub> swept into power on a wave of anti-corruption sentiment in 2014 and was buoyed in 2019 by an air strike inside Pakistani territory following the killing of 46 Indian police officers in a terrorist attack in Jammu and Kashmir. This time there has been no single issue for supporters to rally around. That may be one reason why turnout has so far been several percentage points below what it was in 2019.

Voters whom Banyan met last month in the northern state of Uttar Pradesh, a <sub>BJP</sub> stronghold, were quick to express their support for Mr Modi. Yet they were equally quick to complain about inflation, corruption, a lack of jobs and the slow pace of development. Young people are particularly disillusioned, though they do not blame Mr Modi. He may be trying to rally a lacklustre base against a common enemy.

That is a risky strategy. If the <sub>BJP</sub> wins a large majority, the opposition may question the legitimacy of the result by pointing to allegations of irregularities and the election commission's relative inaction. But if the <sub>BJP</sub> wins a smaller majority or fails to win one at all, it may become even more aggressive. In the worst case, that risks a violent escalation in the streets. None of this bodes well for the state of Indian democracy. ■

### **Read more from Banyan, our columnist on Asia:**

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[Meet the maharajas of the world's biggest democracy](#) (May 2nd)

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*Also: How the Banyan column got its name*

# China

- [The Xi-Putin partnership is not a marriage of convenience](#)
- [How Taiwan still hangs on to property in bits of China](#)

**China** | An autocratic bromance

## The Xi-Putin partnership is not a marriage of convenience

*It is one of vital, long-term necessity*

May 14th 2024



AP

IN MARCH LAST year China's leader, Xi Jinping, paused at the door of the Kremlin. Before bidding farewell to Vladimir Putin, he offered him a final thought. Using the phrase *bainian bianju*, shorthand for what China views as a historic change in the world order, Mr Xi said: "Let us promote it together." On May 16th the two leaders met for the 43rd time. Russia has become an ever more important partner in China's push against American might. Economic ties have been growing stronger and there are signs of deepening military links. So far this month America has twice tightened sanctions on Sino-Russian trade. Mr Xi's government has responded furiously, urging the West to "stop smearing and containing China".

China is Mr Putin's first destination abroad after a sham election in March that gave him a fifth term as president. There is a symmetry of sorts with the meeting in 2023. That came just after China's parliament had given its rubber-stamp approval for Mr Xi to break precedent and serve a third term as president, and days after the International Criminal Court issued an arrest warrant for Mr Putin for war crimes in Ukraine. For both men their encounters are a display of contempt for the West's efforts to hobble autocrats.



The Economist

Russia's leader is a frequent flyer to China (see chart 1). This is his 19th visit since he became president in 2000. A trip to Beijing in February 2022, a few days before he launched his full-scale war against Ukraine, crossed a rubicon. The two leaders issued a joint statement in which they attempted to redefine dictatorship, boasting of their two countries' "long-standing traditions of democracy". They backed each other in their struggles against "attempts by external forces", by which they meant America, to "undermine security and stability in their common adjacent regions". Most eye-poppingly, when describing the China-Russia relationship, they said it "has no limits, there are no 'forbidden' areas of co-operation".

Whether there are limits to China's support of Russia is now the subject of intense scrutiny by the West. In many domains their friendship has been

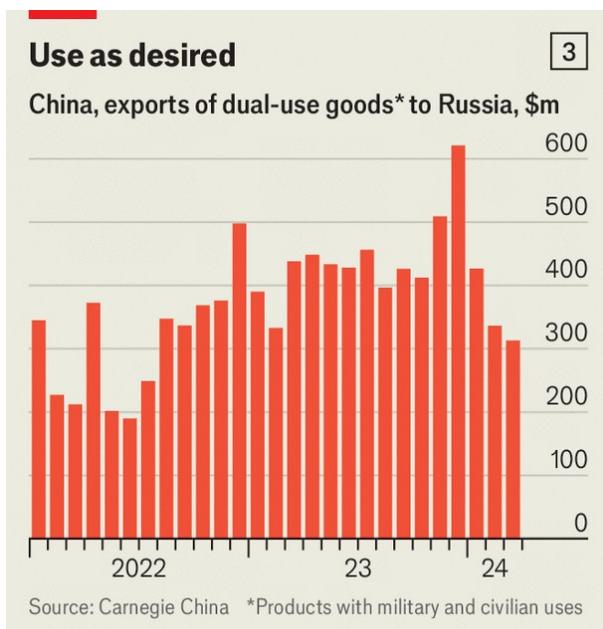
scaling new heights. Before arriving in Beijing on his latest trip, Mr Putin told Chinese state media that the two countries had “profound mutual trust” and were strengthening their “foreign-policy co-ordination in the interests of building a just multipolar world order”. America and its allies say Chinese firms provide critical support to Russia’s defence industry. China’s, as well as India’s, booming trade with Russia has been a lifeline for Mr Putin (see chart 2). And the Russian and Chinese armed forces have been exercising together more frequently.



The Economist

Of most concern to Western countries is the flow of Chinese technology and other useful items to Russian manufacturers of weapons. During separate visits to China in April, America’s treasury secretary, Janet Yellen, and secretary of state, Antony Blinken, berated Chinese officials about this. Mr Blinken told reporters at the end of his trip that China was the “top supplier” of machine tools, microelectronics and other items deemed by America to be “dual use”, meaning they have both civilian and military applications. “Russia would struggle to sustain its assault on Ukraine without China’s support,” he said. Later he told the World Economic Forum’s president, Borge Brende, that during the past year China’s tech had been enabling Russia to produce arms and ammunition “at a faster pace than at any time in its modern history, including during the cold war”.

Trade data support America's view. Take metalworking machine tools, which are needed to make arms. Before the war in Ukraine, many of Russia's providers of advanced types were from America, Europe and rich countries in Asia. Sanctions cut those supplies, prompting Russia to turn to China. In 2022 Russia's imports of machine tools from China grew by nearly 120% to \$362m, according to Chinese trade figures. In 2023 they rose again by nearly 170%. China's share of these Russian imports grew from less than 30% before the war to about 60% in 2022 and 88% in 2023. Writing for the Jamestown Foundation, an American research outfit, Pavel Luzin calls this dependency on China a "growing weakness and vulnerability" for Mr Putin.



The Economist

China must relish this transformation. In the early days of the People's Republic, before the Sino-Soviet split that began in the late 1950s, China leaned heavily on the Soviet Union, its "big brother", for aid and arms. The Centre for Strategic and International Studies (csis), an American think-tank, reckons Mr Xi's trip to Moscow in March last year accelerated the shift. In a report on Russia's defence industry, published in April, it said there was a "sharp increase" that month of Chinese shipments to Russia of dual-use goods designated by America as "high priority" (see chart 3). This means they are of great importance in manufacturing Russian arms and are subject to tight export controls in America and its allied countries.

Electrical machinery and parts, such as computer chips, make up the biggest share of Russia's imports of high-priority products. Nearly all of Russia's leading foreign suppliers of key military-related goods are from mainland China and Hong Kong, *csis* notes. Data compiled by *The Economist* show that China's exports of semiconductors to Russia were worth \$407m in 2023, up from \$230m in 2021. Its sales to Russia of machinery for making chips grew spectacularly in the same period, from a mere \$3.5m to nearly \$180m (see chart 4).



The Economist

The high-priority list includes ball bearings, used in the making of tanks. China's exports of these surged nearly 170% last year compared with the same period of 2021, the year before Russia's invasion. China's sales of them to Kyrgyzstan, meanwhile, rocketed by more than 1,800%. "While it's possible that Kyrgyzstan's domestic market suddenly requires ball bearings, the much more likely explanation is that these products are immediately re-exported to Russia," Markus Garlauskas and fellow scholars wrote for the Atlantic Council, a think-tank in Washington.

America is now ramping up pressure on China to stop selling the high-priority kit. On May 1st it imposed sanctions on nearly 300 foreign entities, including 20 firms from mainland China and Hong Kong. The Treasury Department accused them of helping Russia "acquire key inputs for weapons

or defence-related production". It is unclear whether any of the Chinese firms were acting under the state's direction.

In some respects Western countries can rest easy in the knowledge that there are limits to the China-Russia relationship. China is clearly mindful of the risk of escalation with America. In December President Joe Biden allowed the Treasury Department to impose sanctions on foreign banks involved in deals that help Russia's army. Several of China's state-owned banks have become extra-cautious, either halting or slowing down transactions involving Russian entities. Trade between Russia and China reached a record high of \$240bn in 2023. But having surged by 47% last year to \$111bn, China's exports to Russia have fallen in the past two months, by 16% in March and by 14% in April, year on year. Banking woes are likely to be a factor.

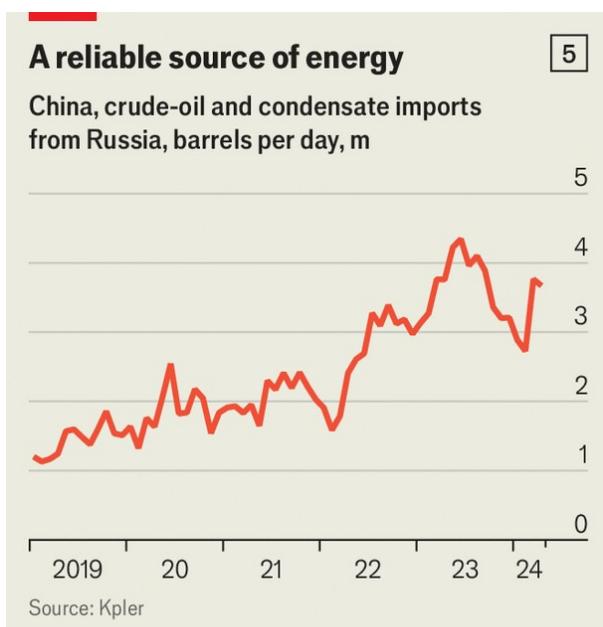
China is not entirely in line with Mr Putin's thinking on Ukraine. Mr Blinken has credited Mr Xi with persuading Russia not to use a nuclear weapon in Ukraine. China did not appear enthusiastic about Russia's decision to invade (it does not recognise Crimea or Donbas as part of Russian territory, as Mr Putin claims them to be). And a total Russian victory may not be to China's liking. It would risk focusing even more attention in the West on China's failure to rein in Russia and on the threat that China poses to the Western liberal order.

Yet China is ultimately keen to underwrite the Russian regime's survival. It would not want any outcome that causes Mr Putin to lose power. For one thing, he is just too useful in China's struggle with the West. This is evident in the ever closer relationship between the Chinese and Russian armed forces. In March the Russian, Chinese and Iranian navies staged joint drills in the Gulf of Oman, the latest in a series that began in 2018. A joint naval patrol in August by Russia and China near Alaska was possibly their largest so close to the American mainland.

Russia and China are not yet preparing to fight alongside each other. In their latest annual threat-assessment, published in February, America's spies said the joint manoeuvres had resulted in "only minor enhancements to interoperability". They appear more a way of signalling the depth of the relationship. One implicit message is that, should China and America go to

war, America would have to reckon on Russia giving China indirect support, at least.

Given Russia's difficulties in Ukraine, China may have concluded that attacking Taiwan across a strait more than 125km wide with troops lacking any combat experience would be a risk best not taken for a while longer, if hazarded at all. However, Mr Xi wants to show America that he is prepared to fight, and to get his country ready for that possibility.



The Economist

Russia has a role to play here. Were war to break out between China and America, Russia could keep China supplied with at least some of the energy it needs, bypassing American-controlled maritime choke-points by using pipelines and overland routes. Last year China's imports of Russian oil reached a record high of 107m tonnes, 24% more than in 2022 (see chart 5). Russia supplied nearly one-fifth of China's crude imports, making it the biggest source. China's imports of Russian natural gas rose 62%. Russia wants China to buy even more, through a proposed second gas pipeline. Talks have dragged on for years, with China playing hardball on the price.

Mr Putin's war in Ukraine has not made life easy for Mr Xi, to put it mildly. It has focused Western attention on the need to bolster Taiwan's defences, potentially making it even more challenging for Mr Xi to seize the island.

And it has made European countries more wary of China: its support for Russia is seen as an indirect threat to the continent's security.

But if Mr Xi has any misgivings about fallout from the war, he will not let them weaken the relationship. He and Mr Putin appear genuinely chummy. They give each other birthday cakes and down vodka together. Mr Putin also makes the Communist Party feel safer: were Russia to be ruled by a liberal pro-Western leader, Mr Xi would fear contagion. At their meeting in Moscow last year, the two leaders pledged to co-operate in fighting “colour revolutions”, meaning popular challenges to authoritarian rule. This is not a marriage of convenience. For both men, it is one of vital, long-term necessity. ■

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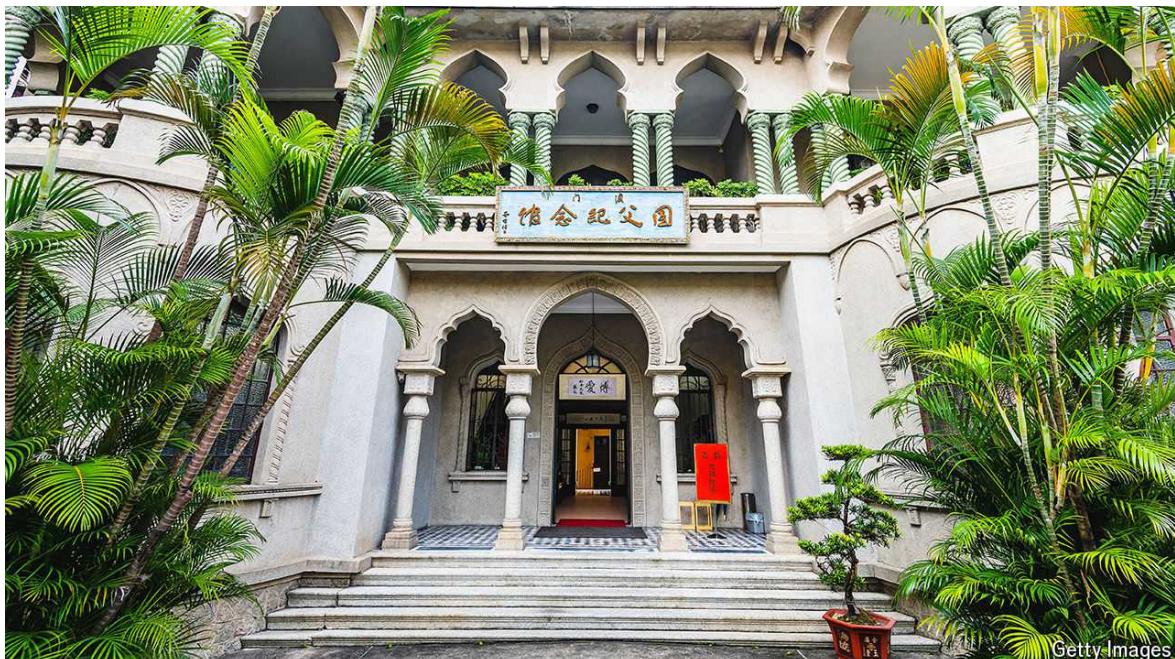
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**China** | Where Sun never sets

# How Taiwan still hangs on to property in bits of China

*Reverence for a pre-Communist leader may make China stay its hand*

May 16th 2024



THERE ARE few places within China's borders where displaying Taiwan's national flag is allowed. One is the Sun Yat-sen Memorial House, a museum in Macau where more than a dozen Taiwanese standards are on display. Some are near the entrance and visible to pedestrians outside. There are also two enormous posters that declare Taiwan "the Heart of Asia" (a Taiwanese tourism logo). In a reading room one finds newspapers and magazines published by Taiwan's government.

There is a rather simple—yet surprising—explanation for all this. Even though China's leaders in Beijing claim Taiwan as their own territory, Taiwan's government can still own property in corners of Hong Kong and

Macau. The Sun Yat-sen Memorial House is one such piece of real estate. It is devoted to the man who has been dubbed “the father of modern China”. Sun overthrew the Qing dynasty in 1911, occasionally using Macau as a base for his activities.

The museum is a three-storey mansion built in 1931 as a residence for Sun’s first wife. (Sun died in 1925.) Yet from the outset it was owned by the Kuomintang (KMT), the party founded by Sun in 1912. It ruled most of the Chinese mainland from 1928 to 1949, fleeing to Taiwan following its defeat in China’s civil war. In 1958 the KMT, then running Taiwan as a dictatorship, opened up the old residence to tourists. Later on, after Taiwan became a democracy, the party handed the property to Taiwan’s Mainland Affairs Council, which now owns the museum through a holding company.

Though Sun remains an icon of unity in China and Taiwan, leaders in Beijing may still be touchy about some of the museum’s displays. A grainy black-and-white photo shows Chiang Kai-shek, a KMT leader and once the Communists’ arch-nemesis. The English caption calls Chiang the “late president”, a title for him that is common in Taiwan but taboo in China. In another picture Sun is seen inaugurating the Chinese Whampoa Military Academy, which still exists as modern Taiwan’s military college. The boorish words “Republic of China” can be spotted on a copy of an old gold-bond certificate from 1911.

Yen Chen-shen of the National Chengchi University in Taipei, Taiwan’s capital, says the Taiwanese government worries that China may seize its properties. He is reminded of how the South Korean government, upon switching recognition from Taiwan to China in 1992, handed the Taiwanese embassy in Seoul to the mainland government. Taiwanese diplomats, who believed the building belonged to Taiwan, trashed it before leaving, according to Chinese state media. Sun, however, is so revered that even if China were to grab the museum, its current occupants would not dare to desecrate it.■

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## Middle East & Africa

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## How a Russia-linked mine may keep the ANC in power

*South Africa's ruling party was broke a few months ago, but its fortunes are changing*

May 16th 2024



Getty Images

JUST A FEW months ago the African National Congress (<sup>ANC</sup>) had the bailiff at its door. A court had ordered the seizure of assets from its headquarters over an unpaid 102m rand (\$5.6m) bill for campaign posters produced for the previous election in 2019. It was not the first time of late that courts had been asked to force the <sup>ANC</sup> to pay up. In 2022 employees of the party, which has ruled South Africa for 30 years, sued over unpaid salaries. It was so broke that it said it was trying to find lawyers willing to work pro bono on its case.

The latest cash crunch could not have been more dangerously timed. On May 29th the <sup>ANC</sup> will face its toughest general election since Nelson Mandela won power in 1994. Pollsters reckon its share of the national vote will fall below 50%, with recent surveys putting its support in the mid-40s. The higher its share, the more able the <sup>ANC</sup> will be to form a coalition with small parties in which it is dominant. A poorer showing would force it to share power with either the liberal opposition Democratic Alliance or with radical populists such as the Economic Freedom Fighters.

[Follow the race for the presidency of South Africa with our poll tracker and guide to the presidential hopefuls](#)

Quite how well or badly the <sup>ANC</sup> will do in the election will depend in no small part on the size of its war chest. Campaigning in South Africa is less about television advertisements than it is about getting the vote out. That means hiring costly stadiums for rallies, printing T-shirts, and plastering its logo on streetlamps across the country, not to mention the expenses of supporting its organisational machine on election day. Yet as campaigning enters its final stretch, the <sup>ANC</sup> seems to have put its financial woes behind it.

The cause of its transformed fortunes may be found near Hotazel, a dusty town in the Kalahari Desert that takes its name from the area's sweltering summer heat. There United Manganese of Kalahari (<sup>UMK</sup>), a controversial mine with Russian connections, digs up manganese. Calculations by *The Economist* show that <sup>UMK</sup> and some of its shareholders have been responsible for almost half of all declared donations to the <sup>ANC</sup> since the introduction of disclosure requirements in 2021.

“The mine belongs to the Russians and the <sup>ANC</sup>,” says Kgomo Motsego Mabejane, a local who accuses its owners of breaking a promise that the company would bring riches to the area. The mine’s investors include firms linked to Viktor Vekselberg, a Russian billionaire placed under Western sanctions for, among other allegations, supporting Vladimir Putin’s seizure of Crimea, and a South African consortium dominated by a politically connected businessman and Chancellor House Trust, an <sup>ANC</sup> funding front named after Nelson Mandela’s old law-firm offices.

The mine is lucrative: it has declared almost \$500m in dividends since 2013. Some of the payouts to the South African shareholders have been reinvested to increase Chancellor House’s stake in the mine to about one-fifth, says Dewald van Rensburg of amaBhungane, a South African investigative-journalism outfit that first uncovered <sup>UMK</sup>’s finances.

The mine is probably not Chancellor House’s only source of funding. In addition to its mining interests, its website lists a portfolio of investments in energy, engineering and manufacturing, though without providing any details. Nor was the mine its only controversial investment. In 2015 Hitachi, a Japanese firm, agreed to pay a \$19m fine to America’s Securities and Exchange Commission (<sup>SEC</sup>) to settle corruption charges relating to payments of about \$6m to Chancellor House, to which it had sold a 25% share in a South African subsidiary. The <sup>SEC</sup>, which called Chancellor House a front company and funding vehicle for the <sup>ANC</sup>, said Hitachi made payments to it “for its exertion of influence” during bidding for two large contracts that it was awarded by Eskom, the state-owned electricity utility. Hitachi’s settlement was not an admission of guilt and Chancellor House denied wrongdoing at the time.

## Trapped cash

Yet the dividends and assets that piled up in Chancellor House could not easily flow to the <sup>ANC</sup> after 2021 because of the enactment of a campaign-finance law that was intended to keep big money out of politics. Until this month that law prevented political parties from accepting more than 15m rand a year from a single donor and also required parties to disclose all contributions worth more than 100,000 rand. Finance Uncovered, another investigative-media unit, reckons Chancellor’s share of <sup>UMK</sup> is worth \$125m-180m. The cap meant that it would have taken Chancellor House more than 150 years to donate the full value of its stake to the <sup>ANC</sup>.

A crude way of evading this limit was to have Chancellor House, <sup>UMK</sup> and a holding company linked to the South African consortium donate money separately, in effect tripling the 15m-rand cap. But even this appears to have been insufficient to slake the <sup>ANC</sup>’s thirst for finance. On May 7th Cyril Ramaphosa, the president, signed a law abolishing the cap and disclosure

requirements and giving himself the power to set new ones. Until he does so, parties are free to stuff their coffers in secret, says Robyn Pasensie of My Vote Counts, a watchdog that has applied to the high court to throw out parts of the new law. “This places South Africa’s constitutional democracy and party accountability in peril and would facilitate the undue influence by certain companies and actors in South Africa’s political and governance system,” the organisation said in its application. “It is plainly unconstitutional.”

The timing of the new law may, perhaps, have been coincidental. But the notion that the government might have legislated with the aim of allowing unlimited secret donations to the ruling party just before an election seems entirely in character with how, in an act of self-dealing, the <sup>ANC</sup>-led government gave a slice of a valuable mining company to Chancellor House in the first place.

In 2004, just as Mr Vekselberg arrived in South Africa looking for opportunities, a new law was shaking up South Africa’s mining industry. Firms had to reapply for rights to prospect and mine. Black economic empowerment (<sup>BEE</sup>) rules favoured applications led by those who had been excluded from the economy under apartheid.

Up for grabs underneath the red soil of the Northern Cape province were four-fifths of the world’s manganese reserves. The richest seams were thought to be in three plots that today form the core of <sup>UMK</sup>’s mine. Applications to mine these should have been assessed on a strict first-come-first-served basis by the Department of Minerals and Energy.

Yet Vicki Robinson and Stefaans Brümmer, two journalists, found the scales had been tilted towards Chancellor House and its partner, Pitsa Ya Setshaba, a firm led by Lazarus Mbethe, a businessman. Pitsa Ya Setshaba was a new company that had not been incorporated until months after several other viable bids had been submitted, including one made in partnership with Xstrata, a mining giant. Chancellor House, meanwhile, had not even bid for the three key plots. Another bidder complains that its applications for these were ignored and instead it was allocated “crappy farms” it had not asked for: “I applied for apples and I got pears,” said the bidder.

At the same time there was a flurry of economic diplomacy between Russia and South Africa, in which Chancellor House and Pitsa edged in front of other politically connected <sup>BEE</sup> groups that were jockeying to partner with Mr Vekselberg's Renova group. At the time the government defended the decision to award the rights to Chancellor House and Pitsa Ya Setshaba by saying that Mr Mbethe had been involved in another consortium which had bid earlier. Mr Mbethe, <sup>UMK</sup>, Chancellor House and the <sup>ANC</sup> did not respond to requests for comment.

One last hurdle was to secure local support for the project in an area blighted by poverty. Mr Mbethe set up the Kuruman Community Trust in 2005, promising representatives of 27 surrounding villages that they would share in the mineral area's wealth via the trust's shareholding of 4% in the mine. Today that stake in <sup>UMK</sup> should be worth at least \$20m, but many villagers feel little has trickled down.

A demonstration at the <sup>UMK</sup>'s front gate and a documentary by South Africa's main investigative broadcast show, Carte Blanche, have failed to persuade Mr Mbethe to reveal the trust's finances. The protesters say they are planning to sue. "They said they were going to change our lives," says Mrs Mabejane. "They used us so they can get a mining permit." Nnuku Matilo, another local activist, argues that the <sup>ANC</sup>'s link to the mine has created a conflict of interest that compromises the government's oversight of it and the enforcement of the agreement to ensure that surrounding communities benefit.

Since the Ukraine war began, analysts have wondered why South Africa has refused to condemn Mr Putin's actions. The muscle memory of historical ties between the Soviet Union and the <sup>ANC</sup> cannot fully explain the situation, as many of the party's guerrillas were trained in Ukraine. William Shoki, the editor of Africa is a Country, a blog, believes that the <sup>ANC</sup>'s equivocation is useful internationally, where it is trying to establish itself as a non-aligned "superpower". Standing up to America may also be a vote-winner. "Lacking domestic political legitimacy, the <sup>ANC</sup> has found a new lease of life by fashioning an external adversary," he says.

Yet there may also be baser motives. <sup>UMK</sup> makes some of its money from Russia: it has sold ore worth some \$70m to Russian smelters over the past

two years. And it has historic and current links to Mr Vekselberg, whom America's treasury department has described as having close ties to Mr Putin and directly or indirectly "having acted or purported to act for or on behalf of" the Russian government (which he denied in 2019). When the ANC's leadership considers its geopolitical stance, there may be conflicts between the national interest and the party's financial goals. ■

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Middle East & Africa | Somalia's never-ending crisis

# War and climate change are overwhelming Somalia

*It has already been battered by three decades of conflict*

May 16th 2024

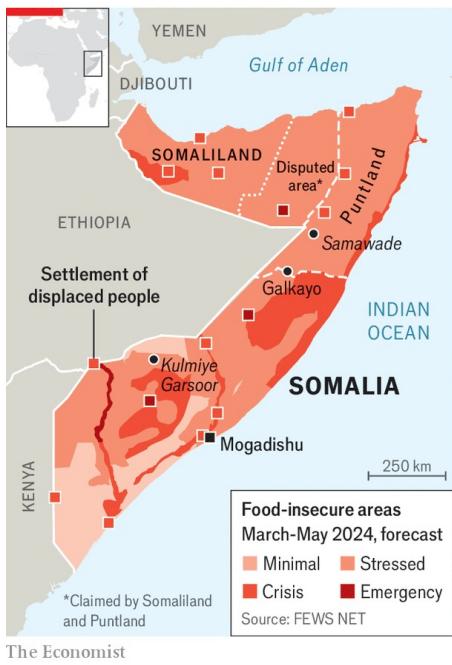


Simon Clement

AS THE SUN beats down on the dusty yellow soil and a cluster of tin shacks near the city of Galkayo, in central Somalia, mothers point to their children, looking on shyly. Then almost all express variations of the same words: “I don’t know what I will feed them,” or “I have not cooked today because I have no food”.

Their is a despair felt across a country where first it never rained, and then it poured. Between 2020 and late 2022 the rains, which usually come twice a year, failed five times in a row, causing Somalia’s worst drought in 40 years and pushing the country to the brink of a famine. Disaster was averted only by a \$2.4bn emergency response led by the UN’s World Food Programme (WFP)

and international charities including Save the Children. Then last year came the country's worst flooding in a century, which swept away fields, driving up food prices, and forced more than a million people to leave their homes.



“If anyone doesn’t believe in climate change, this is clear testimony that it is happening,” says El-Khidir Daloum, the <sup>WFP</sup>’s country director for Somalia. “The Somali people didn’t contribute to the climate crisis, but they are suffering from it.”

The tiny settlement of Samawade is a microcosm of Somalia, a fragile state that has been engulfed in war since 1991 and that now finds itself at risk of being overwhelmed by more frequent extreme weather. Almost all of the 167 families living here have fled conflict, drought or floods, some of them more than once. Some, strictly speaking, are refugees from nearby countries, including Ethiopia and Yemen.

The precarious lives they now lead highlight not only how hard it is to rebuild failed states, but also how even the best-intentioned international efforts to do so can still leave people stuck in a dismal limbo, unable to return home but also unable to move on. And as the number of displaced and desperate Somalis has grown, so their mounting humanitarian needs are running up against rising donor fatigue.

About 4m Somalis, or roughly a fifth of the population, are facing “crisis” or “emergency” food insecurity, in the jargon used by the UN’s experts to describe the finer gradations of human suffering. Plainly put, these are the two topmost rungs of a ladder of unimaginable misery, just below famine, the top rung. Among those climbing this ladder of death are 1.7m children under the age of five who face acute malnutrition. “My biggest worry is what will my children eat,” says Muslimo, a mother of nine. “We need help.”

Yet her plea is being ignored. Of the \$1.6bn required for the humanitarian response in Somalia this year, less than \$200m has been funded. That, says Mohamed Abdiladif, the acting country director for Save the Children in Somalia, is forcing aid agencies and charities to make impossible choices about whom to help. “You see with your own eyes children who are severely malnourished and there is nothing very much you can do for them,” he says. “When you are incapable to help, it really makes you question a lot.”

Extreme weather and conflict are the most direct causes of the current crisis. But they would not be nearly as deadly if Somalia’s people had not been impoverished by decades of fighting and rapacious rule by warlords, jihadists and corrupt officials. Almost all statistics in the country, including population estimates, should be taken as guesswork. The last census was conducted in 1986, but was never released. Even so, it is certain that Somalia is one of the poorest countries on earth. Its GDP per person is probably less than \$800.

Two things keep the economy afloat. The first is Somalia’s diaspora, which sends home about \$2bn a year, a sizeable sum in a country with a GDP of only around \$10bn. The second is foreign aid, which added up to about \$3.6bn last year. That makes aid Somalia’s biggest industry after agriculture. It is also a tempting source of patronage and a target for graft in a country ranked the most corrupt out of 180 in an annual index compiled by Transparency International, a watchdog.

Somalia’s reliance on humanitarian aid may also help explain why roughly one in five of its people is stuck in godforsaken camps like Samawade. Across Somalia almost 4m people are classified as “internally displaced”, up from about 1m a decade ago. Many would much rather return to their old

homes and livelihoods or get jobs and new homes in the cities than stay where they are. “I love farming,” says Halima, a grandmother. “You sleep when you like and you work when you like.” Yet going home is not always an option: her farm was washed away by floods.

Daka, who has lived for five years in Kulmiye Garsoor, another camp, hankers after her old life of tending herds that roamed in search of grazing. “I would go back because I would be someone with something,” she says, recounting how she once owned 40 goats and two donkeys. The grass has returned with the rains, but Daka has no capital to replace her livestock, which perished in a drought.

Instead it is displaced people who are, in effect, being herded having been pushed into camps, often on private land, where they have no security of tenure and rely on handouts. Right now they need urgent help to feed their children and themselves. But if Somalia is to break its cycle of crises, its rulers will have to start seeing them as citizens, not displaced people, and invest in transforming supposedly temporary camps into permanent neighbourhoods, complete with schools, clinics, decent houses—and jobs. ■

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Middle East & Africa | The Hamas-Israel conflict

## On Independence Day Israel is ripping itself apart

*Anger, tears and recriminations*

May 14th 2024



Flash90

THE TORCH-LIGHTING which traditionally opens Israel's Independence Day was broadcast on the evening of May 13th as usual. But instead of being televised live as before, the event was pre-recorded. The government said this was because of the solemnity of holding the ceremony while the nation is at war. The real reason, however, was the politicians' fear that it would be disrupted by protesters, furious with their failings in handling the war. In a breach of protocol, some broadcasters screened an alternative ceremony organised by the families of hostages held in Gaza, protesting against the government.

As Israel celebrated the 75th anniversary of its independence a year ago, it seemed to many, including this newspaper, that the most immediate threats

to its prosperity, stability and security came from within. A new government, in which far-right and religious nationalist parties held sway, had launched a [radical constitutional overhaul](#), aimed at dramatically weakening the independent Supreme Court. The proposed reforms brought hundreds of thousands of Israelis out on the streets in bitter protests against what they saw as the dangerous erosion of their country's democratic foundations.

[Read all our coverage of the war between Israel and Hamas](#)

It was a clash between two Israels: a secular and, at least in its own eyes, liberal state still aligned with the ethos of Israel's socialist-Zionist founders; and the new Israel of the ruling right-wing Likud party and its ultra-Orthodox partners. Those two visions of the country's identity looked increasingly incompatible. Constitutional crisis loomed and Isaac Herzog, Israel's president, warned of civil war.

Meanwhile longstanding external threats—the current conflict with the stateless Palestinians and an increasingly aggressive Iran—seemed manageable. The salience of Israel's festering occupation of the Palestinians in the West Bank and the blockade of Gaza had faded regionally and internationally. Israel had formalised diplomatic relations with five Arab countries and a breakthrough with Saudi Arabia seemed to be around the corner. Joining together to confront the influence of Iran, a shared rival, took precedence over resolving the plight of the Palestinians.

Fast-forward 12 months to the 76th anniversary and the dangers beyond Israel's borders loom large. Israel is stuck in a [disastrous war in Gaza](#), triggered by the atrocities inflicted by Hamas, the Palestinian Islamist movement, last October. The conflict has killed around 35,000 Palestinians, including Hamas fighters. That has triggered a wave of legitimate protest against Israel, legal action accusing it of [breaking international law](#) and a global upsurge in antisemitism. President Joe Biden has begun to restrict the supply of arms to Israel in order to dissuade it from a full-scale invasion of Rafah, Hamas's last stronghold, and to curb critics at home.

Beyond Gaza the picture is grim. [Hizbulah](#), the Iran-backed Lebanese militia, has launched its own war of attrition. The wider region has become more threatening. [The Houthis](#) in Yemen are targeting shipping in the Red

Sea, as part of what they claim is a siege of Israel. On April 13th Iran launched a direct strike on Israeli soil in retaliation for the bombing of its diplomatic compound in Damascus.

A coalition of Western and Arab armed forces helped Israel fend off Iran's attack, averting open war, for now. But as the death toll mounts in Gaza, ties with Israel's Arab neighbours are fraying. The relationship with Egypt, which also borders Gaza and worries about the conflict spilling over, looks particularly fragile. Saudi Arabia's crown prince and de facto ruler, Muhammad bin Salman, is apparently still open to "normalisation" with Israel, but wants to see a ceasefire in Gaza and a revival of the peace process with the Palestinians first.

Initially Israel responded to the Hamas attack with a display of unity. The trauma of the massacre of nearly 1,200 people and the kidnapping of over 250 into Gaza blotted out the divisions. Some 300,000 reservist soldiers, including many who before the war had been threatening to suspend their service in protest at the proposed constitutional changes, rushed to their units. Israelis seemed to set aside their differences; secular and religious volunteers came together to help families who had been displaced by the fighting. Support for the war and for Israel's armed forces was strong.

## **It couldn't last**

But as the conflict has continued, the splits within the country have resurfaced. Support for the invasion of Gaza has not translated into support for the government. The disputes over the judicial system have been replaced by anger at the politicians who have catastrophically mishandled the war. Among the sites Hamas attacked were kibbutzim and a music festival, both bastions of the secular, liberal Israel so at odds with the government of [Binyamin Netanyahu](#). Kibbutz survivors have refused to meet the prime minister, who has infuriated many Israelis by failing to take responsibility for the intelligence and defence failures that preceded October 7th.

Resentments have deepened as Israelis have argued over whether they shouldered an equal burden in the war. The fighting has sharpened secular

Israelis' anger at the ultra-Orthodox, who make up 13% of Israelis and whose young men have long been exempted from military service. The exemption has been ruled unconstitutional by the Supreme Court, to the anger of the ultra-Orthodox parties that are a key element in Mr Netanyahu's coalition.

On Memorial Day, which falls the day before Israelis celebrate their independence, the country remembers fallen soldiers and victims of terror attacks. This year ministers were heckled at services of remembrance. Relatives of soldiers killed in Gaza walked out of Mr Netanyahu's speech at the national cemetery. In his address Mr Herzog implored Israelis to heal their rifts. A year ago the president tried to use his position, above politics, to find a compromise over constitutional reform. He failed to reconcile Israel's warring tribes then and seems likely to fail now.

The divisions between Israelis have shaped the course of the war. Mr Netanyahu has refused to formulate a strategy to end the conflict beyond the vague goals of "destroying Hamas" and "total victory" because he remains so dependent on his far-right partners. They make no attempt to hide their desire to re-occupy Gaza permanently and rebuild the Jewish settlements that Israel dismantled there in 2005.

A huge majority of Israelis supported the war in its early months. That is changing. According to one recent survey 62% of the country now think a temporary ceasefire agreement to free the surviving hostages in Gaza should take priority over another military push into Rafah. But Mr Netanyahu is reluctant. The hardliners in his cabinet are threatening to bring down the government if he pauses the war.

Those who protested against Mr Netanyahu's judicial reforms are back on the streets, but they have struggled to find a unified message. Some call for the release of the hostages, whatever the price. Others are demanding an end to the war. Many are simply clamouring for Mr Netanyahu to go. Meanwhile the government's supporters have organised their own pressure groups of families of hostages and fallen soldiers who demand that Israel continue to pummel Gaza.

The Biden administration and its partners in the Middle East have offered Israel a way out of the war with the vision of a “revitalised” Palestinian Authority replacing Hamas in Gaza and the building of an America-backed regional alliance against Iran and its proxies. Achieving this would be far from simple, but would be preferable to what looks like an unwinnable war.

And yet the splits within Israel are making it nearly impossible for the country to follow that path. It is blocked by the combination of a deeply traumatised and divided population, an electoral system that gives disproportionate power to small radical parties and an unpopular leader fighting for his political survival above all else. A year ago, those on the right, including Mr Netanyahu, thought Israel could survive its domestic turmoil in part because it no longer faced the external threats of the past. Today, it is clear that even at the height of war, the greatest threats to Israel remain those within its own borders. ■

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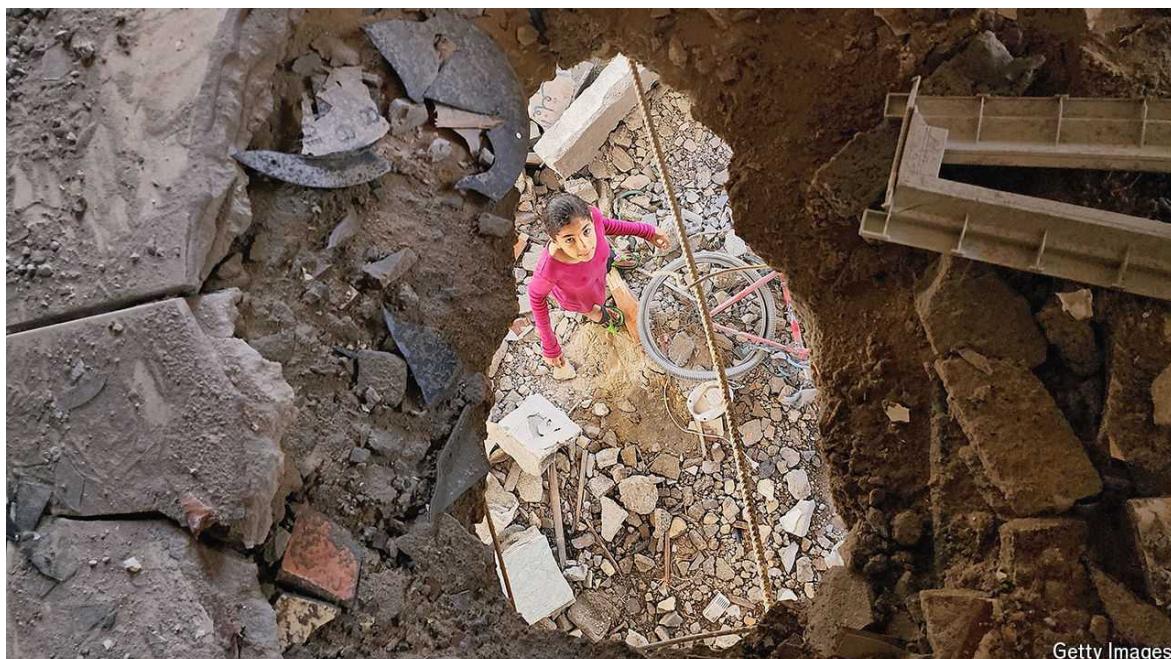
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Middle East & Africa | Israel in Gaza

## The Israeli army is caught in a doom loop in Gaza

*And the refusal to plan for the day after the war is fuelling a crisis with America*

May 16th 2024



Getty Images

IN RAFAH THE stakes could not be higher. Supporters see Israel's military offensive there, which began earlier this month, as a necessary assault on Hamas's last bastion. Sceptics worry it will doom continuing talks about a hostage deal and, perhaps, the hostages themselves. Much of the world fears it will become a human tragedy, killing thousands of Palestinians and displacing a million more.

There was less drama around the Israeli campaign in Zeitoun, in northern Gaza, which began days after the fighting in Rafah. Instead there was a sense of *déjà vu*. Israel's army fought there last year, at the start of this war,

and returned for a two-week offensive in February. Now it is back for a third time, and perhaps not the last.

[\*Read all our coverage of the war between Israel and Hamas\*](#)

The twin campaigns say much about Israel's faltering war effort. Though the Israel Defence Forces (<sup>IDF</sup>) have real objectives to pursue in Rafah, talk of the city as Hamas's last stand is overblown: the group's fighters may melt away. Hamas is trying to reassert control in other parts of Gaza—and eight months into the war, Israel has no plan for how to prevent that. The refusal of Binyamin Netanyahu, the prime minister, to talk about post-war arrangements has estranged President Joe Biden and, increasingly, his own generals as well.

Israel began its push into Rafah on May 6th, when it dropped leaflets urging residents to evacuate areas on the city's periphery. It has moved slowly, first seizing the Rafah crossing between Egypt and Gaza and several kilometres of land along the border. By May 14th there were reports of Israeli tanks in residential neighbourhoods in eastern Rafah, but they were still some distance from the city centre.

The border has strategic value. For decades it has been honeycombed with tunnels, which Hamas used to smuggle weapons, construction equipment and other items into Gaza. Cutting the group's supply lines is important, though it also risks a crisis with neighbouring Egypt, which was angry that Israel did not give it much notice before it seized the crossing.

Yet for many Israeli politicians, the real focus of the Rafah offensive is Hamas itself. The <sup>IDF</sup> claims that 19 of its 24 battalions have been "dismantled" (the meaning of that term is open to interpretation), with four still intact in Rafah. Those battalions have taken on totemic importance for some Israeli officials: Mr Netanyahu has talked about them for months.

As the Israeli offensive gets under way, however, defence officials believe Hamas has already shifted a chunk of its forces elsewhere. It will leave a contingent in Rafah to harass the <sup>IDF</sup>, but there will be no dramatic showdown: like most guerrilla movements, Hamas will want to avoid head-on conflict with a better-armed foe.

Instead it is attacking Israel elsewhere. In recent days Hamas has shelled the Netzarim corridor, a line of Israeli outposts that runs the width of Gaza; fired at Kerem Shalom, the main commercial crossing between Israel and Gaza; and launched volleys of rockets at Sderot and Ashkelon in southern Israel. The group is also trying to move fighters back into northern Gaza—hence the *déjà vu* in Zeitoun and Jabalia, another area that Israeli troops returned to this month after a long absence.

Strategists often talk of a “clear-hold-build” approach to counter-insurgency: clear an area of insurgents, hold onto the gains and build an alternative. Israel is only doing the first bit. Aside from the Netzarim corridor, there have been almost no Israeli troops in Gaza for the past two months, leaving a vacuum that Hamas has inevitably tried to fill.

A fortnight ago Mr Biden delayed a shipment of 3,500 guided bombs due for delivery to Israel. In an interview on May 8th he threatened to go further, saying he would cut off the supply of bombs and artillery shells if Israel went ahead with an offensive in Rafah. Mr Biden’s words were inelegant, and he may have overstated his own policy: a week later his administration notified Congress it was advancing a \$1bn shipment of military aid, which included tank rounds and mortars. Still, he caused an uproar in Washington, where Republicans and some Democrats accused him of tying Israel’s hands in Rafah.



Yet Mr Biden has never demanded that Israel refrain from attacking the city, only that it create a plan to evacuate civilians to areas with adequate humanitarian aid. The evacuation is now under way: an estimated 600,000 Palestinians have fled Rafah this month. It has not been smooth. Some Palestinians went to al-Mawasi, a barren strip of coastline which Israel has designated a “humanitarian zone”. Others have returned to cities farther north, such as Khan Younis and Deir al-Balah, which had already been battered by months of fighting.

New arrivals to al-Mawasi describe inhuman conditions, with tents crammed together on the dunes, little food and water available and no infrastructure for sewage. After Israel seized the Rafah crossing earlier this month, Egypt halted deliveries of aid. Kerem Shalom has been repeatedly closed because of Hamas rocket attacks. In the week from May 6th, just six lorries carrying aid entered southern Gaza. Aid workers say supplies are running low across the south just as hundreds of thousands of people are on the move—not at all the organised evacuation Mr Biden urged.

This is not the first time Mr Netanyahu has ignored Mr Biden’s demands. He has refused to talk about “the day after” in Gaza, despite pleading by American officials. The Americans have promoted their own plan, which starts with an Israeli commitment to let the Palestinian Authority (<sup>PA</sup>) return

to Gaza. From there they hope to broker a tripartite deal in which Saudi Arabia would normalise ties with Israel. That could unlock Arab support for reconstruction and restart a peace process between Israel and the Palestinians.

## Nature abhors a vacuum

All this is easier said than done: it is hard to imagine, for example, that a weak and corrupt <sup>PA</sup> could effectively rule Gaza. But it is a better plan than the Israeli one, which is no plan at all. Mr Netanyahu has ruled out bringing the <sup>PA</sup> back to Gaza and has spent months wrongly equating it with Hamas. His far-right allies want to rebuild the Jewish settlements that Israel dismantled in 2005. While the prime minister does not share that goal himself, he does not want to upset them by promising Palestinian control of Gaza. Instead he has allowed the territory to lapse into anarchy.

Israeli generals have grumbled about this privately for months. At a press conference on May 14th Rear Admiral Daniel Hagari, the army spokesman, was asked whether the repeat offensives in northern Gaza were the result of the government's failure to make post-war plans. "There is no doubt that an alternative to Hamas would put pressure on it, but that is a question for the political echelon," he said. To many Israelis, his words sounded like a rare rebuke of Mr Netanyahu's policy.

The next day Yoav Gallant, the defence minister, warned that Israel might be headed for prolonged military rule in Gaza. American officials agree. "They will be left holding the bag on an enduring insurgency," Antony Blinken, the secretary of state, told <sup>CBS</sup>, a broadcast network, warning of the risks of leaving Hamas a vacuum to fill.

There is blame to go around. The <sup>IDF</sup> pushed for a big ground offensive in October knowing full well that Mr Netanyahu would be loth to talk about post-war diplomacy. America supported that offensive. They are belatedly realising what should have been clear months ago: that without a plan to secure and govern Gaza, Israel will be fighting a war without end. ■

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Middle East & Africa | American arms to Israel

## Israel has seen arms embargoes before

*But this time it will struggle without American military support*

May 16th 2024



Getty Images

On May 8th President Joe Biden confirmed that his administration would withhold shipments of certain kinds of bombs if Israel extends its invasion of Rafah, Hamas's last main stronghold in Gaza, where over a million civilians have taken shelter.

Israel has been here before. In 1969 Britain and France imposed arms embargoes and Israel found itself without its main suppliers of tanks, fighter-jets and warships. In response, it increased its purchases of American weapons while investing heavily in its own arms industry. To replace the embargoed British Chieftain tank, it built the formidable Merkava, updated versions of which are currently being used in Gaza.

[Read all our coverage of the war between Israel and Hamas](#)

Today Israel's arms industry is one of its main sources of export revenue. But in the mid-1980s defence costs were part of what nearly brought Israel to financial meltdown

To balance its budget, Israel looked to America. In Israel's early years, America refused to sell it arms as it tried to remain impartial in the Middle East. But after Israel's victory in the six-day war of 1967 and as the cold war intensified, America increasingly saw Israel as its main regional ally. It agreed to sell Israel weapons and then subsidised them with an annual Foreign Military Financing programme which since 2019 has reached \$3.8bn.

The reliance on its weapons and money has given America leverage. It threatened to withhold arms to get a ceasefire to end the Yom Kippur war of 1973 and to limit Israel's invasions of Lebanon in 1982 and Gaza in 2015.

Some in the Israeli security establishment worry about relying too much on America. "Buying American weapons is an easy choice, but in the long term it has weakened Israel's ability to develop its own capabilities," says a bigwig at a local arms-maker.

Binyamin Netanyahu, Israel's prime minister, said recently that, if Israelis must stand alone, "we will stand alone." Some of his supporters have called for just that: an end to Israel's dependence on America. More level-headed Israelis think that is a dangerous illusion. ■

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# Europe

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Europe | Three-body problem

## Germany's government is barely holding together

*The mood in the country is miserable—and it is getting worse*

May 15th 2024



VISITORS TO GERMANY'S capital may mistake the *Berliner Schnauze* (literally “snout”), an earthy form of local wit, for grumpiness. But there is no misreading the mood in Germany today. A deep malaise has settled on the country. Four-fifths of Germans tell pollsters they are unhappy with their rulers. And a series of upcoming political and electoral trials could test the government to breaking-point.

In December 2021, after an election delivered a fragmented parliament, the Social Democrats (<sup>SPD</sup>), Greens and the pro-business Free Democrats (<sup>FDP</sup>) yoked themselves together in Germany's first three-party coalition for more than 60 years. After 16 stable but uninspired years under Angela Merkel, the parties in the *Ampel* coalition, so named because their colours mimic a

traffic light, seemed to promise a throupling that would bring excitement and new ideas. Climate change would make awesome demands of Germany's industrial economy, and the country's creaking bureaucracy needed yanking into the 21st century. The three parties might not agree on every policy, but shared a commitment to modernising the country.

What went wrong? Of the failure's many fathers, three stand out. The first was Russia's invasion of Ukraine in February 2022. Not only did Vladimir Putin's war overturn the assumptions of some of Germany's foreign-policy elites, it disrupted the young coalition's animating mission.

Olaf Scholz, the <sup>SPD</sup> chancellor, responded by announcing big changes in energy and security policy. Germany weaned itself off Russian gas, began transforming the clapped-out Bundeswehr and became one of Ukraine's sturdiest allies. But the energy shock hammered German industry, which had long grumbled about high prices, and unsettled inflation-allergic voters.

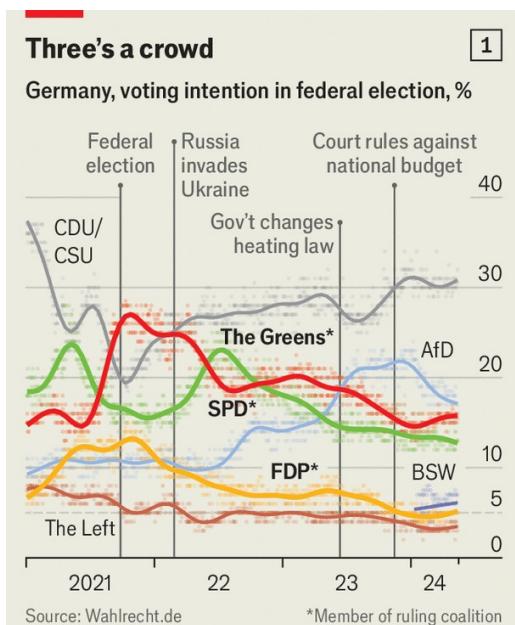
The second event was a dispute over an ill-prepared law that would have in effect banned new fossil-fuel boilers from homes in place of greener heat pumps. The coalition split, and took a pasting in the tabloids. By the time it retreated, the political damage was done. The debacle tarnished the coalition's signature policy of climate transformation and squashed trust in its competence; notably that of Robert Habeck, the Green vice-chancellor.

The third and most bruising shock was a ruling by Germany's constitutional court last November that stymied the coalition's plans to divert €60bn (\$65bn) of unused covid-19 money to fund its climate plans. The government thought this would allow it to pursue its targets without violating the constitutional "debt brake", which limits structural deficits to 0.35% of <sub>GDP</sub>.

Instead, it was forced to make cuts to this year's budget worth €17bn; a marked retrenchment in a country already flirting with recession. Worse, it exposed the coalition's dirty secret: that its governing machinery had been oiled less with a sense of common purpose and more with accounting tricks. This is the framework within which negotiations over the 2025 budget, which began this month, will take place.

Budget fights are never easy, but this will be a humdinger. The government must find further cuts, of around €25bn, or 0.6% of GDP. A flat economy, the debt brake, higher interest costs and the FDP's resistance to tax rises leave the parties squabbling over a shrinking pie; ring-fenced areas like defence mean more acute cuts elsewhere. "I didn't come into politics for this," sighs one minister.

From his perch as finance minister Christian Lindner, the FDP's leader, will play hardball with the spending plans of other departments. Its rivals increasingly see the FDP as an internal opposition hampering their attempts to govern. In the past week alone, intra-coalition spats over spending on security, development aid and, most seriously, pensions have spilled into the open. Some observers think the budget rows could even precipitate a government collapse before the next federal election, due in autumn 2025.

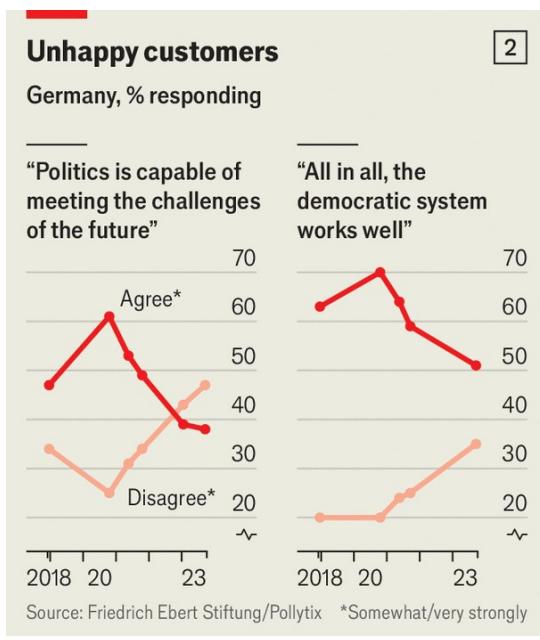


The Economist

That seems unlikely. But several political tests will further aggravate the differences between the parties. The first, on June 9th, is the European Parliament election (a national vote disguised as a European one). The *Ampel* parties will struggle; the Greens' strong showing in 2019 will leave their losses looking especially dire.

A second challenge comes in September, with elections in three of Germany's eastern states. Fringe outfits, including <sup>BSW</sup>, a new pro-Russian party set up by a hard-left MP who hopes also to snaffle support from the hard right, will do well, priming Germany for another bout of angst over the lure of extremism in the once-communist east. The *Ampel* parties, by contrast, are set for a drubbing. In Saxony and Thuringia all three could fall below the 5% threshold needed to enter parliament.

The coalition parties are also struggling in national polls (see chart 1). All three lag behind both the centre-right Christian Democrats and the far right Alternative for Germany (though the AfD has lately been hurt by a string of scandals). Mr Scholz has dreadful personal ratings and a growing reputation for ineptitude; the Greens are beset by in-fighting; and Mr Lindner's fiscal stubbornness has seen the FDP's ratings hover at the 5% threshold below which it faces ejection into the wilderness.



The Economist

Ominously, some German voters are losing faith not only in the coalition, but in democratic politics itself (see chart 2). "Germans are often dissatisfied with their government, but I've never known the general mood to be this bad," says Rainer Faus, managing director of Pollytix, a political-research outfit. His focus groups regularly descend into shouting matches, he says. "People are just so unhappy at everything." A spate of recent assaults on

politicians, including an <sup>SPD</sup> candidate in Saxony who was left hospitalised, has sparked a national round of hand-wringing. In a sign of alarm in the business world, an alliance of over 30 German firms recently issued a statement urging their employees to stand up for tolerance and diversity.

What might help? <sup>SPD</sup> insiders hope that Mr Scholz's steady-as-she-goes demeanour will win over nervous doubters when the next election begins to loom. A cyclical upturn in the economy may lift spirits. Some think that the Euro 2024 football tournament, which kicks off in Germany in mid-June, will boost national morale.

Yet these are hardly sure bets. Outside his circle it is hard to find observers who think Mr Scholz will win re-election. Germany's longer-term economic outlook remains grim. As for the football, caution is warranted: at the last Euros Germany limped out in the second round, leaving the country disappointed and angry. ■

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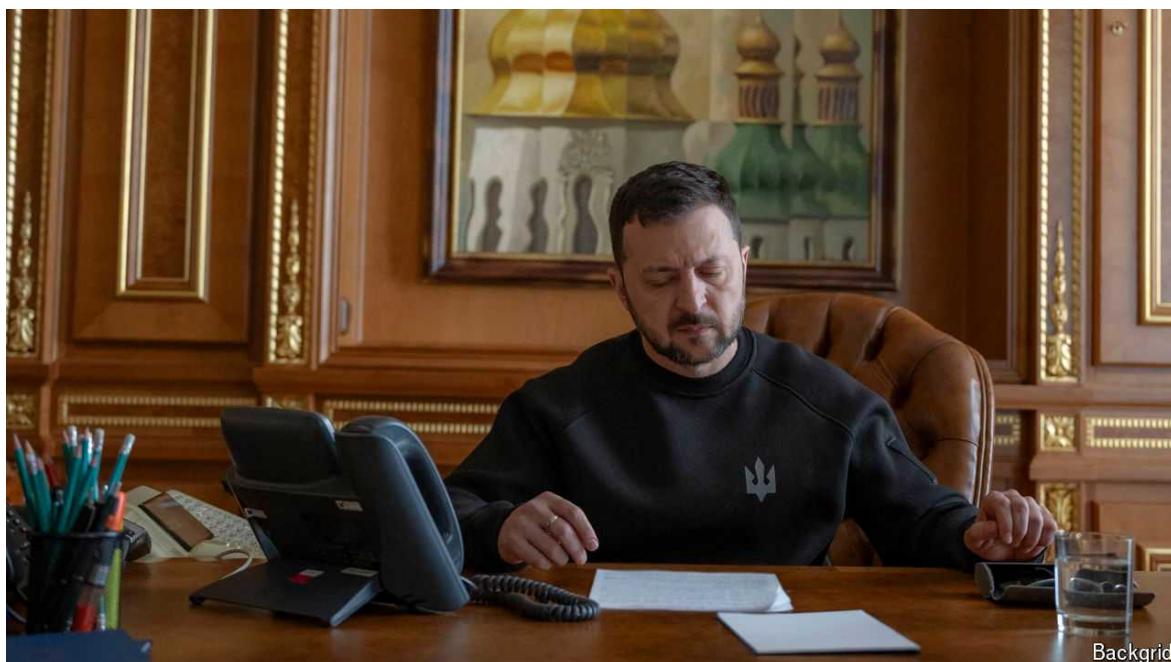
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Europe | Time's up

## Volodymyr Zelensky's five-year term ends on May 20th

*But he has no plans to step down or call an election during wartime*

May 16th 2024



FIVE YEARS ago, on May 20th, 2019, a fresh-faced Volodymyr Zelensky began his presidency with the offer of a contract to his people. “Each of us is the president,” he said from the rostrum of parliament. “This is our joint victory and chance...and joint responsibility.” The intervening years have not been kind, to him or Ukrainians in general. First came the crisis of Donald Trump and “Ukrainegate”, then covid-19, and then Russia’s terrifying full-scale invasion. By surviving this far, Mr Zelensky has already written himself into history. But as problems worsen on the front lines, the Ukrainian president may be about to face his biggest political challenge yet: renewing his contract with his people with no obvious possibility of elections.

The mood in Kyiv is increasingly angsty, with Mr Zelensky's opponents muttering that his monopoly on power is no longer tenable. Some are already playing the May 21st card, arguing that he loses political authority as soon as his scheduled five years are up. The Kremlin, unsurprisingly, agrees with them. "Zelensky's fate is predetermined...many will question his legitimacy," said a spokesman in April. Belarus's Moscow-aligned president, Alexander Lukashenko, has even cast doubt on Mr Zelensky's ability to be a legitimate signatory in any future peace deal, rich from a man who stole his way to re-election in 2020.

[Read more of our recent coverage of the Ukraine war](#)

On first reading, the Ukrainian constitution fails to offer a straightforward riposte. Article 103, for example, states presidential terms are five years. But most constitutional experts say martial law offers what is known as a "specific" exception to the general rule. The key provision is therefore Article 108—that the "president...exercises powers until a newly elected president assumes office." And elections are forbidden during martial law.

Roman Bezsmertny, a former deputy prime minister, and one of the authors of Ukraine's 1996 constitution, says that the intention and the meaning of the clauses on the extension of presidential power is exactly this. "Zelensky continues in power for as long as martial law applies. There is no political or legal crisis. Full stop." The constitution was by nature a political compromise, he explains. But it was also drafted explicitly with the possibility of a Russian invasion in mind. Many of the deputies who sat in the constitutional commission were dissidents, he says, seasoned by "decades" in the Gulag. "They knew what Russia was about and even told me how things could end."



The Economist

Publicly, Mr Zelensky's allies are bullish about May 21st: nothing changes, and anything to the contrary is a Russian distraction. Privately, there are concerns about the effect the constant discussion may be having on public opinion. Internal polling disclosed to *The Economist* shows that already as many as one in six Ukrainians believe Mr Zelensky's status will somehow change come May 21st. Those numbers are still not enough to dominate public discourse and they have no bearing on the legal issue, but they do create an unwelcome backdrop, and might in time weaken international support.

Mr Bezsmertny says the presidential office should have put the issue to bed by applying for a ruling from the country's constitutional court. In 2023, a group of deputies from Mr Zelensky's Servants of the People bloc pressed the office to do just this. But a decision was taken not to refer, and is unlikely to be revisited. There was no desire to "service other people's attacks on the president", a government source argues. "He is legitimate. If others have doubts, let them ask the question." There are also concerns about Mr Zelensky's relations with the court; early in his term, he tried to disband it, leaving sore feelings.

Thus Mr Zelensky finds himself in limbo for the foreseeable future, with no obvious moves to refresh his mandate. On the plus side, there is no internal

demand for elections during war: the most recent polls show a mere 22% in favour. But equally, Ukraine's love affair with the former comic actor appears to be coming to an end. Ukrainians credit him for his brave part in national survival. But fatigue, a steady drip of corruption headlines, and the obvious concentration of power in the hands of half a dozen functionaries have weakened the bonds. The president himself cuts an increasingly tired, angry and closed figure. Polling by the Razumkov Centre shows trust in the presidency has fallen from a net positive of 71% in 2023 to a net positive 26%. Trust in the army has remained rock solid at 93% net positive.

Ukraine's army meanwhile faces one of its toughest periods of the war, with Russia opening new lines of attack in the Kharkiv region at a moment when Ukrainian manpower and ammunition are at their weakest. Russia has already made alarmingly swift progress since the start of its offensive on May 10th, with guided aerial bombs and mobile storm troops making easy work of a flimsy first line of fortification. Ukraine has so far lost at least nine small settlements, forcing a switch in command and the early deployment of reserves. An intelligence source said he expected there to be more bad news if and when Russia opens another line of attack in Sumy province farther north. Mr Zelensky's legitimacy problems would almost certainly intensify if things go badly, regardless of the formal legal position.

■

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Europe | Active measures

## Russia is ramping up sabotage across Europe

*The Kremlin believes it is in a shadow war with NATO*

May 12th 2024



THE FIRE that broke out in the Diehl Metall factory in the Lichterfelde suburb of Berlin on May 3rd was not in itself suspicious. The facility, a metals plant, stored sulphuric acid and copper cyanide, two chemicals that can combine dangerously when ignited. Accidents happen. What raised eyebrows was the fact that Diehl's parent company makes the IRIS-T air-defence system which Ukraine is using to parry [Russian missiles](#). There is no evidence that this fire was an act of sabotage. If the idea is plausible it is because there is ample evidence that Russia's covert war in Europe is intensifying.

In April alone a clutch of alleged pro-Russian saboteurs were detained across the continent. Germany arrested two German-Russian dual nationals

on suspicion of plotting attacks on American military facilities and other targets on behalf of the GRU, Russia's military intelligence agency. Poland arrested a man who was preparing to pass the GRU information on Rzeszow airport, the most important hub for military aid to Ukraine. Britain charged several men over an earlier arson attack in March on a Ukrainian-owned logistics firm in London whose Spanish depot was also targeted. The men are accused of aiding the Wagner Group, a mercenary group that has been active in Ukraine and is now under the GRU's control. On May 8th Britain announced that in response to "malign activity" it was, among other steps, expelling Russia's defence attaché, an "undisclosed" GRU officer.

[Read more of our recent coverage of the Ukraine war](#)

A number of Baltic states have also accused Russian intelligence services of recruiting middlemen to attack property and deface monuments. In February Estonia said it had arrested ten people and broken up a plot to attack the cars of the country's interior minister and the editor of a news website. Latvia's security service said it had detained an Estonian-Russian citizen who had poured paint on a memorial to Latvian soldiers who fought the Red Army in the second world war. In March an ally of Alexei Navalny, the Russian opposition leader who died in Russian custody in February, was attacked with a hammer in Lithuania's capital, Vilnius.

None of this is new. In 2011 the GRU blew up an ammunition depot in Lovenidol in Bulgaria. It followed that up with two explosions at the Vrbetice arms depot in the Czech Republic in October and December 2014, where ammunition bound for Ukraine was being held. All these incidents were tied to members of Unit 29155, the GRU's sabotage-and-assassination squad. Other unexplained explosions occurred at Bulgarian arms factories in 2015, 2020 and 2022. But European officials believe that the GRU has been given a fresh mandate and funding for what Russia calls "active measures". On May 2nd NATO published a statement describing these incidents as "part of an intensifying campaign of activities" including "sabotage, acts of violence, cyber and electronic interference, disinformation campaigns, and other hybrid operations."

Russian cyber operations have also grown bolder. A report published by Google's Mandiant cybersecurity division in April noted that "hacktivist"

groups with loose ties to the GRU had made credible boasts of manipulating the control systems for water utilities in America and Poland, and what the hackers thought was a hydroelectric facility in France. The GRU had previously conducted sophisticated cyber-attacks on Ukraine's critical infrastructure both before and after the full-scale invasion of 2022. That it was willing to threaten—if not yet disrupt—the same infrastructure in Europe suggests a new level of recklessness.

In some ways that is curious. Vladimir Putin, Russia's president, re-crowned on May 7th after a sham election, believes time is on his side. His country's armed forces have the initiative on the battlefield. They are making slow but steady progress in eastern Ukraine, capturing around 20 square kilometres each week. On May 10th Russia appeared to launch a new ground offensive in the Kharkiv region. Mr Putin can look forward to an American presidential election in November which might return Donald Trump, a sceptic about aid to Ukraine, to the White House.

Western officials say they have no clear explanation for the uptick in Russian activity. But it is likely to be the consequence of decisions made by Mr Putin long ago. Mark Galeotti, an expert on Russia, says that physical attacks take at least six months to plan and execute. In 2022 Russia's intelligence networks were thrown into disarray by the expulsion of hundreds of intelligence officers from Europe. Late that year the Kremlin reorganised its covert action capabilities to make them more effective. By early 2023 Ukraine was preparing its counter-offensive and striking deeper into Russia with drones, while European states were deliberating over whether to send more advanced weapons. European officials say that they began observing more hostile activity by that summer. Mr Putin might have hoped that troublemaking in Europe would put pressure on the West to restrain Ukraine and limit its own involvement in the war.

If so, the strategy has not worked. In an interview with *The Economist* on April 29th Emmanuel Macron, France's president, reiterated his argument that Western countries should not rule out deploying troops to Ukraine in the event of a big Russian breakthrough. On May 3rd David Cameron, Britain's foreign secretary, said that Ukraine was free to use British-supplied weapons, including missiles, to hit targets on Russian soil, in contrast to

America's demand that American-supplied weapons be used only inside Ukraine.

Russia's response was swift. On May 6th it announced a snap exercise to practise the use of tactical nuclear weapons "in response to provocative statements and threats"—the first time it had ever tied such drills to specific events. That sabre-rattling, like the sabotage, is designed to fray Europe's nerves and instil caution through fear. Some are concerned that it prefigures more serious aggression. "More disturbingly," notes Keir Giles of Chatham House, a London think-tank, citing the sabotage as well as other actions, like aggressive <sup>GPS</sup> jamming in the Baltic region, "the patterns of behaviour match predictions of what Russia would attempt to do in advance of an open conflict with <sup>NATO</sup>." ■

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Europe | Gabriel Attal

# Meet Gabriel Attal, France's young prime minister

*The challenge for Macron's mini-me*

May 12th 2024



REA

Standing SIDE by side at a war memorial in Ottawa, two leaders prepared to lay a wreath in honour of their countries' fallen soldiers. The Canadian, Justin Trudeau, was once one of the West's youngest leaders. The Frenchman, Gabriel Attal, is France's youngest modern prime minister. As he stepped forward the 35-year-old Mr Attal glanced, more than once, at his elder counterpart for protocol cues. On his first official trip outside Europe, the fresh-faced French leader was on full display and did not want to put a foot wrong.

Mr Attal was propelled into his new job by [President Emmanuel Macron](#) in January, in an attempt to reboot an ailing government. Since then, the prime minister has faced a string of troubles, from angry farmers and teenage ultra-

violence to deteriorating public finances. His recent trip to Canada provided a welcome break. Mr Attal got to discuss geopolitics with Mr Trudeau, review Canadian troops, woo investors, sign autographs for schoolchildren and blush at a long standing ovation by the Quebec parliament. When it comes to Quebec's status, the French tread on perilous diplomatic ground; Mr Attal dodged provocation. "He's a fast learner, and not just about protocol," notes a French minister.

After four months in the job, Mr Attal remains France's second most-popular politician, after Edouard Philippe, an ex-prime minister, and way ahead of his boss, Mr Macron, in 20th place. Yet even Mr Attal's star is beginning to wane. His approval ratings have slipped by nine points in some polls since he took office. Michel Rocard, prime minister in 1988-1991, once called the job "hell". The incumbent is blamed for all that goes wrong, overshadowed by a powerful presidency and subject to eviction at any moment on presidential orders. Only two of France's 24 past prime ministers of the fifth republic have gone on to the top job.

Despite all this, Mr Attal seems to be in his element. He relishes tough public debate, and has a knack for plain speaking and a common touch that tend to elude his Jupiterian boss. Of a generation that grew up with social media and expectations of transparency, Mr Attal cited Jul, a French rapper, in a recent post and has spoken movingly about how he was bullied at school for being gay, coming out to his sick father only on his deathbed. A small group of young advisers, who have followed him for years, lend an informality that lightens the load of office.

If there is a mystery about Mr Attal, it concerns his political convictions. Critics say he lacks an ideological backbone, and that there is little behind the public polish. A former Socialist, he sounds decidedly like an old-fashioned conservative. In his previous job as education minister he banned the *abaya*, a long Muslim robe, in state schools, in line with strict French secular rules. Mr Attal speaks constantly about "youth", but his political watchwords are "authority", and the need to "defend" or "protect". Remarkably, 51% of over-65s approve of him, next to 34% of 25- to 34-year-olds.

Back in his office after his Canadian jaunt, the suburban-Paris-born Mr Attal insists he remains driven by the values that first drew him to politics, and is “revolted” when life chances are dictated by social background. Like Mr Macron, he believes in “empowerment”, investing in giving people a better chance. But he dislikes the label centrist, judging it “too tepid”. Their shared politics are not about being “a bit on the left and a bit on the right”, says Mr Attal, but “going beyond both: being more radical than the left on some subjects, more radical than the right on others”. The government has written abortion rights into the French constitution, a campaign issue on the left. It has also tightened immigration rules, a classic obsession on the right.

What distinguishes his approach, suggests Mr Attal, who is a decade younger than Mr Macron, is a different generational frame. Both stress the importance of work, for instance, and better equipping people for jobs. Mr Attal, from a generation scarred by pandemic lockdowns, is particularly keen to forge a better balance between work and personal life. In the country that invented the 35-hour working week, he has called for a “week in four days”—not, he quickly adds, less working time, but the same amount packed into fewer days.

Those who know Mr Attal well have no doubt that his eyes are on the Elysée. “He’s a political machine,” says one, and is working Paris networks methodically. Yet Mr Attal governs without a parliamentary majority. Polls suggest that his centrist grouping will be trounced by Marine Le Pen’s hard right at elections to the European Parliament in June (see the latest odds with our [poll tracker](#)). Her party list is led by Jordan Bardella, a 28-year-old who makes Mr Attal look grey-haired.

In the coming months any opposition party could seize an opportunity to table a no-confidence motion, in a bid to topple the government. Mr Attal may have a long-term plan, and surely hopes to inherit the centre ground from Mr Macron, who cannot run for a third consecutive term. In the short run, his challenge may be survival. ■

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[Europe](#) | What's in a name?

## Turkish women should soon be allowed keep their maiden names

*But the law is still fuzzy*

May 16th 2024



Alamy

AYSE CICEK is not particularly fond of her surname, which means “flower” in Turkish. But she was even less pleased at the prospect of being forced to change it. In 2022, when she got engaged, Turkish law decreed that she would have to take her fiancé’s surname on marriage, or double-barrel it with her maiden name.

For Ms Cicek, 34, who works at a Turkish airport, that is problematic. It would mean changing four different security cards for her workplace, as well as her passport, driving licence, bank cards and national id. It is also an issue of principle. “A woman should not have to change her identity just because she has married,” she says. Feminists have campaigned against the

law for decades, arguing that it clashes with the provisions in the Turkish constitution that enshrine equality between the sexes. Women have also surged into the workforce since the rule came in with Kemal Ataturk's drive to Europeanise his new state. The justification for forcing women to take their husband's name was to keep records and lines of lineage clear.

The issue was brought to Turkey's constitutional court for the first time in 1998, and again in 2011. Since 2015, women who want to keep their surnames have been able to do so, but only by filing a court case against their new husbands, which many of them were not eager to do. In April 2023 the court finally came down in favour of changing the law, though not unanimously; Muammar Topal, one of the judges who rejected the change, said that equality between men and women is a "modern superstition".

The scrapping of the original law finally came into force on January 28th. But although the old law has been repealed, parliament has not yet passed new legislation to replace it. So women who have married since January 29th find themselves in a legal grey zone. It also remains unclear whether the couple's children are now able to take the wife's name, or whether men may change their names to their wives'. As her June wedding approaches, Ms Cicek is preparing, reluctantly, to take her future husband to court. ■

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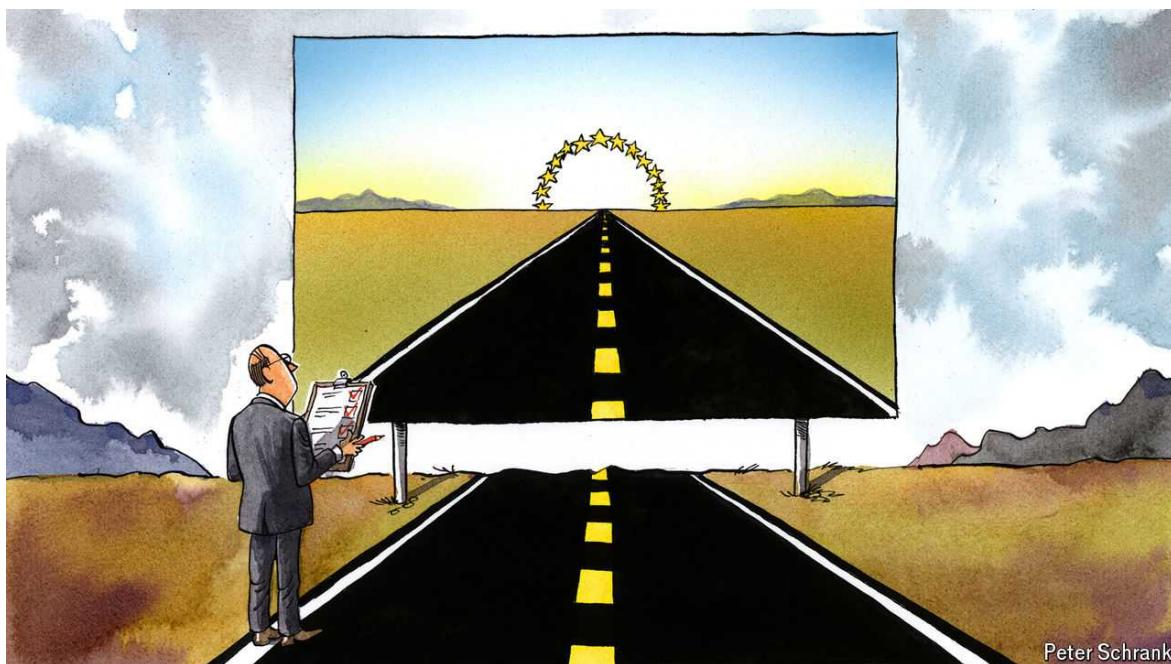
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Europe | Charlemagne

## The EU's best-laid plans for expansion are clashing with reality

*For now “phoney enlargement” is the order of the day*

May 16th 2024



After the fall of Poland at the start of the second world war, a paradoxical peace reigned. Carnage was on the cards, but not quite yet. The “phoney war” lasted for eight months, ending when Germany invaded its western neighbours. Today the European Union is going through a “phoney enlargement”. On paper up to nine countries are making progress towards membership. Both in the capitals of the countries looking to join and in Brussels, officials say preparations are being made, reforms enacted, boxes ticked. But whether the mooted expansion will happen is still doubtful. A flush of enthusiasm in the wake of Russia’s invasion of Ukraine has given way to the realisation that the journey from 27 to 36 will be long and

uncertain. A target of 2030 used to be seen as aspirational. It now looks delusional.

Events in recent days show why. A slew of countries that have applied to join the <sub>EU</sub> have demonstrated why they are not yet members. In Georgia a repressive “foreign agent” law that mimics the manner Russia once cracked down on civil society was approved by parliament on May 14th despite vast protests. Georgians overwhelmingly want a European future but are governed by an oligarchic caste that favours rapprochement with the Kremlin, not Brussels. A few days earlier a new nationalist president took office in North Macedonia, one of six western Balkan aspirants to <sub>EU</sub> membership. Instead of reciting the usual platitudes in her inaugural speech, Gordana Siljanovska-Davkova referred to her country merely as “Macedonia”, thus knowingly blowing up a deal with Greece, which worries its neighbour’s use of the name will one day degenerate into territorial claims on its region of that name. This pact had been a prerequisite for it to become a candidate for <sub>EU</sub> accession. And on May 8th Serbia announced a “shared future” with China as it greeted Xi Jinping with great pomp in Belgrade. It will soon enact a free-trade agreement with China that is completely incompatible with <sub>EU</sub> membership.

Before 2022, enlargement had the make-believe dynamics of the old communist joke whereby “they pretend to pay us and we pretend to work”. The <sub>EU</sub> feigned interest in letting in new members, they purported to make the reforms needed to gain access. Both sides knew it was going nowhere; Croatia had been the last country to join the club, in 2013. War on the continent jolted the <sub>EU</sub> out of this enlargement fatigue. Not only did Ukraine and Moldova apply to become members, but dormant requests in the Balkans took on a new appeal (Turkey is technically a candidate for accession, but not in practice). The geopolitical imperative of snuffing out Russian influence meant the <sub>EU</sub> was willing—for a time—to look past the unpreparedness of the countries that had asked to join. Progress was made: Ukraine, Moldova and Bosnia-Herzegovina were cleared to start formal accession talks.

The challenge now is to keep the old fatigue at bay. The <sub>EU</sub> has been mindful that the reforms needed to join the club—more corruption-busting, better courts, reformed economies and so on—are painful for politicians. The

rewards are far in the future, for their successors to enjoy. Now the EU wants the benefits to come alongside the pain. Many perks of joining the club, such as being part of its single market, could be offered before formal membership. A €6bn (\$6.5bn) pot of loans and grants will soon be doled out to Balkan countries that can show they are making those painful reforms. The idea was that a new dynamic would overtake the cynical one of yesteryear.

So far it has not worked, says Milena Mihajlovic of the European Policy Centre (CEP), a think-tank in Belgrade. “The belief enlargement will happen in the short term is not there,” she says. Far from reforming their way to membership, countries in the Balkans have made at least half a step back for every step forward. A region “rich in history” (diplomat-speak for they all hate each other) has found it hard to bury old enmities. Relations between Serbia and Kosovo, which split from Serbia in 2008, remain execrable. Albania has locked up the ethnic-Greek mayor of a small town, annoying its neighbour. Moldova, Georgia and Ukraine all have chunks of their territory controlled by Russia. Throughout the region, politics remain as messy as ever. Serbia has two ministers who are under American sanctions for their ties to Russia.

## Give me enlargement, but not yet

Even if the applicants were ready, would they be let in? Countries including France and Germany want the EU to undertake its own deep-seated reforms before it enlarges. This might include more decisions being made by qualified majority, a rewiring of the union for which little preparation has so far been done. Admitting Ukraine, a farming powerhouse, would require an overhaul of the common agricultural policy, which tends to bring out the pitchforks. The fact that any country can block the entry of a new member makes the process particularly tortuous. It took months to get Hungary’s Viktor Orban to lift his veto on Ukraine getting to the next stage of accession (he was invited to leave the room during the vote in December). Would a future President Marine Le Pen in France, say, prove so accommodating? Plenty of people in applicant countries still think they will end up being offered something short of full EU membership.

Enlargement cannot stay in this suspended state for long. To get the <sub>EU</sub> money on offer, Balkan countries this summer will have to put up reform plans that will either pass muster with Brussels or not. Within a year or so the first draft of the <sub>EU</sub> budget running from 2028 to 2035 will be presented. Failure to reform key programmes such as farming subsidies will indicate a lack of intent on the part of existing members to let new ones in. Both sides will thus be forced to show if they are serious about enlargement. The phoneyness will not be able to last long. ■

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**Britain** | A new kind of threat

## Spies, trade and tech: China's relationship with Britain

*China was once seen as a golden opportunity. It is increasingly viewed as a threat*

May 16th 2024



Hanna Barczyk

WHEN JOHN Le Carré joined MI5, Britain's domestic security service, in the 1950s, long before finding fame as a spy novelist, his first job was not hunting the KGB. He was given the humdrum task of monitoring Commonwealth students in London. Chinese spies were thought to be using ethnically Chinese Singaporean and Malay students to gather industrial intelligence. It was not the most glamorous job. Le Carré was “dismayed”, recalls his biographer, to find that MI5’s China experts were “elderly retired missionaries with an imperfect command of the language”.

Today, China policy is no longer a backwater in the intelligence world. On May 13th police charged three men, including a former Royal Marine, with aiding the intelligence service of Hong Kong—in practice, controlled from Beijing—and conducting “foreign interference”. The men were charged under the National Security Act, a law passed in July 2023 in part to give British police the powers to investigate and tackle China’s covert activity. (China denies that Hong Kong’s intelligence service was involved.)

That law is one facet of a remarkable change in Britain’s view of China over the past decade—from a source of golden trade and investment opportunities to something much more malign. The relationship continues to raise complex questions over the balance between prosperity and national security, openness and protectionism. But the hawks are ascendant.

A foreign-policy review published last year warned that China posed “an epoch-defining challenge to the type of international order we want to see”. That assessment, as tough as any in Europe, has hardened as China’s supply of dual-use items has fuelled the Russian defence industry and so the war in Ukraine. There is still room for nuance—on May 8th Admiral Sir Tony Radakin, the chief of the defence staff, nodded to China’s “responsible role” in rebuking Russian nuclear threats in late 2022. But officials increasingly mention China in the same breath as Russia, Iran and North Korea. On May 14th Anne Keast-Butler, the director of GCHQ, Britain’s signals-intelligence agency, said that it now devoted more resources to China “than any other single mission”.

The charges on May 13th were an illustration of what British spooks see as a multipronged assault on the country’s security. One strand is espionage. In a report last year Parliament’s Intelligence and Security Committee noted that China had “the largest state intelligence apparatus in the world”, one “dwarfing” its British equivalents. In March the government publicly accused Chinese hackers of having targeted the country’s electoral commission and the emails of MPs critical of China. Those attacks suggested “a clear and persistent pattern of behaviour that signals hostile intent from China”, argued Oliver Dowden, the deputy prime minister. In April two men, including a former researcher in Parliament closely involved with the China Research Group, a club of China-sceptic MPs, were charged with

spying for China under the rarely used Official Secrets Act. The Chinese embassy in London labels the charges as “malicious slander.”

All countries spy. What makes Chinese spying particularly egregious in the eyes of officials is not only its scale but also the damage it does to the British economy. In a speech in October, Ken McCallum, the director-general of MI5, said that 20,000 Britons—twice as many as two-and-a-half years earlier—had been approached by suspected Chinese agents on LinkedIn and other networking sites with the aim of extracting technology in areas like artificial intelligence, quantum computing and synthetic biology. He estimated that 10,000 businesses were at risk.

In April the government convened the heads of 24 top universities and security officials to discuss such things as transparency over sources of funding and vetting for researchers in sensitive areas. A report published by Civitas, a think-tank, last year found that 46 universities had accepted £122m-156m (\$153m-196m) from [Chinese sources](#) between 2017 and the summer of 2023, of which around 16-20% came from entities sanctioned by America for their ties to the People’s Liberation Army.

A second strand is political meddling. Members of the Chinese diaspora have long complained of intimidation and coercion by Chinese agents, both physically and virtually. That is a particular concern for emigrants from Hong Kong: a draconian national-security law passed there in 2020 came into force in March. According to Amnesty International, a human-rights group, students involved in political or human-rights activism on campus frequently find that they are followed, harassed and subjected to threats against their families in China. “Every time, there is someone [we] don’t know filming,” noted one student. “Standing to the side, using their phones and recording. They don’t say anything but stand there holding their phone.”

The third strand is the question of Chinese technology. In 2019 and 2020 Britain was thrust into an acrimonious debate over whether Western countries should remove equipment made by Huawei, a tech giant, from their 5G mobile networks. American and Australian spooks said the tech posed a grave security risk; British ones insisted they could manage the problem through careful scrutiny of the kit. In the end Britain relented, in

part because of American sanctions on Huawei. It has since banned Chinese-made surveillance cameras from “sensitive central-government sites”.



That has not settled the debate over the use of Chinese tech. Local-government authorities still have no obligation to remove such cameras. At least a third of police forces in England and Wales use surveillance cameras made by Hikvision, a Chinese firm blacklisted by America for its role in supporting mass repression in China’s Xinjiang province. A new row is brewing over the role of Chinese-made cellular Internet of Things modules, or <sup>cIMS</sup>, essentially small wireless components inside other devices—everything from cameras and smart meters to internet routers and vehicles—that, sceptics argue, could be exploited by China to steal data or disrupt critical national infrastructure.

In response to all this, the government has developed a battery of legal and regulatory instruments. One is the National Security Act, which gives the government new powers to prosecute people acting as agents of a foreign state. Another is the National Security and Investment Act passed in 2021, which allows scrutiny of inbound investment; over half its interventions in the first full year it was in force involved Chinese firms. Another still is the Higher Education (Freedom of Speech) Act, whose main provisions will come into force in August. It compels universities to protect free speech on

campus and is likely to lead to limits on Chinese-funded institutes and scholarships in British universities, according to guidelines published by the Office for Students, a public body.

For China-sceptics, this still does not go far enough. One problem is implementing existing policies: BT, the country's main telecoms operator, has missed two deadlines to strip out Huawei kit from the core part of its network. Another is that many key powers are devolved. The Higher Education Act, for instance, does not cover Scotland, Northern Ireland and Wales. "There's a massive backdoor called Scotland," complains Stewart McDonald, an MP for the Scottish National Party, "and nobody in Whitehall is giving this the thought it deserves." Hawks also want China to be placed in an "enhanced tier" of countries under the National Security Act, which would impose stringent registration requirements on people or organisations acting "at the direction of" China.



The Economist

Not all banks and businesses like the sound of that. China has become Britain's fifth-largest trading partner (see chart); it is enmeshed in supply chains. Unpicking this relationship involves big trade-offs. A debate over the rising tide of [Chinese electric-vehicle imports](#), for example, pits the benefits of cheaper cars and faster emissions cuts against fears of unfair competition and security vulnerabilities. The faultlines run through government. Jeremy

Hunt, the chancellor, is thought to be wary of any decision which might involve economic pain, not least ahead of an election. Lord Cameron, who championed ties with China as prime minister between 2010 and 2016 and sought to establish a £1bn Britain-China investment fund after leaving office, is said to have converted to the China-sceptic camp as foreign secretary.

Where hawks and doves might agree is that Britain lacks the expertise to understand China. The number of students on Chinese-studies programmes dropped by 31% between 2012 and 2021, according to the Higher Education Statistics Association (it does not count those who take Mandarin as part of other degrees). In 2023 Whitehall pledged to double funding for China-related expertise in government, but Sam Hogg, author of “Beijing to Britain”, a newsletter, says that “there is very little financial incentive to become a China specialist and work your way through the system.” Many civil servants with China expertise, he says, are demoralised or have gone to the private sector. A poor foundation for what Mr McCallum has called “a strategic contest across decades”. ■

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**Britain** | The politics of students

# Advisers to British government: don't mess with graduate visas

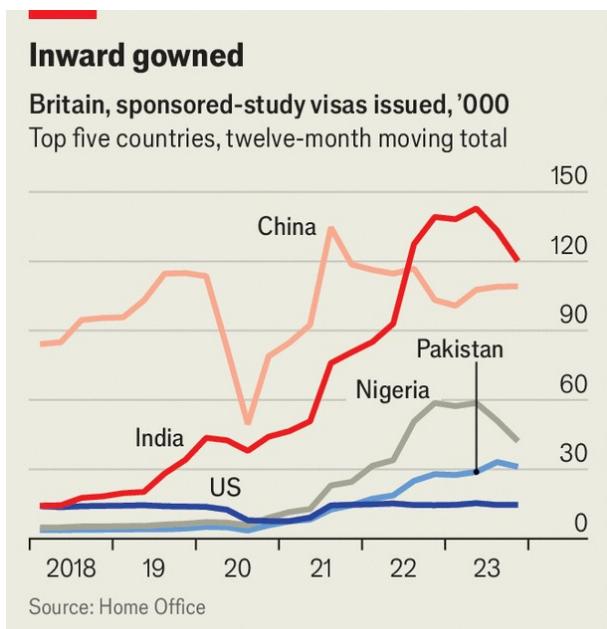
*A dilemma for ministers and a relief for universities*

May 14th 2024



BRITAIN'S GOVERNMENT slaloms between celebrating the international students who prop up its universities and trying to stop their supply. In March it ordered a panel of experts to review a policy that is crucial in attracting foreign bookworms: a visa scheme called the "["graduate route"](#)", which permits most foreign students to live and work in Britain for two years after they finish their studies. The Conservative Party, eager to look tough on immigration, seemed to hope that its Migration Advisory Committee (<sup>MAC</sup>), an independent body, would recommend jacking the programme. Instead the <sup>MAC</sup>'s report, published on May 14th, gives it full-throated support.

The “graduate route” was unveiled in 2019 as a way to keep Britain competitive with other places that vie for foreign students. America, Australia and Canada have long offered similar programmes. The promise of post-study visas sweetens the deal not only for students who aspire to settle abroad permanently but also for those who think a spot of foreign work experience will help them stand out when they go home. They are especially valued by students from poorer countries, who count on a few years’ rich-world wages to help pay down the loans they must take out to cover rich-world tuition fees.



The Economist

Britain’s universities say the graduate route is one of the main reasons foreign-student numbers have shot upwards. Home Office data suggest that the number of international students admitted to universities in 2023 was 70% higher than in 2019, owing to growth in applicants from India, Nigeria and Pakistan (see chart). Most of these new students are taking one-year masters’ courses in subjects such as business and management. And most are going to places outside the elite “Russell Group” of universities. That has helped keep universities in the black at a time when inflation has eaten into the money they receive from domestic students. Tuition fees for Britons were capped at £9,000 (\$11,300) annually in 2012, but are now worth less than £7,000 in real terms.

Yet the foreign influx has also attracted brickbats. Swelling student numbers have pushed up Britain's much-watched net-migration figures. In some cities a jump in foreign enrolment has made it even harder for British students to find decent digs. Critics warn that some foreigners are enrolling on courses primarily to qualify for the post-study work rights, rather than for the credential itself, and that the kind of jobs they perform after graduation can be menial. Third-tier institutions are cashing in by creating lots of low-rent masters' courses, they say, risking Britain's reputation for academic excellence.

The review published this week provides mostly reassuring responses to these concerns. The <sup>MAC</sup> finds that about one-third of foreign students choose to take up a graduate visa after finishing their studies. They do not usually end up delivering food or cleaning toilets. Within a year, members of this group are mostly earning salaries comparable to those of British graduates. Over two years they probably contribute more in tax, national insurance and a charge they pay to use the National Health Service than it costs the government to let them stay. Close to half of workers on graduate visas eventually find an employer who is willing to sponsor a longer stay. The jobs they land at that point are, once again, similar in pay and responsibility to the work done by British peers.

The committee warns, moreover, that Britain's foreign-student boom may already be turning into a bust. After years of fast growth the number of new foreign students in Britain appeared to plateau in 2023. Emerging data suggest their ranks are set to dwindle sharply this coming September—the result, in large part, of [new rules](#) which since January have prevented foreign postgraduates from bringing spouses or children with them. Tightening up any further, suggests the <sup>MAC</sup>, “could put many universities at financial risk”.

The <sup>MAC</sup>'s vigorous support for graduate visas is a relief for universities and a dilemma for the government, which wants to suppress the number of foreign arrivals. But universities are going to remain hostage to debates about immigration for as long as the fees they can charge British students stay frozen. And neither the Conservatives nor the Labour Party look much inclined to do anything about that. ■

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**Britain** | Free speech and protest

## Antisemitism is on the rise in Britain

*But university encampments show how hard it is to define*

May 16th 2024



Universities should be bastions of tolerance and respect, Rishi Sunak, the prime minister, told a group of vice-chancellors on May 9th. Inspired by [their peers in America](#), students at more than a dozen British universities have now pitched “encampments” to protest against Israel’s brutal [bombardment of Gaza](#). A “vocal minority” is causing disruption “and, in some cases propagating outright harassment and antisemitic abuse”. This “had to stop”, said Mr Sunak.

Neither unrest nor antisemitism were much in evidence at the University of Oxford’s protest camp the following day. Dubbed the “liberated zone”, after an encampment at Columbia University in New York, the collection of tents

on the lawn of the Pitts Rivers Museum, which houses the university's anthropological treasures, had an atmosphere of studious calm.

The day's tightly packed schedule, set out on a whiteboard, included "know your rights training" and a history lesson. Another board listed chores (from "litter check" to "night-time roundup—do you need a hand warmer?"). The most frenetic activity was a bake sale "for justice", organised by Muslim students. The chief threat of trouble seemed to come from the weather. The museum's lawn has not previously been used for protests. A sign urges protesters to "tread carefully. We want to take care of the land and space around us!!" But it would not take much rain to wreck it.

The organisers (who say there are no organisers; this is community action) are quick to rebut accusations of antisemitism. The schedule on May 10th ended with a "Shabbat dinner". Some protesters are Jewish, although the Muslim contingent is more noticeable because its members are dressed in *jalabiya* and headscarves. At 1pm a call to prayer in the "no shoe zone" was led by an imam with a microphone. "Maybe we're looking at the new Oxford," observed one watching professor—an allusion, at least in part, to the university's increased intake of state-school educated teenagers. She was impressed, she said, by the students' idealism and by their organisational skills.

None of which means antisemitism is not a problem in British universities. The Union of Jewish Students says that, although people "have a right to protest, these encampments create a hostile and toxic atmosphere on campus" (plainly, not all Jewish students agree with that).

Personal anecdotes suggest that casual antisemitism now crops up in conversation in a way that would have been much less likely a couple of decades ago. Sasha Lunn, a Jewish student at University College London (<sup>UCL</sup>), says she has heard jokey references to Jews being miserly—the kind of comment you barely notice at the time and remember later with a jolt of shock, she says. Community Security Trust (<sup>CST</sup>), a charity that combats antisemitism in Britain, says the number of reported antisemitic incidents at universities rose from 60 in 2022 to 182 in 2023.

This is part of a broader spike. Analysis of <sup>CST</sup> data and its own numbers by the Anti-Defamation League, a non-governmental organisation based in New York, suggests that Britain may have a bigger problem with antisemitism than America. Between October 7th (when Hamas launched its bloody attack on Israel) and December 31st, <sup>CST</sup> recorded 2,699 antisemitic incidents in Britain, which has a Jewish population roughly 4% of America's. In America there were 5,204 incidents. This disproportionality may be in part because a higher percentage of Britons are Muslim (6.5% compared with 1.1%) or because such communities live more closely together than in America, where cities tend to be more segregated. Research has suggested that antisemitism is more prevalent among Muslims than other groups.

But it is very tricky to get a precise handle on just how prevalent antisemitism really is. Drawing distinctions between acceptable and unacceptable legal speech can be extremely difficult, as has also been the case during the pro-Palestinian demonstrations that have regularly taken place in London since October. Many institutions use the International Holocaust Remembrance Association's (<sup>IHRA</sup>'s) definition of antisemitism: a "certain perception of Jews, which may be expressed as hatred towards Jews". More contentious is the <sup>IHRA</sup>'s accompanying guidance, which says that "manifestations might include the targeting of the state of Israel, conceived as a Jewish collectivity. However, criticism of Israel similar to that levelled against any other country cannot be regarded as antisemitic."

This guidance conflates antisemitism with anti-Zionism, which could lead some to view all pro-Palestinian protests as antisemitic. In 2020 a group of Palestinian and Middle Eastern academics published an open letter complaining that "the fight against antisemitism has been increasingly instrumentalised by the Israeli government and its supporters in an effort to delegitimise the Palestinian cause and silence defenders of Palestinian rights."

Whether the student protests are a matter for the government is another question. Anthony Julius, a law professor at <sup>UCL</sup>, says the government need not be involved at all: if the protests are on private university property, the university authorities can bring them to an end.

Back at the camp in Oxford none of the protesting students wanted to be identified by their name or college, or even by what they were studying. Most hid their faces behind covid-19 masks. They may be worried about their imminent entry into the jobs market. They may be wary of being misquoted by journalists. They may simply not want to engage in discussion with anyone who holds a different view of the war in Gaza. It can be hard for people on all sides of this fraught debate to say what they really think. ■

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**Britain** | Pick your projection

# What police commissioners tell you about the British election

*Neither Labour landslide nor hung Parliament*

May 16th 2024



Getty Images

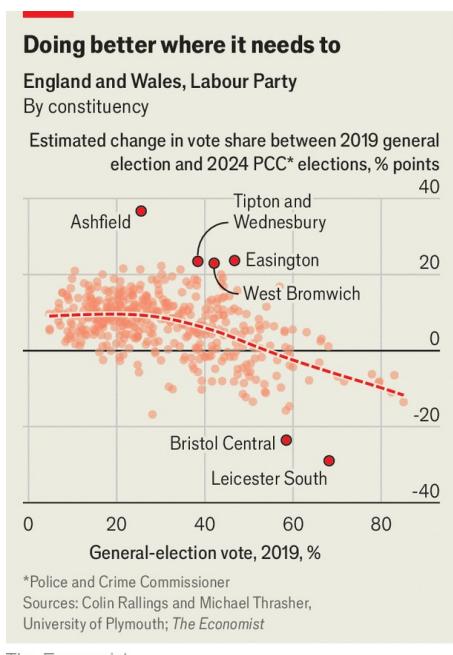
Political junkies have lots of electoral forecasts to choose from, *The Economist's* included. That gives them a confusing range of possible outcomes to pore over. Some models predict a landslide victory for Labour; Electoral Calculus, a consultancy, reckons that the Tories would scrape fewer than 100 seats if an election were held tomorrow.

Others reckon things could be far closer. Based on the results of local elections at the start of the month, Colin Rallings and Michael Thrasher, two politics professors, have suggested that the next general election would produce a hung parliament rather than a Labour majority. [Our own](#)

[prediction](#) sits in between these poles: our central estimate is for a Labour majority of 114.

*[For more on Britons' voting intentions, see our poll tracker, updated daily.](#)*

As a way of untangling such disparate forecasts, we looked at the results of elections for police and crime commissioners (<sub>PCCS</sub>), who oversee local police forces. These elections were also held across most of England and Wales on May 2nd. Unlike the council elections that Messrs Rallings and Thrasher used to project national vote shares, <sub>PCC</sub> elections are less contingent on local idiosyncrasies and feature fewer independent candidates.



What they show is that the distribution of Labour's vote has become more efficient since 2019. Labour has made inroads in key marginal areas, especially in the Midlands and north of England. By contrast, where its support has remained static or even fallen back, it has done so in safe seats that the party is still likely to hold.

If we project <sub>PCC</sub> election results to their corresponding parliamentary constituencies, and then apply the findings of our prediction model to areas of Britain where no commissioner contests were held, they point to a Labour majority of 38 if a general election were held tomorrow. This is much worse for the Tories than predictions of a hung parliament. Even that flatters their

chances. PCC elections generally have a low turnout and are focused on crime, both factors that are likely to help the Tories. The upshot: we're sticking with our prediction. Labour is on course for a clear majority. ■

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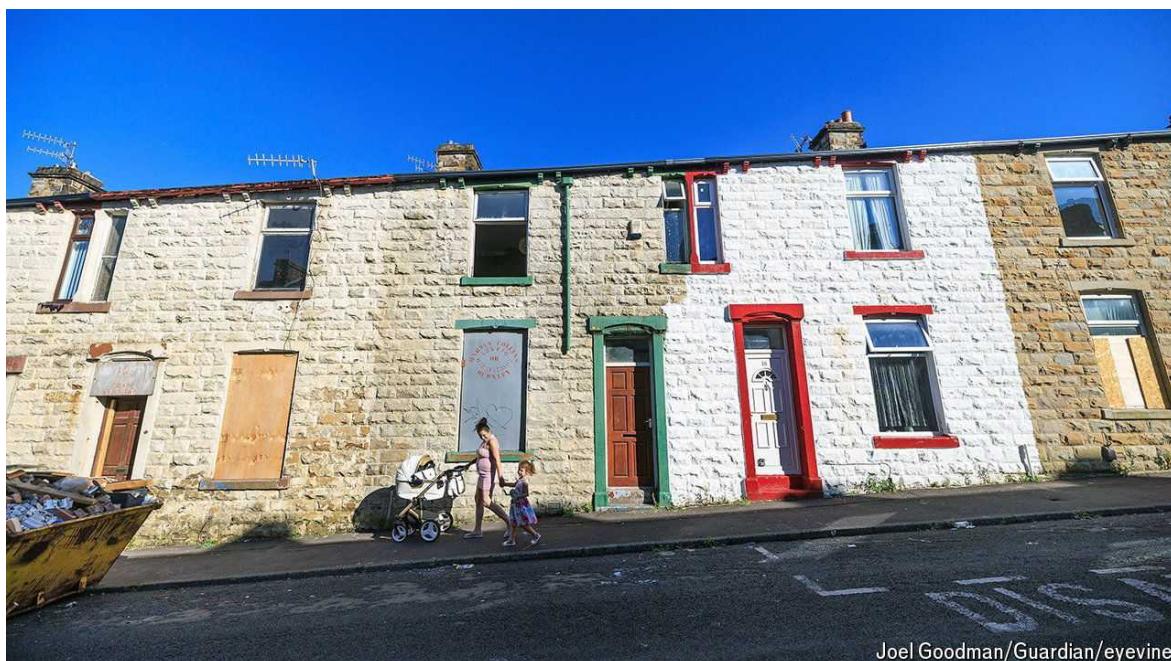
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**Britain** | Levelling the terrain

## Is Britain levelling up?

*Some town centres are getting prettier. Yawning economic gaps remain*

May 13th 2024

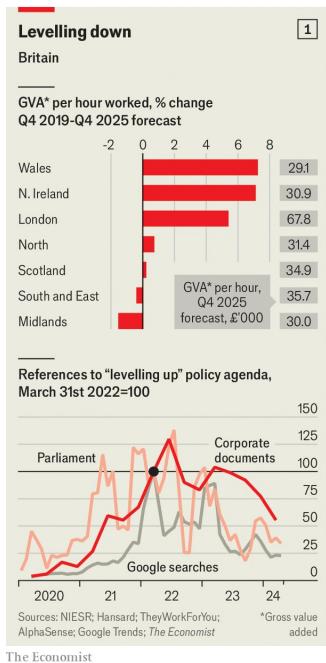


Joel Goodman/Guardian/eyevine

Burnley, an hour's drive north of Manchester, was once a thriving textiles hub. An imposing town hall recalls its Victorian success. But Burnley's population is lower today than it was in 1900; wages are a quarter below the national average. The government has designated the area a priority for "levelling up", its programme to close the wealth divide between the south-east of England and other regions.

In 2021 Burnley received £20m (\$25m) from the first set of levelling-up grants, money intended to finance local regeneration projects. The funds were for refurbishing a derelict mill for university buildings, tidying up the road from the town centre to the football stadium and building a train-station footbridge. The first two projects are due to wrap up soon.

The redeveloped sites look handsome. The town centre feels prosperous. But beautification is not an economic-development strategy, as Burnley's local council leader, Afrasiab Anwar, admits. "I don't think it's real levelling up, but we do the best we can with what we're given," he says.



The Economist

Levelling up was one of the central themes of the 2019 general election. The Conservatives thumped to victory under Boris Johnson by promising to get Brexit done and to [close the stubborn inequalities](#) between Britain's regions. Boosters hoped that levelling up would redraw the political map, by yanking worse-off areas away from Labour for good, and rev up growth. Almost five years and three prime ministers later, how has it gone?

If anything, the economic disparities between regions have widened. Output, employment and productivity growth over the course of this parliament will have all been higher in London than any other part of England, according to forecasts by the National Institute of Economic and Social Research, a think-tank (see chart 1). The Midlands have fared especially poorly; the energy-price shock after Russia's invasion of Ukraine hit its manufacturing sector hard. Attention has also ebbed away from levelling up in Parliament, in boardrooms and with the public. Tory hopes of a political realignment have faded: seats in the north of England that flipped to them in 2019 are likely to revert to Labour.

Reversing decades-old economic trends was never going to happen in a single parliament, even without a pandemic. But even so, the reality has fallen well short of the rhetoric, for several reasons. The first is the piddling amount of cash doled out. Huge transfers are already built into the structure of the British state: London and the south-east pay 37% of tax revenue, but are the recipients of just 28% of state spending. The levelling-up funds contained just £10.6bn (\$13.2bn, 0.4% of <sub>GDP</sub>), spread over around five years. Annually, that costs less than lopping a third of a penny off income tax.

The second problem has been the government's way of administering funds. One reason a country like Germany does well at dispersing growth is its robust federal structure; Britain, in contrast, is heavily centralised. The Tories have done some useful things in this regard. Their biggest long-term contribution to levelling up may prove to be the introduction of [regional mayors](#). The government has sensibly given some of them greater flexibility over how they spend money they get from Westminster; [Andy Burnham](#), the mayor of Greater Manchester, has gained control of the local bus network.

But Britain's levelling-up department insisted on dispensing cash through a series of bidding beauty contests, for which councils paid consultants hefty fees to design persuasive slide decks. Mr Anwar, the council leader in Burnley, calls it “bidding bingo”. The government now says the overemphasis on bidding was an error; newer funds, like a £1.5bn long-term plan for towns, give local areas more control.

The parliamentary public-accounts committee has meanwhile called delays on levelling-up projects “astonishing”. Of the 71 projects from the first levelling-up fund due to have finished spending in the 2023-24 fiscal year, 60 have so far said they are running late. These schemes were advertised as “shovel-ready” but have struggled to secure planning permission and navigate shortages of workers and materials.

A third issue is that the government's plan has been scattershot. Britain's big regional problem is the underperformance of its second-tier cities. It is just about the only rich economy where, London aside, more densely populated areas aren't any more productive than less densely populated ones. Most Britons live in or around a big city. Britain's most successful industries are high-value tradable services like consulting and education, which thrive in

cities. All of which explains the government's (wildly unrealistic) goal of a globally competitive city in every region.



The Economist

But emphasising cities is politically tricky. It requires accepting that the same policies cannot both boost growth and revive the worst-off areas, many of which are in smaller towns. So the government has tried to have it both ways, spreading small pots of funding widely and reducing the chances of making a big difference.

Transport is the obvious example. A paper by Anna Stansbury of the Massachusetts Institute for Technology and her co-authors fingers poor transport infrastructure as a big constraint to growth outside London. European cities tend to have effective public transport; American cities tend to have good roads. British cities frequently have neither (see chart 2). Connections between cities are also needed, particularly in the north of England. But Rishi Sunak's biggest infrastructure decision was to truncate the High Speed 2 rail project just north of Birmingham.

The Labour Party says it will ditch the term “levelling up” if it takes office. But if it knits Britain's second-tier cities together more effectively and gives regions more autonomy, a potent political idea might take on more economic substance. ■

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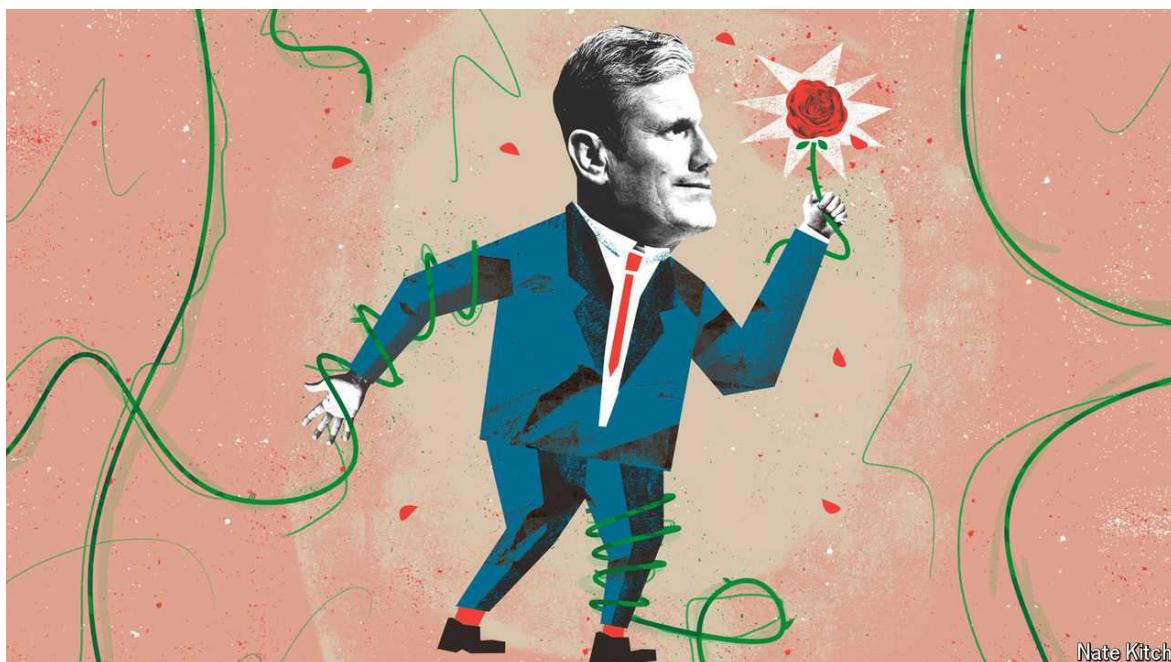
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Britain | Bagehot

## The narcissism of minor differences, Labour Party edition

*On the centre-left the small divisions can be the most toxic*

May 15th 2024



British politics has left an era of consequence and entered a period of consensus. For the past decade Britain has wrestled with immense constitutional questions, which are now largely settled. Under Jeremy Corbyn and Liz Truss, both Labour and the Conservatives experimented with and abandoned radical economic ideas. The parties' fiscal policies have merged. In an era of low interest rates, spending was limited by political imagination; in an era of high interest rates, spending is dictated by the market. Politics is becoming a narrower contest but a no less nasty one.

Nowhere is this more apparent than in the Labour Party. Barely five years ago, the party was at war with itself. Moderate <sup>MPs</sup> were in open rebellion

against [Mr Corbyn](#), a left-winger who wanted to hand 10% of every big British firm to workers. A splinter group of centrist <sub>MPs</sub>s left the party to form their own. Divisions were wide.

*[For more on Britons' voting intentions, see our poll tracker, updated daily](#)*

Now Labour is remarkably coherent. Hardly any <sub>MPs</sub>s demand that the party seize the commanding heights of the economy. Instead, under Sir Keir Starmer and Rachel Reeves, Labour's leader and shadow chancellor respectively, the party proposes moderate reforms to [workers' rights](#) and planning rules. Once <sub>MPs</sub>s were selected from across the left, from hard to soft. Now the typical member of the prospective 2024 parliamentary intake is a clean-shirted, half-marathon-running centrist, full of the dead-eyed cynicism required to win selection battles for miserable towns they once could not wait to leave. In short, divisions are slim.

Yet still Labour fights itself. Almost every policy area is beset by feuds over what are fundamentally narrow policy gaps. There is no schism of the sort which divided the party in the 1980s, when liberal <sub>MPs</sub>s formed their own party and Trotskyites attempted to undermine Labour from within, or of the kind during Mr Corbyn's tenure. But there are ideological hairline fractures everywhere, which will become only more painful in government.

Skim through Labour's policy programme and everywhere there are fights over detail, like those between monks arguing over the Nicene Creed. On workers' rights, the trade unions that bankroll the party screech "betrayal" about proposed reforms that represent their biggest policy win for the best part of two decades. An irrelevant scrap over whether the bill arrives within 100 days of winning power trumps analysis of what is in it. Wes Streeting, the shadow health secretary, enjoys triggering social democrats by arguing that the National Health Service (<sub>NHS</sub>) needs to make use of the private sector, something it has done without much hoo-hah for decades. A row is simmering about Gaza in part because the leadership initially supported a "humanitarian pause" (when fighting stops) rather than a "ceasefire" (when fighting stops).

Often, fights boil down to money. Strict spending rules insisted upon by Ms Reeves in the name of electoral credibility limit the party. It is easy to refuse

spending for a bad idea. It is much harder to maintain, say, the two-child benefit cap, which restricts some welfare schemes to the first two children in a household, simply because of fiscal rules. A 30-something Labour MP did not spend every weekend for three years handing out leaflets in the rain only for Ms Reeves to pat her pockets and tell them there is no money. And so a minor topic—the benefit cap saves about 1% of Britain's £300bn (\$380bn) welfare bill—becomes a totemic one.

Policy differences, no matter how small, become matters of principle in the Labour Party. The Conservative Party has few such qualms. MPs followed David Cameron as he pursued austere liberalism. They lined up behind Theresa May's communitarian Conservatism, and then became big-spending Conservatives under [Boris Johnson](#). It took a colossal failure for each to be removed.

By contrast, Labour ends up in internal scraps even when it is on the up. The decision by Natalie Elphicke, a once rather right-wing Tory MP, to join the party is taken as a moral affront, rather than an indication the party is on track for a thumping victory. The party suffers from a variation of Robert Conquest's rule, runs one joke: the simplest way to explain the behaviour of any bureaucratic organisation is to assume that it is controlled by a cabal of its enemies—namely, other members of the Labour Party.

Small differences can undo even the firmest Labour alliances. Sir Tony Blair and Gordon Brown were once political soulmates. Somehow the duo spent their decade in power feuding about what were, with the benefit of hindsight, pretty arcane policy matters. At one point Sir Tony's team set about shredding a paper from Mr Brown attacking "foundation hospitals"—a scheme to give good hospitals more independence—to ensure that cabinet ministers did not read the criticism of this flagship policy.

What should have been a golden era of centre-left dominance became an almost teenaged era of politics, more "Mean Girls" than "The Thick of It" ("I love you, but I'll break you! If you do that, I can destroy you!" shouted Peter Mandelson, another New Labour giant, down the phone to Mr Brown, according to one account). In 2021 a documentary brought together the leading men and women from this era. Beneath all the contributions was a shamefaced realisation that they had wasted two gigantic majorities and a

booming economy on petty fighting over policy differences that were often tiny.

## Go back to your constituencies and prepare for bickering

Sir Keir's party will have less of an opportunity to waste when it takes office. Its majority may yet be as large as Sir Tony's, but the economic backdrop will be grimmer. Placating those disappointed by the reality of power will be Sir Keir's first job; dealing with rivals keen to harness that disappointment will be the second. The thought of winning can discipline the rowdiest party; actually doing so can unhinge the most well-behaved. In Labour, the smallest divisions can quickly become the most toxic. ■

**Read more from Bagehot, our columnist on British politics:**

[The Conservatives' world has disappeared. Don't tell Rishi Sunak](#) (May 8th)

[Jeremy Clarkson, patron saint of the Great British bore](#) (May 1st)

[Britain's Reform UK party does not exist](#) (Apr 24th)

Also: *How the Bagehot column got its name*

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# International

- [Taiwan's new president faces an upsurge in Chinese coercion](#)

**International** | From grey zone to red zone

## Taiwan's new president faces an upsurge in Chinese coercion

*But China's bullying of Japan, Taiwan and the Philippines risks an explosion*

May 16th 2024



Jes Aznar/The New York Times/Redux/Eyevine

SAILING AROUND the northern point of Dadan island, the extent of the geopolitical challenge facing Taiwan becomes glaringly clear: to starboard a small military outpost guards Taiwan's Kinmen islands and their 140,000-odd residents; to port a pair of curved skyscrapers tower over the Chinese city of Xiamen, whose 5m people stretch all round the bay.

So close are the two sides that the winners of an annual swimming relay race cover the few kilometres between them in less than 90 minutes. A Chinese takeover of Kinmen might not take much longer, such is the disparity in power. The boat's owner is not keen on mainlanders fishing and dredging

sand in Taiwan's waters. But, having witnessed the artillery duels of the past, nor is he keen to fight to preserve his country's democracy. "If Taiwanese soldiers left Kinmen, there would be no war," he avers. And if China ruled Kinmen? "We would be richer and nobody would dare mess with us." Such ambiguity in Taiwan gives China a vulnerability to try to exploit.

As Taiwan prepares to swear in Lai Ching-te as its new president on May 20th, its frontiers are shrinking. China is pressing forcefully into Taiwan's air and maritime boundaries, seeking to efface them. On May 9th, for instance, 12 Chinese coastguard and other vessels hove into Kinmen's "restricted waters". Then five more appeared on May 14th. Taiwan's coastguard could only urge them to leave, which they did at their leisure.

North of Taiwan, meanwhile, Chinese ships do much the same to Japan, intruding almost daily into Japanese-controlled waters around the disputed Senkaku islands, which China calls Diaoyu and claims as its own. On April 27th China's coastguard shadowed a ship carrying Japanese parliamentarians and university researchers to the uninhabited islets. Deeming the situation too tense, the Japanese coastguard did not let the group ashore.

The most dramatic contests have been taking place south of Taiwan, where Chinese ships have resorted to lasers, ramming and water cannons to keep Philippine ships away from disputed shoals in the South China Sea. On April 30th a Chinese flotilla surrounded and water-blasted a Philippine coastguard vessel and supply ship near Scarborough Shoal.

Such bullying is part of China's strategy of "greyzone" aggression—actions short of war—and suggests a new dual-track approach to its rivals. American officials say "coercive and risky" Chinese manoeuvres around American jets—more than 180 in the two years to October 2023—have abated since a summit between Joe Biden and Xi Jinping, the American and Chinese presidents, in November. Yet the harassment of smaller neighbours is intensifying.

America and its Asian allies have been preparing for the most extreme confrontation—a Chinese invasion of Taiwan, which some fear may happen this decade. But the likelier crisis is that an incident in the grey zone could

escalate out of control. Moreover, if war does break out, China's encroachment may help "shape the battlefield", giving neighbours less time to repel a real attack—manoeuvres close to Taiwan could turn into a surprise assault, say. In China's ideal, grey-zone pressure might even induce capitulation.

There are few good ways to respond. Grey-zone conflict lies in the ambiguous middle ground between war and peace. It involves the accumulation of small *faits accomplis*. Military forces serve to threaten and test. But much of the coercion involves non-military tools: coastguards and militias to seize disputed maritime territories; covert operations and cyber-attacks to disrupt services; disinformation and political infiltration to weaken resolve; and more. It seeks to humiliate, wear down and demoralise rivals, and to drive a wedge between America and its allies.

China hopes to "win without fighting", though it is also building up its forces to ensure it can "win and fight". It already has the largest navy in the world. For now, says Raymond Kuo of the RAND Corporation, a think-tank in Washington, DC, China is operating on two separate escalation ladders: wield enough force to dominate neighbours but, crucially, not so much as to draw America into an actual fight.

Grey-zone conflict has echoes of Russian concepts of "hybrid warfare", mixing conventional and unconventional methods of fighting, and American ideas of "measures short of war". China's current strategy seems to draw mainly on its writings about political conflict, including the "three warfares": psychological, to deter and shock the enemy; public opinion, to influence domestic and global perceptions; and legal, to constrain foes and assert Chinese interests.

Grey-zone aggression is hard to deter, because no one Chinese act seems to justify a military reaction. "It creates a defender's dilemma", says Elisabeth Braw of the Atlantic Council, an American think-tank. "If you respond to something small you seem to be over-reacting. Grey-zone aggression is easy, cheap and has little cost."

## Chained together

Japan, Taiwan and the Philippines form part of the “first island chain”, the line of archipelagos that hem in China’s coast. All are friends or allies of America. Control of the islands—and the vital sea passages between them—would be critical in any war between America and China.

But defending allies in Asia is harder than in Europe, for many reasons. All depend heavily on trade with China for their prosperity. Distances in the Pacific are vast. And Asian allies lack a NATO-like mutual-defence alliance, in which an attack on one is deemed an attack on all. Instead a “hub-and-spokes” system of bilateral military alliances exists with America.

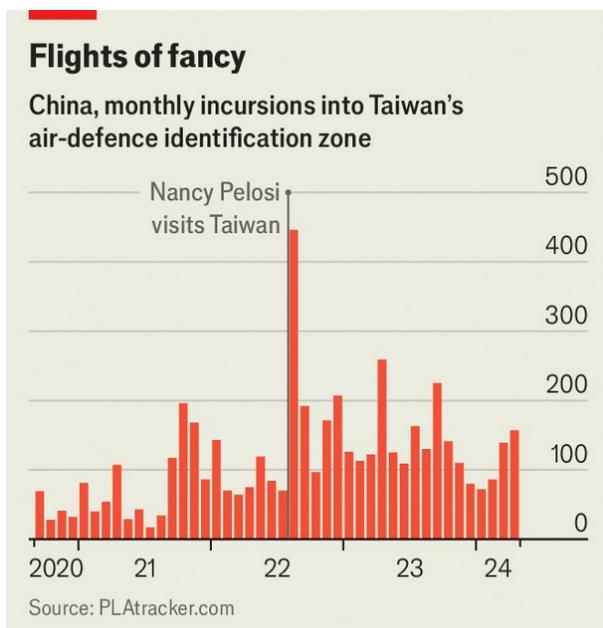
China often looks for legal ambiguity and seizes on notable incidents to try to weaken the links. At the top of the island chain, Japan has felt the pressure since at least 2010, when Japan arrested a Chinese crew in waters around the Senkakus, sparking protests in China and economic reprisals. Matters worsened in 2012, when the Japanese government bought the islands from their private owners to keep them out of the hands of rowdy nationalists. China took umbrage nevertheless, and began regularly sending ships into their waters.

Last year was the most intense yet, according to Japan’s foreign ministry, with Chinese ships entering almost every day and in record numbers—1,287 ships over 352 days. “We have territorial disputes with South Korea but we don’t behave the way the Chinese do,” says Tsuneo Watanabe of the Sasakawa Peace Foundation, a think-tank in Tokyo. Nevertheless, he notes, Japan seeks to preserve quiet with China.

The next link in the chain is under greatest strain: Taiwan. It has governed itself since the nationalist Kuomintang (KMT) fled there after losing the civil war against the Communist Party in 1949. Just 12 countries recognise it and Mr Xi vows to “re-unify” it with the mainland, by agreement if possible or by force if necessary.

America seeks to preserve the status quo, and therein Taiwan’s autonomy. It recognised the mainland’s government in 1979 but promised under the Taiwan Relations Act (TRA) to supply Taiwan with “defensive” arms and to maintain America’s own capacity to resist “force or other forms of coercion”.

The idea of peaceful reunification seems implausible given Taiwan's democratic transition, China's crushing of liberties in Hong Kong and the waxing of a separate Taiwanese identity. According to the Pentagon, Mr Xi wants the People's Liberation Army to be able, if called upon, to take Taiwan by force by 2027.



The Economist

When Nancy Pelosi, then Speaker of America's House of Representatives, visited Taiwan in 2022, China fired volleys of missiles close to the island. It seized the moment to impose a new reality. Until then China's air incursions across the median line, dividing mainland and Taiwanese airspace, happened only occasionally. Now they are routine. And in February China shifted route M-503, an international flight path, closer to the median line, further blurring it. Chinese jets no longer simply probe Taiwan's air-defence identification zone (<sup>ADIZ</sup>) but traverse it to patrol the island's eastern coast (see chart).

China has declared that the Taiwan Strait is not an international waterway, but a Chinese one. Its ships intrude more often into Taiwanese-controlled waters, repeatedly crossing the 24-mile limit of its "contiguous zone". After two Chinese fishermen died in a still-unexplained encounter with Taiwan's coastguard off Kinmen in February, Chinese ships started sailing into the islands' "restricted zone", too.

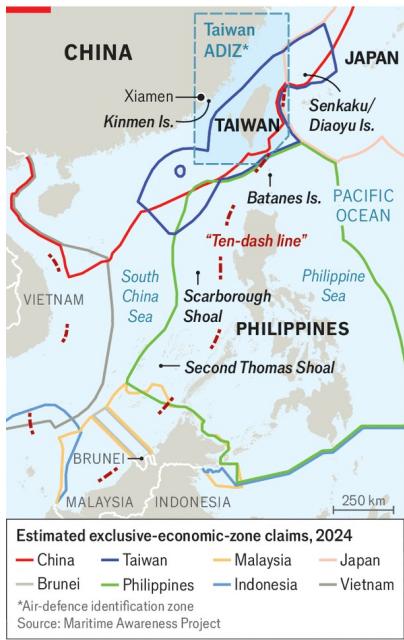
“We do not provoke the Chinese side, but if we are provoked we will respond firmly,” says a senior Taiwanese official. In truth, Taiwan can do little except intercept the trespassers and tell them to leave; it dare not open fire. For Kuo Yujen, director of the Institute for National Policy Research, a think-tank in Taipei, “Grey-zone aggression seeks to make your government look powerless, stupid and slow. It makes it hard to take decisions.”

## Dashing for the shoals

China may yet climb up the spectrum of violence to hybrid warfare. It could, for instance, seize outlying islands like Kinmen that are not covered by the <sup>TRA</sup>. Or it could impose inspections of Taiwan-bound shipping or even a full air or sea blockade, knowing the island has only limited supplies of food and fuel. These would be acts of war, but short of all-out invasion.

Mr Kuo once wrote a training scenario for Taiwanese officials. First, China cuts undersea cables, severing communications with Kinmen. Then it gives local commanders 72 hours to accept safe passage to get their troops off the islands. Protests erupt, with residents mobbing military bases to demand retreat. “It’s game over,” says Mr Kuo. “Our soldiers will not shoot their own people.” Strikingly, in February last year a bipartisan group of local councillors signed a petition demanding that Kinmen be permanently demilitarised.

The Philippines may be the poorest and weakest link in the chain. But compared with Japan and Taiwan, it is the pluckiest—or most foolhardy—in confronting China. It publicises footage of China’s actions, embedding journalists with its missions.



The Economist

At issue is China’s expansive claim to the “nine-dash line” which encompasses most of the South China Sea and eats into the 200-mile exclusive economic zones (EEZs) of the Philippines and four other South-East Asian countries (see map). Last year Chinese official maps added a tenth dash, extending east of Taiwan.

The South China Sea is rich in fish and hydrocarbons, and about a third of the world’s seaborne trade transits it. Since 2013 China has built up several features, some into outright military bases. The Philippines regularly clashes with China over its EEZ, which it calls the West Philippine Sea. In 2016 an international arbitration tribunal ruled in the Philippines’ favour, finding that there was “no legal basis for China to claim historic rights” in the nine-dash line under the <sup>UN</sup> Convention on the Law of the Sea; many of China’s actions were deemed illegal. President Ferdinand Marcos Jr, who came to power in 2022, visited Mr Xi early on, but soon soured on China.

One flashpoint has been the *BRP Sierra Madre*, a former American tank carrier, which the Philippines ran aground onto Second Thomas Shoal in 1999. Ever since, it has kept a contingent of marines aboard the hulk. China, though, patrols the surrounding waters. The rusting *Sierra Madre* is at risk of collapse, perhaps during one of the region’s many typhoons. China is waiting for that moment. It allows the Philippines to rotate and feed its

troops, but not to bring building materials to shore up the outpost. That leads repeatedly to televised confrontations. Most times, Filipino officials say, some supplies get through.

Clashes also take place at Scarborough Shoal, located closer to Manila, which China seized in 2012. America and the Philippines fear that China might build a military base there, too.

## The dragon's blowback

For all their malign impact, grey-zone tactics come with risks for China. It courts errors or unexpected reactions. More important, its bullying pushes rivals to seek counter-measures, and to bind themselves more closely to America and each other.

Whatever its tactical victories, American officials contend, China is losing strategically. Opinions on China in the three island-chain countries have soured. Under Mr Lai, the independence-leaning Democratic Progressive Party, detested by mainland rulers, has won an unprecedented third presidential term. In the Philippines, polls suggest trust in America and distrust of China. Nine in ten Japanese have unfavourable views of China, surveys show.

Moreover, all three countries are racing to overhaul their military forces. Defence spending is rising sharply in Japan and Taiwan. The former is buying, among other things, long-range cruise missiles to strike at Chinese targets; the latter is developing greater “asymmetric” defensive capabilities to resist invasion.

The Philippines is seeking to transform its forces from counter-insurgency to territorial defence. It has bought BrahMos anti-ship cruise missiles from India. It seeks to buy F-16 jets from America and frigates from South Korea; even submarines are on the wish-list. But the question is whether it can afford such kit. Japan has announced it would supply the Philippines with five new coastguard vessels and coastal radars.

The Philippines gets help from America to improve facilities, not least to upgrade a port in the Batanes islands, which dominate vital sea lanes.

America is also improving nine military sites to which its forces have been granted access. The rationale is partly to respond to “natural and humanitarian disasters”. The fact that some sites under the Enhanced Defence Co-operation Agreement face Taiwan and the South China Sea is not lost on China. Nor are the recently concluded Salaknib and Balikatan military exercises, during which America for the first time deployed its long-range Typhon missile system that can reach Chinese targets.

America is thickening its regional “latticework” of security deals to reinforce older bilateral alliances. On April 11th Mr Marcos attended a three-way summit in Washington with Mr Biden and the Japanese prime minister, Kishida Fumio. Among other things, they denounced the country’s “dangerous and destabilising” behaviour at Second Thomas Shoal. “China won rounds one, two, three and four. Round five is likely to go to the Philippines,” says Richard Heydarian, a Filipino foreign-affairs analyst. “This is going to be a generational challenge.”

The missing partner is Taiwan. Japan and the Philippines increasingly assume that they will inevitably be drawn into any war over the island. But the two countries neither have official diplomatic relations with Taiwan, nor much contact with its armed forces. America is reported to be quietly training Taiwanese units, and to have conducted undeclared naval exercises with Taiwan last month. But interoperability takes years to develop.

Taiwan needs two different armed forces, notes James Crabtree of the European Council on Foreign Relations, a think-tank. A conventional one with high-end jets and ships would deal with grey-zone challenges. But these would soon be destroyed in an all-out war, so Taiwan also needs an “asymmetric” force with lots of small, mobile anti-aircraft and anti-ship weapons to resist an invasion. As a country of 24m people menaced by a superpower that is home to 1.4bn, [Taiwan](#) lacks the resources to have both and, in truth, will struggle to handle either task alone.

America’s policy of “strategic ambiguity”—being ready to arm Taiwan but not formally committing itself to defending it—makes everything harder. Taiwan cannot plan without knowing what its principal protector will do. Some in Taiwan hope its advanced-semiconductors industry, vital to the

global economy, would protect it from attack. But if China invades, it may not care about the economic impact.

America does not intervene directly against grey-zone harassment, in part because it tries to stay out of the region's territorial disputes. It conducts "freedom of navigation patrols" in the Taiwan Strait and the South China Sea to assert their status as international waterways. That said, American military ships and aircraft are often in the vicinity when Philippine supply missions run China's gauntlet.

If tensions escalate, America may have to do more. One option is to boost resilience—perhaps by helping to publicise Chinese coercion or to parry cyber-attacks. It could integrate military data systems, increase joint production of munitions and rehearse operations to defeat a partial or full blockade of Taiwan. It could send its coastguard on more joint patrols with allies; or increase military help to Taiwan in line with China's pressure. Some say America should help its friends beef up bases in the South China Sea, or seek access to them for its own forces.

Lee Jyun-yi of the Institute for National Defence Research, a think-tank in Taipei, suggests "cross-domain escalation" rather than responding in kind. America could react in another arena, say by redoubling efforts to incorporate Taiwan in international organisations. Others suggest greater co-operation among the coastguards of Japan, Taiwan and the Philippines to "surprise" China. But many such measures require America to increase its overt support for Taiwan. So far, it has resisted that, but China's grey-zone tactics may be what forces it to choose. ■

# Business

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**Business** | Storing up trouble

# App stores are hugely lucrative—and under attack

*Governments want to curb their power*

May 13th 2024

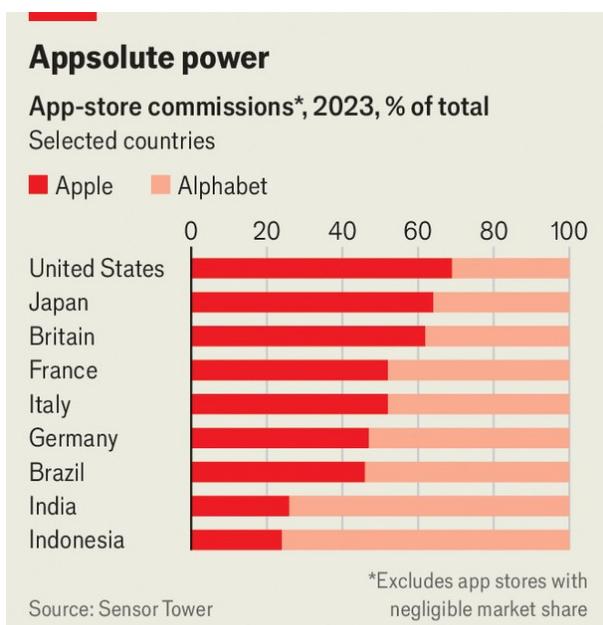


Rose Wong

Since the first iPhone fell into people's pockets in 2007, apps have steadily become the portal of choice to the digital world. The mobile devices on which they run now account for two-thirds of global internet traffic. Inhabitants of rich countries spend about five hours a day staring at apps—roughly a third of their waking lives. Around the world some 3.5bn people use them each month.

That has made the app stores that distribute them a lucrative business for Apple and Alphabet, the tech titans whose iOS and Android operating systems power the vast majority of the world's mobile devices. That, in turn, has drawn the attention of [governments](#). They are leaning on the duopoly to

limit access to disfavoured apps while at the same time working to loosen its stranglehold over the market. They risk irking consumers on both counts.



The Economist

Apple and Alphabet keep the financial details of their app stores close to their chests. These make money in a variety of ways. The biggest chunk comes from charging a 30% fee on the sale of digital goods, such as snazzy outfits and supercharged weapons for avatars in video games. The stores also take a cut of app subscriptions, usually at the lower rate of 15%. Sensor Tower, a data firm, estimates that Apple took in \$27bn and Alphabet \$13bn from these types of commission last year, though their market shares vary across countries (see chart). Analysts reckon the pair also made several billion dollars each selling ads that appeared next to app-store search results.

That may not seem like much when compared with Apple's and Alphabet's nearly \$700bn in combined revenues last year. Most of the app-store bounty, however, falls straight to the firms' bottom lines. Court documents from recent years suggest an eye-popping operating margin of around two-thirds for Alphabet's app store and four-fifths for Apple's.

Governments seeking greater control over the digital world are increasingly doing so via these gatekeepers. The number of requests Alphabet has received from regulators and courts to remove apps from its Google Play

store rose from 496 in 2019 to 1,743 last year. In 2022 Apple removed 1,474 apps from its store on the basis of such requests, up from 558 in 2019. Most of these requests came from the Chinese government. For Alphabet, which does not operate its app store in the country, most came from India.

The reasons for such requests vary. Some aim to limit access to content such as pornography or depictions of suicide. Others are about censoring dissent. In April China's government demanded that Apple remove messaging apps including WhatsApp and Telegram from the local version of its app store. A growing number of requests are geopolitically tinged. Last month Joe Biden signed a law that would compel American app stores to ban TikTok, an addictive short-video app, if ByteDance, its Chinese owner, does not divest its operations in America within nine months. The legislation has riled many of TikTok's users. On May 7th the company filed a petition in federal court claiming a ban is unconstitutional. The app is already blocked in India.

At the same time, governments are trying to pry open the app-store duopoly. Among other things, the EU's Digital Markets Act (DMA) compels the tech firms to allow other app stores to be used with their operating systems, a freedom Apple has not previously granted iPhone users. Japan's government is trying to pass a bill with a similar aim. Britain is probing the app-store business, too. India's government is so eager to introduce competition to the market that it has considered launching its own app store.

Plenty of developers are on their side. In 2019 Spotify, a music-streaming service, lodged a complaint in the EU against Apple for, among other things, barring it from telling customers they could get a lower price by signing up for their subscription outside the app. In March the EU slapped Apple with a €1.8bn (\$2bn) fine after concluding its investigation into the matter. Epic Games, a video-game developer, has sued Apple and Alphabet in America on antitrust grounds. On most counts it lost its case against Apple, but in December a jury sided with it in its suit against Alphabet, concluding that the Google Play store operates as an illegal monopoly. The judge is still to decide on the resulting remedies, and Alphabet has said it will appeal against the verdict. Meanwhile, Epic is also suing Apple and Alphabet in Australia and Britain on similar grounds.

Regulators and developers hope the upshot of all this will be more competition and lower fees. Last year Phil Spencer, the boss of gaming at Microsoft, another tech giant, described the DMA as a “huge opportunity” and said that his company plans to launch app stores on iOS and Android. Epic wants to do the same. Some also hope for a burst of innovation, and talk of the possibility of, say, child-friendly app stores, where all software is carefully vetted. On April 17th AltStore, an alternative app store, became available to iPhone users in Europe. So far it has two apps. One lets users play games made for Nintendo consoles on their phones. The other helps users manage snippets of text they have copied recently.

Others, however, point to possible pitfalls. They worry that unwholesome niche stores focused on things like pornography or online gambling will proliferate—leading to more of the very content that some governments have been cracking down on. In China local smartphone-makers, such as Huawei and Oppo, run their own popular app stores and may be tempted to expand into Europe. China-bashing politicians will doubtless dislike that.

In exchange for their fees, Apple and Alphabet also provide important services to developers, especially smaller ones. That includes vetting new apps for bugs and malicious software, which gives consumers the confidence to use apps without fear of being fleeced. Many users also seem to value the convenience of the one-stop app shops that Apple and Alphabet already provide. Tellingly, even though Android phones have always allowed alternative app stores, no serious contenders to Google Play have emerged. A rival offering launched by Amazon, another tech giant, in 2011 gained little traction.

Consumers, then, hardly seem to be crying out for change. As a result, disruption will be slow. Those who want to shake up the market may have to wait for the next whizzy device to come along. As long as the age of the smartphone endures, so too, it seems, will the app-store duopoly. ■

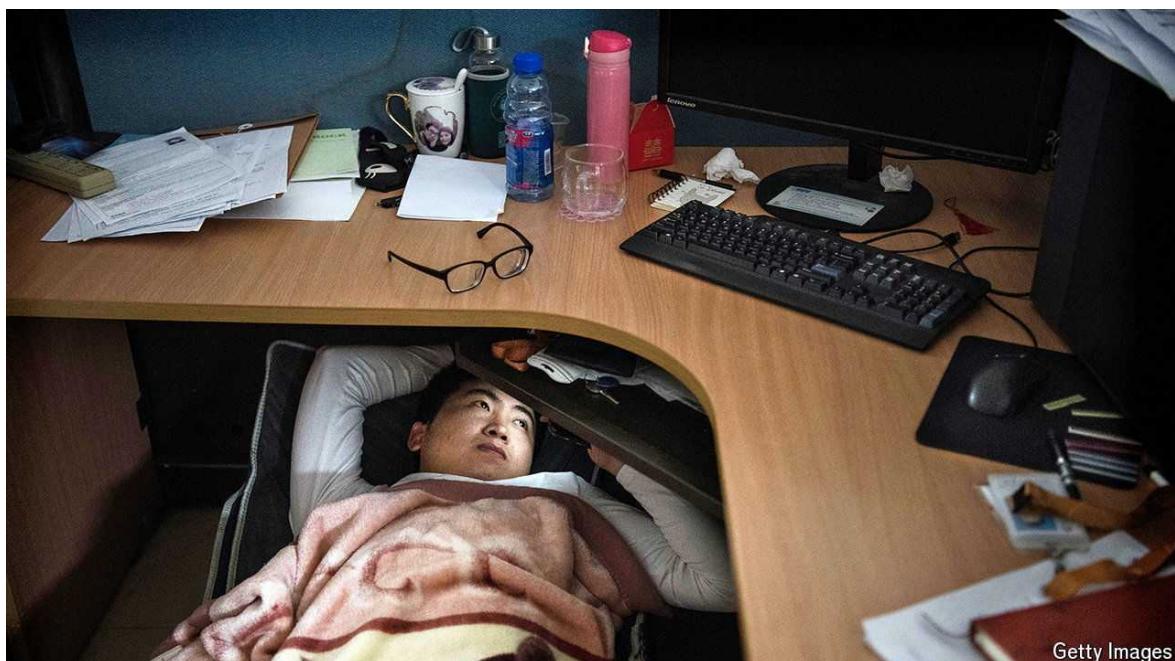
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**Business** | Clocked off

## China's youth are rebelling against long hours

*The backlash over a series of viral videos says a lot about shifting attitudes*

May 16th 2024



Getty Images

It is a time-honoured tradition for bosses to grumble about the supposed laziness of their underlings. Doing so publicly, however, is rarely wise. China offers no exception to this rule. Earlier this month Qu Jing, the head of communications at Baidu, a local tech giant, took to social media to defend the company's gruelling culture. The resulting firestorm has highlighted the growing dissatisfaction among China's young white-collar workers with the punishing hours common in the country.

In one video, which soon went viral, Ms Qu said it was not her responsibility whether her team's relationships or health were affected by their jobs, declaring "I'm not their mother." In another she added that a woman who opts to spend time with "her husband and kids" should not expect a

promotion or raise. She claimed that she did not regret forgetting her elder son's birthday nor which grade her younger son was in at school because she "chose to be a career woman". "Keep your phone on 24 hours a day, always ready to respond," was her advice to those lucky enough to find themselves in her line of work.

Condemnation came swiftly. On May 9th Ms Qu published an apology, promising to "improve the way I communicate" and "care more for my colleagues". A day later she stepped down. Robin Li, Baidu's chief executive, was forced to weigh in, remarking in a staff meeting that the comments did not reflect the company's values. Many Chinese netizens disagreed.

One noted that Ms Qu was merely "saying the quiet part out loud". Such attitudes are widespread among leaders of the country's tech giants. Not long ago a job at one of these firms was seen as the height of achievement for the country's graduates. Landing a role at the likes of Baidu, Alibaba or Tencent meant prestige, a big salary, generous benefits and lucrative stock options. Even the notoriously gruelling hours did not deter applicants. Tech workers self-deprecatingly referred to themselves as "brick movers", likening themselves to hard labourers, while boasting about the perks of their jobs.

Attitudes began to slowly change in 2019 after Jack Ma, a co-founder of Alibaba, celebrated the "blessing" of what he called the "996" work week—working from 9am to 9pm, six days a week. That set off a wave of online griping. Before long workers began to speak of "007" shifts—24 hours a day, seven days a week.

The deaths of a number of young Chinese tech workers stirred further controversy. In 2020 a 22-year-old worker at Pinduoduo, a Chinese e-commerce firm, died while travelling home from the office in the early hours of the morning. (Pinduoduo's statement at the time did not comment on the cause of death.) In 2022 a 25-year-old content screener at Bilibili, a YouTube-like app, died while working through the Lunar New Year holiday. Later that month a 28-year-old engineer at ByteDance, the maker of TikTok and its Chinese sister-app, Douyin, died suddenly after exercising. Bilibili denied its employee had been working overtime in the week leading up to his death, but vowed to hire an additional 1,000 screeners. ByteDance did

not comment on its worker's hours. An internal survey of staff at the company soon after the incident showed that over 70% clocked off work after 9pm, with nearly 40% staying past 10pm.

More recently, a slowing economy has led many tech giants to cut costs. Perks have vanished while pay rises and promotions have been halted. Several companies have made sweeping layoffs. Employees with stock options in some companies have seen their value disappear. A regulatory crackdown by China's government on some tech firms has not helped.

All this has eroded the appeal of working for China's most dynamic companies. Nearly half of the country's university graduates now aspire to work at state-owned enterprises, up from 36% in 2020, according to a survey by Zhaopin, a recruitment company. State firms have a reputation for being slow and stuffy. But they are also known as "iron rice bowls" that offer lifetime employment. Over half of the survey's respondents cited stability as the most important factor when choosing a job. That is something the country's tech giants are struggling to offer.

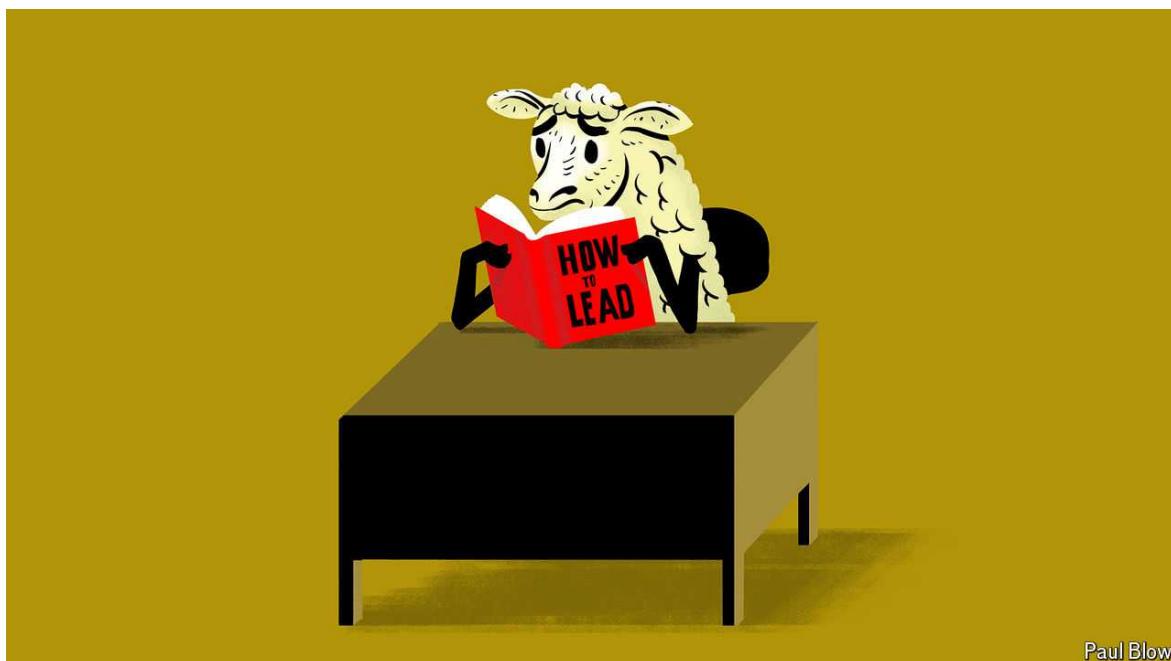
The extent to which the toxic culture of many of those firms bothers China's central government is unclear. In 2021 the country's top court declared that the "996" schedule was illegal. Ms Qu's comments, however, suggest such hours are still expected of many tech workers. Her message also seems consistent with the thinking of Xi Jinping, China's leader, who has called upon its youth to "eat bitterness". Instead, a growing number of burned-out workers are "lying flat", opting for apathy over ambition in their careers. In time, the cost of bosses like Ms Qu may grow clearer. ■

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## How to be a good follower

*First, realise that it matters*

May 16th 2024



If there is one thing anyone with a job and a pulse needs to learn, it is how to lead. That, at least, is the message from the tsunami of books, courses, videos and podcasts on the topic. Business schools offer all kinds of leadership training. Authors pump out books instructing you to eat last, be daring and take leaps—which risks stomach ache if nothing else. Gurus tell you how to lead without actually being a leader; you might be on the reception desk, but you're really in charge.

Missing in all this is an inconvenient fact. Most people in the workforce are not leaders and pretty much everyone reports to someone else. The most useful skill to have in your current job may well be how to be a good follower.

That leaders depend on followers might seem blindingly obvious, but the way that people lower down the ladder interact with those above them gets much less attention than the reverse. A corner of the management literature is devoted to “followership”, but it remains small, for several reasons. The first is that you don’t need any advice to achieve the position of follower; you will never be more of one than on the very first day of your very first job.

The second reason is that, although some people have little desire to be in a position of authority, very few aspire to follow. The word itself conjures up a self-abnegating passivity, more ovine than human, more bleater than leader. In an experiment conducted by Colette Hoption of Seattle University and her co-authors, people who were randomly assigned to the role of followers felt unhappier and were less willing to do work at the weekends and early in the morning than those given the label of leaders. Plenty of companies encourage even their lowliest employees to show initiative at work, but almost none use the language of being a “good follower”. “We behave like owners,” is how Moderna, a biotech company, urges staff to see themselves as more than cogs in a machine. NerdWallet, a consumer-finance firm, also counts ownership as one of its values.

The third reason why the art of following gets little attention is that most subordinates have much less agency than the people above them. There is often no choice in whom you report to: senior people are appointed by even more senior people, not given their positions by acclamation. Leaders, not followers, set the tone: even if bosses are not old-school command-and-control types, they mould how everyone beneath them behaves. The language of rank and responsibility is hard to avoid; the most independent-minded people will still sometimes shrug and say “That’s above my pay grade.”

If such things explain why leadership hogs the limelight, the behaviour of followers is still crucial. Hierarchies can be more fluid than they sometimes look: as teams form and dissolve, you may be running a project one month and contributing the next. Things generally go better when people at every level are engaged in their work and prepared to take on responsibility. And everyone has some agency, even if they exercise it only to take or ignore a call from the boss.

Proactivity is a big part of being an effective follower. One of the fathers of the field, Robert Kelley, has usefully identified five styles of followership: sheep, who are wholly passive; yes-people, who enthusiastically do what the boss wants but never think for themselves; alienated followers, who can think for themselves but mainly to explain why the organisation is being stupid; pragmatists, who get on board with things but rarely initiate changes; and stars, who think for themselves and have bags of positivity and energy as well as a willingness to offer constructive criticism. (Star followers, in other words, behave like leaders in waiting.)

Which bucket of follower people fall into will undoubtedly depend on their boss: plenty of leaders like the idea of being challenged and then, when confronted with it in practice, find that they prefer craven submissiveness. It may depend, too, on the purpose of their organisation and how motivated they are to help it succeed. But it will also depend on them: on whether they raise a discomforting point or stay in their lane; on whether they ingratiate themselves with their managers or challenge them; on whether they see their boss as someone to support or moan about. As the British Army, a rare example of an organisation that has an explicit doctrine of followership, puts it, “To follow effectively...is a choice.” It is a choice that all the ink spilled on leadership easily blots out. ■

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Also: [How the Bartleby column got its name](#)

**Business** | Through the floor

# Can Home Depot's “amazing era” return?

*Americans are yet to recover their enthusiasm for renovations*

May 15th 2024



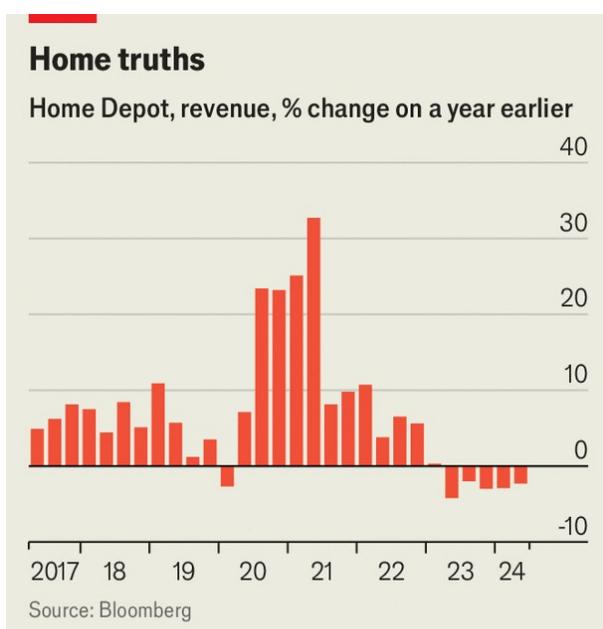
Getty Images

The origins of Home Depot, a big American home-improvement store, are inauspicious. In 1978 two of its co-founders were fired from senior roles at Handy Dan's, a similar chain in southern California, in a power struggle. They decided to start a rival firm. In an effort to lure in customers on opening day, the co-founders' children stood outside the doors and handed out dollar bills. “By dinner time they still had plenty of cash,” lamented Bernie Marcus, one of the co-founders, in his autobiography.

Today the company is a giant. Over the past 12 months it racked up \$150bn in sales, making it by far America’s biggest home-improvement chain and its third-largest bricks-and-mortar retailer, after Walmart and Costco. The company now employs half a million staff, who profess to “bleed orange”, a

reference to the firm's striking colour scheme. Its market value, at \$350bn, exceeds that of Chevron, an oil giant, and Netflix, a streaming darling.

Until about 18 months ago, business was going like a house on fire. A strategy of focusing less on do-it-yourself hobbyists and more on professional contractors, who now account for about half the company's revenue, had paid off. Those professionals tend to spend more, boosting sales per square foot and improving profitability. With an operating margin of around 15%, the company is more profitable than Lowe's, a competitor that does less business with tradesmen.



The Economist

Home Depot's sales hit the roof during the covid-19 pandemic. The combination of lockdowns and stimulus cheques led to a surge in home renovations. Annual sales growth jumped from an average of 7% between 2017 and 2019 to 17% between 2020 and 2022 (see chart). Past investments by the firm in expanding its supply chain and developing its e-commerce infrastructure proved farsighted. "It was an amazing era," recalls Richard McPhail, the company's chief financial officer, "But we knew a period of normalisation was coming."

On May 14th the company reported that its sales in the quarter to the end of April shrank by 2%, year-on-year, the fifth consecutive decline. Higher

mortgage rates have crimped its business by slowing the pace at which people move house. Most renovations happen either when people sell or buy a property. Pet projects, such as remodelling kitchens, which are often paid for with debt, are also being delayed. Home Depot's value is down by around a fifth since its peak in late 2021. To reduce costs, the company has been sawing back its inventory and reducing its warehouse space, says Mr McPhail.

To boost sales, it is doubling down on its strategy of going after contractors. It plans to target specialists such as plumbers and contractors working on larger projects, including by investing in its ability to deliver materials to sites. It has also been piloting credit schemes for tradesmen. In March the company announced a plan to buy SRS, a trade-distribution company which sells to roofers, pool contractors and landscapers, for \$18bn.

That won't do much to reduce the company's exposure to the home-improvement market. Home Depot's business, then, is unlikely to get much of a lift until interest rates start to fall. That should encourage Americans to move home again and unlock demand for improvement projects. Nothing entices people to splash out on renovating their homes quite like cheaper money—apart from, perhaps, being handed dollar bills. ■

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Business | Hot property

# Meet the Swedish firm trying to shake up heat pumps

*It sees a big opportunity in an old technology*

May 16th 2024



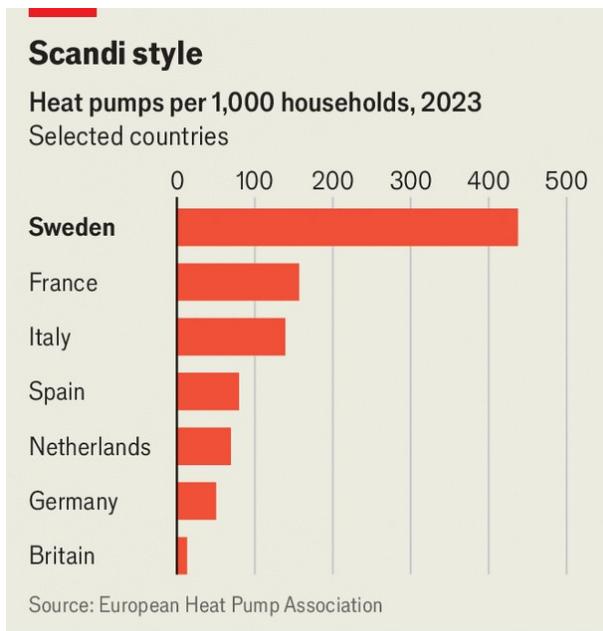
Heat pumps, a type of reverse-refrigerator used for warming homes, are not the type of tech that gets most investors hot and bothered. They were, after all, invented in 1856. Harald Mix and Carl-Erik Lagercrantz, two Swedish financiers, see things differently.

The pair, whose investment group Vargas is behind Northvolt, a battery maker, and H2 Green Steel, which uses green hydrogen to produce steel, sense there are big bucks in replacing Europe's many oil and gas boilers with heat pumps. Earlier this year Aira, a company founded by Vargas, launched a new product that it hopes will entice more people to make the switch. It is not only profits that are at stake.

Gas-guzzling cars and polluting power plants snatch most of the attention in the fight against climate change. The greenhouse-gas emissions produced by heating buildings often go overlooked. Residential heating is responsible for 10% of Europe's emissions, almost as much as the 12% from petrol-fuelled cars.

European governments are therefore doling out subsidies for heat pumps, which emit a fraction of what boilers do, especially when they run on clean energy. In Britain the average cost to buy and fit one of these devices is a little over £12,000 (\$15,000), about four times the cost for a gas boiler. To ease that burden the British government, which has set itself the target of installing 600,000 heat pumps every year, offers to pay households £7,500 to get one. The German government, which is shooting for 500,000 installations a year, offers to cover up to 70% of the cost.

That has already helped grow heat pumps into a sizeable business. Last year close to 3m new ones were installed in Europe, quadruple the amount a decade before, according to the European Heat Pump Association (<sup>EHPA</sup>), an industry group. There are now 20m of the devices installed in Europe.



The Economist

The industry still has plenty of room to expand. Martin Lewerth, Aira's chief executive, notes that there are 130m boilers in Europe, and that every year

between 7m and 9m of them break down. Although in chilly Sweden there are 438 heat pumps per 1,000 households, in France, Germany and Britain there are only 157, 50 and 13, respectively (see chart).

Aira hopes to become the leading player in a fragmented industry. Its new factory in Poland can produce 500,000 heat pumps a year, and it is in the process of training up 20,000 technicians across the continent. The company hopes to install 5m heat pumps over the next decade—the equivalent, says Mr Lewerth, of taking 10m petrol cars off the roads.

That will not be easy. Many would-be buyers balk at the hefty cost of heat pumps, notes Mr Mix of Vargas. Although the <sup>EHPA</sup> reckons sales in Europe rose by a record 38% in 2022, that was mainly because the war in Ukraine, and the resulting spike in gas prices, encouraged many households to make the switch. Sales last year shrank by about 5%, partly owing to the strain on consumers from inflation and higher interest rates.

Worries about costs have also helped fuel a backlash against the technology. In Germany a plan to require households installing a new boiler to switch to heat pumps was watered down after Alternative for Germany (<sup>AfD</sup>), a far-right party, mobilised a campaign against it. (Some tabloids railed that the *Heizhammer*, or heating hammer, was set to impoverish households.) The <sup>EU</sup> has also delayed a plan to accelerate uptake of the technology until after elections for the European Parliament in June. Many European heat-pump makers have shed jobs.

Mr Lewerth and his financial backers have come up with some ideas to buck the trend. Aria is pitching a subscription model in which customers pay nothing upfront and are instead charged a monthly fee that covers both installation and servicing, helping to ease worries about cost. It is offering a 15-year guarantee, too, far longer than for most boilers.

The company is also counting on clever software. Aira's heat pumps are controlled by an app that, among other things, adjusts its activity based on the weather forecast, and learns when in the day a customer showers and how quickly their home heats up. If all this convinces enough Europeans to make the switch, posterity can thank Swedish ingenuity. ■

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**Business** | Marque to market

## How not to name a new car

*Companies that get it wrong risk both derision and outrage*

May 16th 2024



The Ford Motor Company

Bestowing a name on a car, as on a child, is not to be taken lightly. By naming his newest progeny  $x \ æ \ a-xii$ , Elon Musk has condemned the boy to a lifetime of befuddled attempts at pronunciation (“ex ash ay twelve”, for those wondering). Naming the first four models produced by Tesla, his car company,  $s$ ,  $3$ ,  $x$  and  $y$  was equally asinine.

Yet model names that provoke derision or outrage are surprisingly common in the car business. The Ora Funky Cat, from a sub-brand of China’s Great Wall Motors, was recently renamed the Ora 03, ostensibly as part of a new global brand strategy but mainly because it sounded daft. Peugeot’s Bipper Tepee, now discontinued, was about as bad. (Peugeot is owned by Stellantis, whose largest shareholder, Exor, part-owns *The Economist*.) The Nissan

Cedric, a large saloon on sale from 1960 until 2004, sounded like it belonged in the previous century. It eventually became the Datsun 200 series in many overseas markets.

Other examples are more off-putting. The Studebaker Dictator was renamed the Commander in 1938 (for obvious reasons), but not so the Suzuki Esteem (though it brought owners none) or Mitsubishi Carisma (it lacked any, and an “h”). Some carmakers have been caught out by unfortunate translations. Chevrolet’s Nova meant “no go” in Spanish, while the Mazda Laputa translated as “prostitute”. Ford’s Pinto (pictured) meant “small penis” in Brazilian slang. Employing letters and numbers is safer but not foolproof. The Toyota <sup>MR</sup>2 had to drop the *deux* in France: the full name sounded close to the word for “shit”.

Geopolitics has lately made naming a car even more treacherous. Xiaomi, a Chinese tech giant that has turned to carmaking, wants to brand the platform underpinning its inexpensive <sup>SU</sup>7 saloon Modena. This happens to be the name of the Italian city where Ferrari (also part-owned by Exor) and Maserati (of Stellantis), two somewhat pricier European marques, hail from. That has incurred the displeasure of the city’s mayor and Italy’s minister for enterprise, and may fall foul of an Italian law banning the use of Italian place names for foreign products.

It is not only Chinese carmakers that have committed such faux pas. In April Alfa Romeo, one more Italian carmaker owned by Stellantis, was forced to hastily rebrand the Milano, a small <sup>SUV</sup>, as the Junior days after it was launched. The car is made in Poland. Before long a foreign carmaker might try to win favour with Chinese customers by calling one of its models the Hangzhou, after the country’s carmaking heartland. They should think twice.■

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# What do Joe Biden and the boss of Starbucks have in common?

*Both are grappling with gloomy consumers at home and trouble abroad*

May 16th 2024



Brett Ryder

IN Thomas Babington Macaulay's "History of England", the bustling coffeehouses of the 17th century were "the chief organs through which the public opinion of the metropolis vented itself". But what happens when the metropolis stays away? Laxman Narasimhan, boss of Starbucks, the world's mightiest coffee chain, is finding out the hard way.

Mr Narasimhan has been in the top job barely a year. He inherited sluggish growth in China and a unionising workforce in America. Since then, things have got much worse. During the first quarter sales in America declined by 3%, year on year, and the firm slashed its profit guidance for the rest of 2024. Long wait-times and unavailable products meant around 15% of

customers using the firm's mobile app did not bother to complete their order. Starbucks' share price has fallen by a fifth this year. To cap it all off, on May 5th Howard Schultz, the caffeine king who grew the chain from obscurity to ubiquity, condemned the firm's recent performance in a post on LinkedIn.

Mr Schultz has twice before handed over executive power only to take it back again, so few were surprised that he had some thoughts about the firm's woes (though the fact that his pronouncement was so public came as a shock). "A maniacal focus on the customer experience" in America is required to restore the firm's fortunes, he wrote. In fact, Mr Narasimhan faces the tall order of satisfying gloomy consumers at home, while battling with Chinese competition and coping with vexing hostilities in the Middle East. America's barista-in-chief thus has a surprising amount in common with its commander-in-chief.

If the coffee business has swing voters, they are the "occasional customers" who visit stores during the afternoon. These guileful gulpers have responded to price increases by cutting spending more than the card-carrying Starbucks members who account for the majority of orders during the morning rush (there are 33m such fanatics). These marginal customers are becoming harder to tempt, perhaps as higher-for-longer interest rates start to bite. In April consumer confidence fell to its lowest level in nearly two years, according to the Conference Board, a research organisation. McDonald's and Shake Shack, two fast-food chains, have also cautioned that consumers are tightening their belts.

Those consumers won't stay blue for ever. But Mr Narasimhan's plan, which he has dubbed the "triple shot with two pumps" strategy, looks surprisingly modest, despite its disturbing moniker. The company is launching a "texture innovation" (product) called Pearls (bubble-tea). To decrease waiting times it is rolling out the "siren system", a faster method it has developed for mixing drinks, though only in a tenth of stores this year. Some doubt these changes are enough to marry the convenience many customers demand with the bewildering array of options on Starbucks' menu. Others wonder exactly who Starbucks now caters to—it promises neither the artisanal touch of a hipster coffee shop nor the cheap and speedy cup of joe served elsewhere.

Problems abroad are no less confounding for Mr Narasimhan. The firm's China strategy is faltering. Rather than licensing its brand to locals, Starbucks chose the riskier path of rapidly opening, and operating, coffee shops across the country. Since 2019 its footprint has nearly doubled in size, to 7,093 stores without any meaningful increase in revenue. During the first quarter, sales fell by a ghastly 11%. When the country's depressed consumers wake up in the morning, they are increasingly likely to caffeinate themselves at Luckin or Cotti, two cheaper Chinese rivals.

The firm must consider its options. A good one is to spin off the China business, as Yum! Brands, which owns <sup>KFC</sup> and Pizza Hut, did in 2016. Such a move would free up Mr Narasimhan's attention to focus on the brand's troubles in America, while allowing investors who remain more bullish about the Chinese consumer to retain their exposure. A liberated Chinese business may do a better job at fending off local challengers, too.

Problems in the Middle East call for more delicate diplomacy. Since October 7th and the beginning of Israel's war in Gaza, Alshaya, which operates Starbucks stores in the region, has faced boycotts. Mr Narasimhan says "misperceptions" that the company supports Israel have negatively affected its business in the Middle East. More troubling still, the conflict looks to be making its mark at home. Based on an analysis of social-media traffic, Bank of America's Sara Senatore says that boycotts are the main cause of the first-quarter dip in sales in America.

In a polarised country, perhaps the "occasional customer" is getting harder to crack. All brands now fear a boycott. One that has made catering to every customer's precise tastes its mission should worry even more. In 2018 Starbucks endured outrage from the left after two black men were arrested in one of its stores. The company incurred wrath again in 2022 when Mr Schultz, then its boss, mulled ending its policy of opening bathrooms to the public owing to safety concerns. Meanwhile, it has endured pressure from the right over its diversity policies.

## Grinding on

Mr Schultz's outburst has surely left Mr Narasimhan fearing for his job. For encouragement, he ought to look south. Chipotle, America's favourite not-quite-Mexican chain, is on a tear. In 2015 the brand suffered a collapse in sales after an *E-coli* outbreak was linked to its restaurants. Its recovery might convince Mr Narasimhan that Starbucks can thrive even after enduring boycotts. Chipotle's success, however, could also cause him to despair. A year ago it was worth half as much as Starbucks. This month its market value overtook the coffee chain's. He can only pray Chipotle doesn't start serving coffee with carnitas. ■

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

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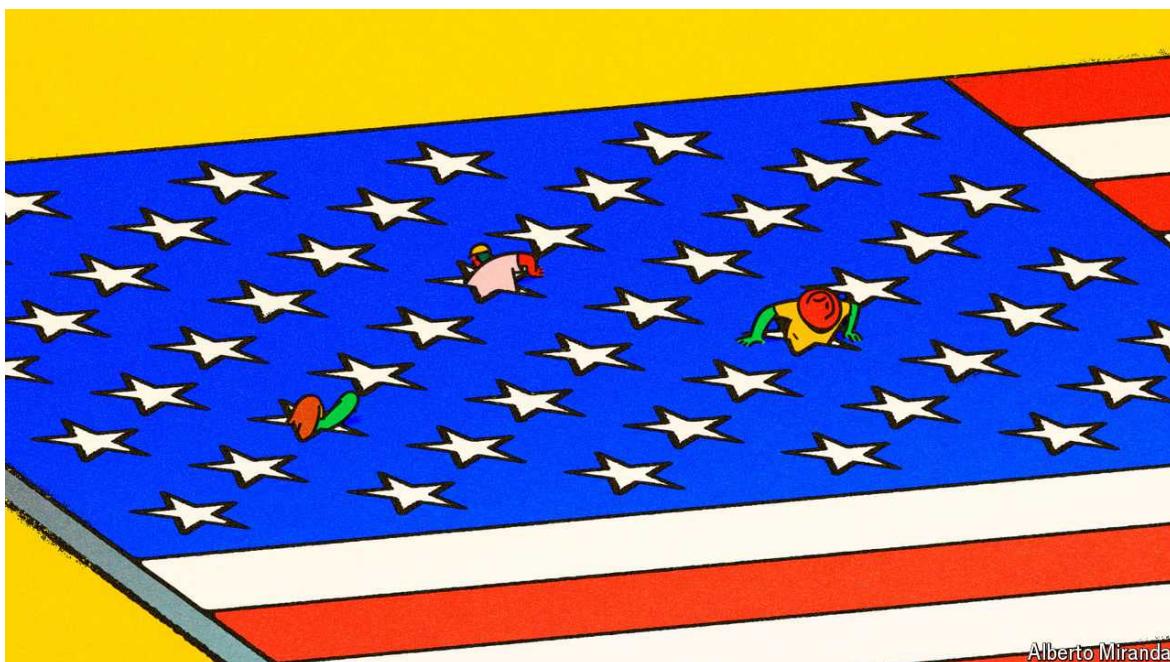
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Finance & economics | Go get 'em

# America is in the midst of an extraordinary startup boom

*How the country revived its go-getting spirit*

May 12th 2024



Pearls, it is said, represent purity. They may soon stand for something else: business dynamism. In Greenville, South Carolina, two locals have created earrings that look like jewels, but contain a cluster of electronics to track body temperature, heart rate and even the wearer's menstrual cycle. Incora Health was set up in 2022. It plans to start selling its earrings, currently in clinical trials, in a few months. "We're first-time founders in a small city trying to change women's health care, and that's not lost on us," says Theresa Gevaert, a co-founder. But the audacious young firm is part of a wave of startups that have been launched in America in the past few years. Many will fail. Some will succeed. Together they suggest change is afoot.

Although America has a deserved reputation as a country at the cutting edge of innovation, fuelled by entrepreneurial vim, in recent years some economists have worried this reputation no longer holds true. Startups have formed a smaller and smaller portion of the business landscape: in 1982 some 38% of American firms were less than five years old; by 2018, 29% were that young. The share of Americans working for startups likewise fell. Silicon Valley sizzled with high-tech wizardry, but its giant companies hoarded the best researchers, leading to a slower spread of new ideas throughout the country. Researchers, including at the Federal Reserve, pointed to this decline in dynamism as a cause of America's weaker productivity growth.



The Economist

Suddenly, what was old appears to be new. An array of data indicate that Americans are rediscovering their go-getting spirit. The most striking evidence comes from applications to form businesses, a proxy for startup activity. These soared in mid-2020, when America was still in the grip of covid-19. The initial surge was easy to dismiss: some of the new firms were scams, trying to profit from the government's financial assistance for small businesses; others reflected the strangeness of the moment, with companies set up to import face masks or sell hand sanitiser.

But now, well after the pandemic has faded, the surge continues (see chart 1). Last year applications to form businesses reached 5.5m, a record. Although they have slowed a touch, the monthly average is still about 80% higher than in the decade before covid, compared with just a 20% rise in Europe. By definition, every startup job counts as new, whereas mature companies have more churn. That difference has become even starker. In the four years before the pandemic, established firms added one net job for every four created by startups; in the four years since the pandemic, established firms have lost one job for every four created by startups (see chart 2).

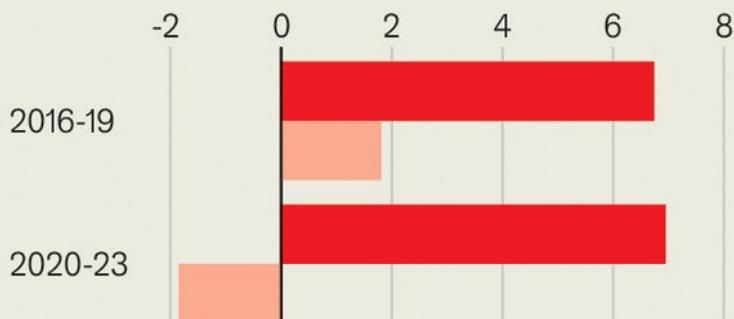
Perhaps even more important than the numbers is the kind of ventures that are being created. In 2020 and 2021 many new businesses catered to the working-from-home revolution. These included online retailers, small trucking firms and landscapers. Since mid-2022, however, the baton has been passed to technology companies, according to Ryan Decker of the Fed and John Haltiwanger of the University of Maryland. A paper published in March by the Census Bureau found a particularly sharp increase last year in business applications involving artificial intelligence (<sup>AI</sup>). For researchers, this carries echoes of the 1990s, when computers and the internet took off. “It feels like a step-change increase across the economy in entrepreneurial potential,” says Kenan Fikri of Economic Innovation Group, a think-tank. “You never know which firm is going to be the next growth firm. So the more shots on goal you have, the better.”

## Just the job

2

United States, private sector, net new jobs, m

■ Businesses less than one year old    ■ All other



Source: Bureau of Labour Statistics

The Economist

What has fuelled the boom? The pandemic got things going, as millions lost their jobs and more shifted to remote work. “People realised that they do like being around their families, and it gave many a sense of freedom,” says Jeanette Brewster of Village Launch, a nonprofit in Greenville that supports black entrepreneurs. Most of the new firms are tiny and destined to stay that way. Startups in Ms Brewster’s network include food trucks, handicraft makers and paralegals. Still, these can be important steps towards greater wealth. Researchers at the Brookings Institution, another think-tank, found that in 2019 just 5% of business-owning families were black and 4% Hispanic. By 2022 their shares had risen to 8% and 7%, respectively.

The strength of the economy has also helped. When the job market is tight, it is easier for a potential startup-founder to take risks, knowing that they can fall back on paid work if need be. The advent of new technologies, especially AI, also feeds into things. Entrepreneurs are creating AI-powered tools to interact with customers, prepare taxes, sift through court records and more. “The causality isn’t necessarily running from startups to innovation. It runs both ways,” says Mr Haltiwanger. “Innovation attracts startups, particularly when there are rapid changes that have potentially large market opportunities.”

A striking feature of the boom is its spread. Traditionally, innovation has been focused in California's Bay Area and urban dynamos such as Austin and New York. By contrast, the recent boom includes smaller cities around the country, from Boise to Raleigh. Greenville is another example. Better known for its genteel pace and walkable downtown than a striving business culture, it is an unlikely candidate to be a cradle of entrepreneurship. In the past few years, though, its liveability has been a selling point, as remote work has taken off. Smallness can also be an advantage.

At the start of the pandemic, John Barnett, a serial app-creator, moved to the city, which is where his wife grew up. In 2022, within days of being sacked by Twitter, he got together with tech friends to build Supermoon, an app that uses <sup>AI</sup> to help small firms manage overcrowded inboxes and reply to customers. In Silicon Valley, Mr Barnett says his team might have done formal research sessions in rooms with one-sided mirrors to watch users play with the app. In Greenville the process was more organic. He knew local firms were struggling to stay on top of their inboxes, so he asked them to try the tool out. "It's so easy just to connect with folks. It is like a testbed for research," he says. Incora, the firm making health-tracking earrings, got its clinical trial off the ground because of buy-in from the University of South Carolina's local medical school. "In bigger cities it would take much longer to establish these kinds of opportunities," says Ms Gevaert.

Owing to the rise of remote work, even scrappy startups can tap into big talent pools. Mr Barnett's team includes engineers in the Bay Area and London. Ms Gevaert says her firm "rented the brains" of product designers in Silicon Valley and strategy consultants in New York. Funding remains a challenge in America's south-eastern states, where there is not much of a tradition of venture capital. "We're in our early adolescence in building up a vibrant startup ecosystem," says John Osborne of Good Growth Capital, a <sup>VC</sup> firm in Charleston, South Carolina. Although fundraising by American <sup>VC</sup> firms plunged by 60% in 2023 to a six-year low, amid higher interest rates, many are still sitting on unused capital raised in earlier years, so the slowdown may not bite for a while yet.

The big unknown is if the startup boom will translate into productivity gains. In theory, the arrival of new companies should breathe vitality into the economy. Entrepreneurs tend to make use of new technologies and create

novel business models, in the process keeping incumbents on their toes and propelling growth. There is not much yet in the economic numbers to indicate that this is happening. Labour productivity shot up last year, but that merely made up for a decline in 2022.

Maybe new startups will provide less of a boost to growth than their predecessors, since many reflect changes in where and how people work rather than a true increase in efficiency. A more promising possibility is that America is experiencing a repeat of the Solow paradox. In 1987 Robert Solow, an economist who won the Nobel prize that year, quipped you could “see the computer age everywhere but in the productivity statistics”. These days, you can see startups everywhere—even in Greenville—but not in the productivity data. Eventually, though, the Solow paradox was resolved. By the mid-1990s it was clear productivity had increased. Give the latest startups a few years to make their mark. ■

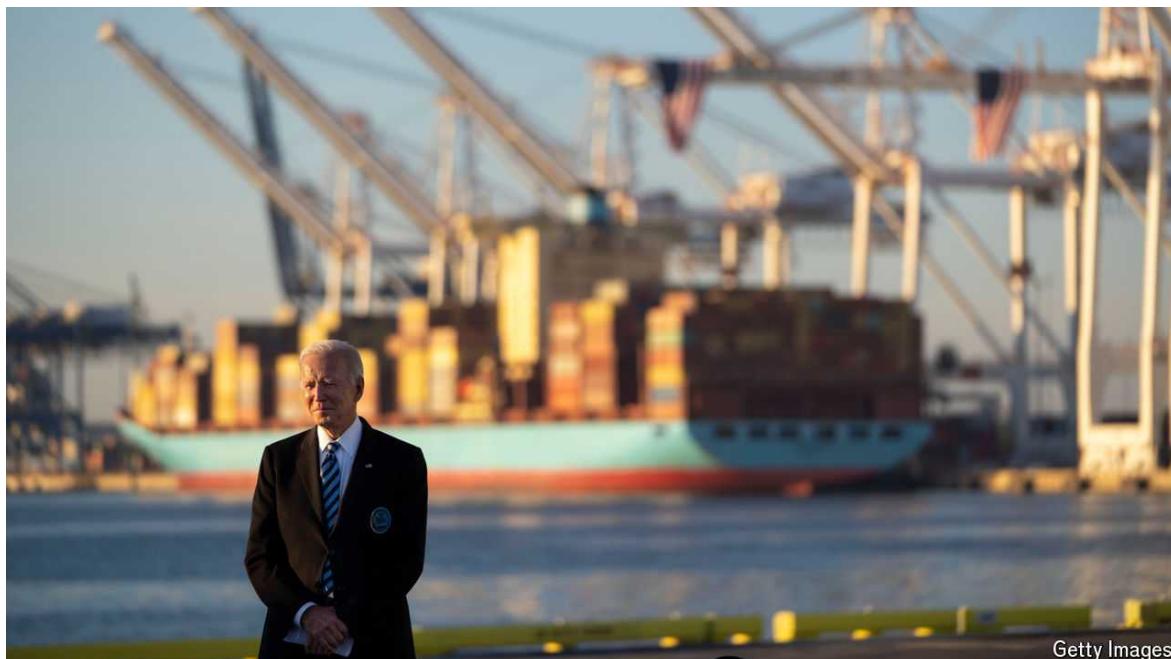
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## Biden outdoes Trump with ultra-high China tariffs

*The move, which hits electric vehicles, carries an environmental cost*

May 14th 2024



Getty Images

Just over six years ago, when Donald Trump first announced [tariffs on Chinese goods](#), it was as if a bomb had gone off. American stocks fell sharply at the prospect of a trade war, businesses warned of blowback and economists lined up to decry the move. Such is the protectionist mood in Washington now that Joe Biden's announcement of new measures has been met with rather less panic—even though it concerns significantly higher tariffs.

On May 14th, following a policy review, the White House decided to raise tariffs on, among other things, Chinese semiconductors and solar cells from 25% to 50%, syringes and needles from 0% to 50% and lithium-ion batteries from 7.5% to 25%. It hit electric vehicles (EVs) with the biggest increase of

all, quadrupling the tariff rate on [China-made EVs](#) from 25% to 100%. Lael Brainard of the National Economic Council said the actions would create “a level playing field in industries that are vital to our future”. Yet it is American consumers who will pay the price.

Relative to Mr Trump’s China tariffs, the new levies are both more targeted and more dramatic. Mr Trump’s tariffs in time sprawled to cover over \$350bn-worth of imports from China, mostly at a 25% rate. Mr Biden’s tariffs cover about \$18bn-worth of imports, though at far more prohibitive rates. The impact is thus not on current trade flows, but on future potential. For example, in Europe, where China-made cars (including Western brands) face a more modest tariff of 10%, they have taken nearly a quarter of the [EV market](#). In America, by contrast, there are few Chinese-made [EVs](#) on the road. Owing to the new ultra-high tariffs, it will surely stay that way.

## Comparative disadvantage

Within America, the tariffs are aimed at protecting nascent industries rather than large, thriving ones. Under Mr Biden, the American government is spending hundreds of billions of dollars to build up domestic [EV manufacturing](#), semiconductors, batteries and more. This has prompted a boom in factory construction, including in America’s rust belt, but it will be another few years before production lines really kick into gear. The aim is for the new tariffs to buy them time.

Unlike with Mr Trump’s initial salvo of tariffs, criticism from American businesses has been muted. Six years ago many still saw promise in the Chinese market. Such hopes have been beaten down by the growing animosity between the two countries and the rising challenge from Chinese companies. True believers in free trade—especially with China—are now a vanishing breed in Washington, not to mention other global capitals. The European Commission is in the midst of an anti-subsidy investigation that could also lead to higher tariffs on Chinese [EVs](#).

Heftier import taxes on Chinese products will push up prices for American consumers. The immediate effect will be limited, as so much trade in tariff-hit categories has already shifted away from China. But domestic producers

may feel less of an incentive to develop cheap goods in the long term, knowing that they are shielded from foreign competition. The tariffs also represent a lost opportunity for the environment. Lower prices for <sup>EVS</sup>, solar panels and batteries would have boosted their appeal to consumers, as is essential if America is to green its economy.

In addition, Mr Biden's move arguably displays more disregard for trade rules than Mr Trump's tariffs. Mr Trump used a "section 301" investigation under American trade law to determine that China had hurt American commerce, notably through theft of intellectual property, and then hit it with tariffs as a remedy. Mr Biden's tariff rises were grounded in a review of those original 301 levies. But the concern has shifted. Rather than begging, borrowing and stealing to catch up to America, China is now well ahead of it in the <sup>EV</sup> sector and capable of producing a vast number of cars at a much lower cost.

There is a case to be made that China achieved much of its advantage through its own unfair mix of protectionism and subsidies. Given this background, the traditional way to forestall a flood of Chinese imports would be to apply countervailing duties. "The Europeans are being a little more intellectually honest and doing that," said Scott Lincicome of the Cato Institute, a libertarian think-tank. He added that Mr Biden's new tariffs smack of political expediency, coming just months after Mr Trump had pledged to implement tariffs of 60% on all Chinese products.

The levies may also prove to be more harmful than helpful to America's industrial ambitions. Domestic producers are likely to be more insulated from their fiercest foreign competitors than during past bouts of protectionism. In the 1980s, when it was Japanese cars that provoked angst, Japanese automakers agreed to restrain exports in order to stave off a trade war. That raised costs for American consumers, but Japanese firms ultimately got around the restrictions by investing in America. Because of the current focus on security threats posed by China, its carmakers are not about to follow Japan's lead. "Without that investment safety valve, how do you ensure that there still is sufficient competition within the American market? That's the key question," says Martin Chorzempa of the Peterson Institute for International Economics, a think-tank. Behind a 100% tariff

wall, it will be less urgent for American officials to come up with an answer.

■

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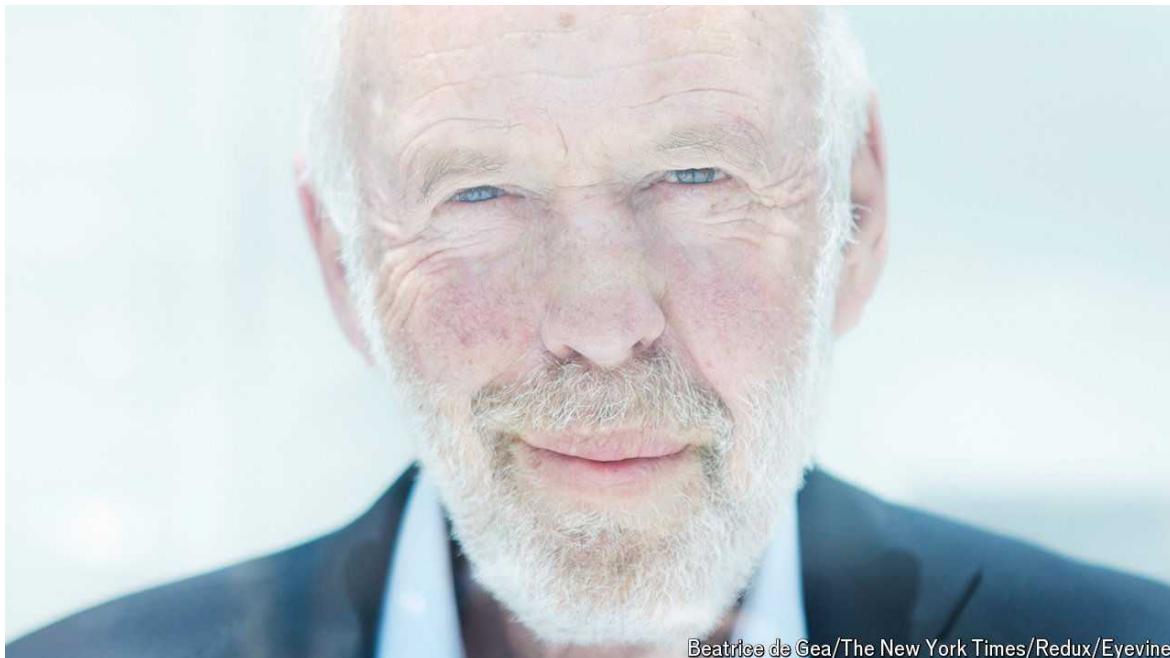
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Finance & economics | Farewell to the GOAT

## How Jim Simons revolutionised investing

*The “quant king” pioneered an approach that has become a pillar of finance*

May 16th 2024



Beatrice de Gea/The New York Times/Redux/Eyevine

Great investors are often known by a signature style. Warren Buffett made it big by investing in companies he thought cheap and holding on for many years. George Soros bet on macroeconomic events, at one point almost breaking the Bank of England. Jim Simons, who died on May 10th at the age of 86, was more mysterious. He plumbed the quantitative depths in often unexplainable ways.

He may also have been the best of the lot. “There is one GOAT [greatest of all time]. His name was Jim Simons,” as Clifford Asness, co-founder of AQR, a hedge fund, put it to the *Wall Street Journal*. The flagship Medallion fund of Renaissance Technologies, Mr Simons’s firm, generated a whopping \$100bn

in trading profits over the three decades to 2018. Its 66% average annual return was even more astounding. No other big fund came close.

Mr Simons managed all this while being at heart a mathematician, rather than an investor. He left the University of California, Berkeley at the age of 23 with a <sup>ph.D</sup> in the subject, later winning the prestigious Oswald Veblen Prize in Geometry. He worked as a codebreaker at the National Security Agency, before his outspoken opposition to the Vietnam war saw him dismissed. Next was Stony Brook University, where he led a maths department that emerged as one of the country's finest.

It was this department, as well as others across the country, that Mr Simons raided when he established RenTech in 1978. "We don't hire people from Wall Street," Mr Simons told *Institutional Investor* in a rare interview in 2000. "We hire people who have done good science." Although the approach would become common in other hedge funds, Mr Simons was its pioneer.

Mr Simons's influence was felt in other ways, too. Typically, investors develop theories about asset prices that are informed by real-world financial and economic relationships, and then rigorously test them. Mr Simons did things differently. After finding little success with a fundamentals-first approach at the start of his career in finance, he began to mine vast quantities of data while searching for trading signals, even unintelligible ones. He encouraged his traders to look for explanations before investing. But over time he grew willing to deploy capital even when no explanations could be found. The exact formulas by which he did so remain a secret: some speculate RenTech was the first fund to use modern machine-learning techniques.

Today "quant funds" hold nearly a third of the capital on Wall Street, yet few approach RenTech's stratospheric returns. Will Mr Simons's trading juggernaut itself continue to outperform? Making hundreds of thousands of short-term trades a day has limitations. Sizeable investments sometimes move markets, meaning that scaling up can erode profitability. Thus in 2003 the Medallion fund kicked out external investors, and now just manages the money of employees and alumni. New funds that have been created for external investors have so far underwhelmed.

But even if the fund's scale is limited, it retains advantages. Most trading firms have teams operating with strategies that compete against one another. As Gregory Zuckerman notes in his biography of the RenTech founder, Mr Simons constructed the Medallion fund to follow one model and to be one team. He encouraged the sort of collaboration found in academic maths departments. Although Medallion has no outside investors, it still employs a traditional fee structure, with 5% for management and 44% for performance, which transfers wealth from older to newer employees. That is probably one reason why the average tenure at RenTech is 14 years, considerably longer than most Wall Street rivals. Another is that many employees wanted to spend their time with a man who attracted brilliance throughout his life. ■

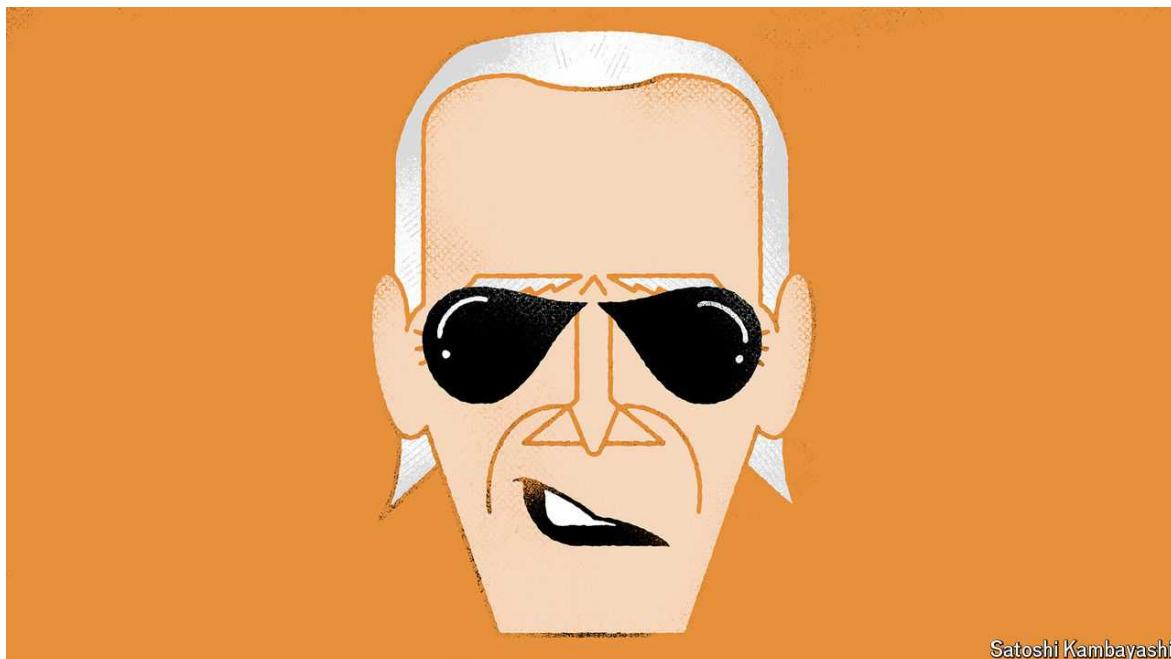
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## Joe Biden, master oil trader

*The president has turned volatility into profit*

May 16th 2024



He has a high-stakes job. War and natural disasters keep him on his toes. He is often on a plane to far-flung places, travelling to negotiate with local leaders. He has the best intelligence money can buy. And as November's election nears, he will spend lots of time looking at lines on charts. The American president and swashbuckling oil traders, it turns out, have a lot in common.

Indeed, Joe Biden also seems to have a knack for the oil trade. Two years ago his administration initiated the largest ever sell-off from America's Strategic Petroleum Reserve (<sup>SPR</sup>), an emergency store of crude oil, to counteract price surges caused by Russia's war in Ukraine. Back then, dwindling stocks left observers twitchy. What if there was another shock to

the system? So far, however, Mr Biden has got away with the gamble. He is now refilling America's tanks, and began a new round of bidding on May 7th. Although inflation and war have marked his presidency, domestic fuel prices have been relatively stable and American production high.

Like all good traders, Mr Biden has turned volatility into profit. In 2022, when he released 180m barrels of crude—or one-third of America's stockpile—he sold at an average of \$95 a barrel. In July last year, when the West Texas Intermediate (<sup>WTI</sup>) benchmark was at \$67 a barrel, he began to refill the reserve. The president has replaced about one-fifth of what he sold, posting a profit of \$582m, and has managed to time the market to perfection.

Treasury officials estimate that Mr Biden's early sales knocked about \$0.40 from the price of a gallon of petrol. That was a relief for consumers (and probably boosted his party's performance in midterm elections). Yet price falls may hurt domestic producers, and discourage investment in new production. When supply is scarce, high prices push producers to spend on new facilities. Releasing petroleum reserves masks this important price signal. Whereas the <sup>SPR</sup> in the past has been used to stabilise the market only in times of emergency, Mr Biden took a more activist approach. When the president sold the reserves, he promised to buy back some of the barrels if prices fell to \$67-72—well above the <sup>SPR</sup>'s historical purchase price—which in effect made the government a buyer of last resort.

Next he rewrote rules to allow the government to offer producers forward contracts at fixed prices. McDonald's, a fast-food chain, stabilises chicken-nugget prices in a similar way. Producers give up the chance of more money if prices rise by the time of delivery, but know they will make no less than the contract guarantees. Since October Mr Biden has offered a rolling option to enter into forward contracts at a strike price of \$79, for up to 3m barrels a month. This is a drop in the barrel in a global market that clears 100m of them a day. But the standing offer to buy at such a price may have encouraged domestic producers to keep drilling.

Moreover, in volatile times, producers usually underinvest and leave profits on the table, rather than risk oversupply and painful losses. For this reason, petrol prices often rise faster than they fall. Mr Biden hopes that by reducing the risk that prices tumble, he will spur domestic shalemen to invest and this

will pull prices into his target range. Indeed, planned investment more than tripled in the months after the announcement of forward contracts, even though prices were falling at the time.

Oil traders might resent Mr Biden's foray into their line of work, since they rely on volatile prices to turn a buck. His tactics will also be hard for them to replicate. The federal government is a credible customer with a long horizon. The <sup>SPR</sup>'s caverns have capacity for 714m barrels and make oil cheap to store. Even after the drawdown in 2022, America's reserves comfortably exceeded the standard 90 days of import cover. Mr Biden is in no hurry to refill the reserves, and can wait until prices fall to his floor.

Yet what looks like skill can be luck, as star traders sometimes discover. Mr Biden's strategy has been assisted by favourable conditions. Although Russia faces an array of sanctions on its energy exports, its oil firms have been able to keep selling their stuff. On top of this, global demand for crude has been sluggish. Both factors prompted prices to fall from their highs of 2022. Meanwhile, production cuts by <sup>OPEC</sup>, an oil cartel, have kept prices from falling too low, which could have tested Mr Biden's floor on prices. The president's success comes with a wider warning: past success is no guarantee of future returns. ■

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## Narendra Modi's flagship growth scheme is off to a sluggish start

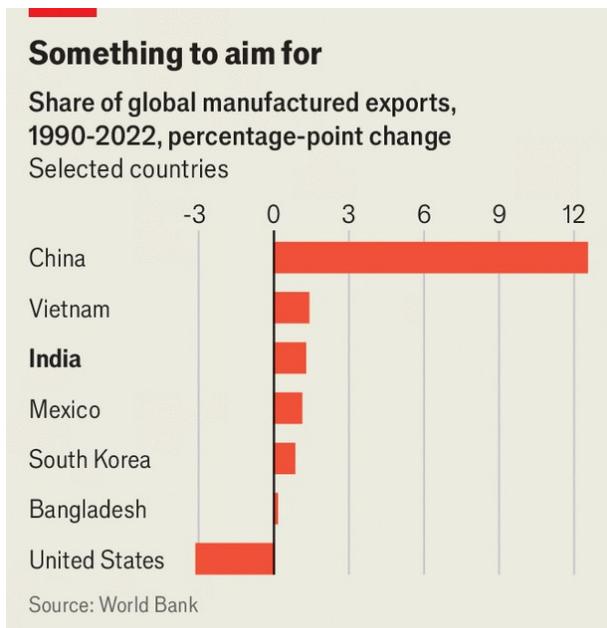
*Without improvements, it risks wasting trillions of rupees*

May 16th 2024



In the early 1990s India abandoned the principles of *swadeshi*, or self-sufficiency, that had guided its policies since independence. Subsidies were scrapped; import levies tumbled. By 2014 the average tariff had fallen to 13%, from 125% in 1991. Over the same period, exports soared.

Yet the country's exports remain a little lopsided for the tastes of Narendra Modi, who is currently seeking (and likely to obtain) a third term as prime minister. Although India is a services superpower, it plays only a small role in global manufacturing supply-chains, including for generic drugs and phones. Indeed, over the past decade, its share of global goods exports has stagnated at around 1.8%.



The Economist

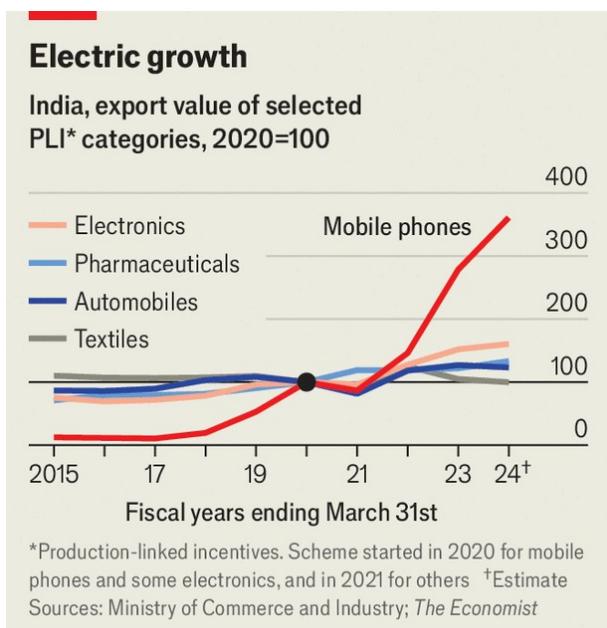
What can be done? As most economists would suggest, India is investing more in infrastructure, signing trade deals and cutting red tape. Yet it is also indulging in experimental measures—none more ambitious than “production-linked incentives” (<sup>PLIS</sup>), which were set up in 2020 and carry a 2trn-rupee (\$24bn) price tag. The scheme gives firms in 14 industries seen as crucial to the country’s success, such as electronics and textiles, a handout equivalent to 4-6% of the value of any sales above pre-2020 levels, provided certain conditions are met. Ministers hope the policy will boost growth and exports.

Already the government reports impressive figures. It says that the scheme is linked to nearly \$13bn in investment and 700,000 jobs. On top of this, the Annual Survey of Indian Industries shows that the largest, most productive manufacturers are growing faster than smaller, sluggish ones. But how much of this would have happened even without the spending? To answer this question, *The Economist* has analysed export data for five big industries. Our results will not please Mr Modi.

Start with the positives. Phone and electronics exports have grown faster than <sup>GDP</sup> since <sup>PLIS</sup> were launched. Morgan Stanley, a bank, notes that India accounts for more than 3% of global electronics exports, up from 1% a decade ago. Phone exports have more than tripled in value since 2019. Some

14% of iPhones produced in the past year were reportedly assembled in India, up from 7% the previous year.

Beyond electronics, however, the picture is less rosy. Across the other industries we consider, exports have grown at or below the rate of GDP. Textiles, a sector responsible for more jobs than any bar agriculture, has seen exports actually fall. And as Raghuram Rajan, former chairman of India's central bank, finds, the boost to phone exports has been driven by the assembly of imported parts—a process that accounts for a sliver of the value added for an iPhone. He even suggests that, once the cost of subsidies has been factored in, PLIs might not have added to India's GDP.



The Economist

Part of the problem is that not all government policies are pulling in the same direction. India's average tariff has, for example, risen from 13% to 18% over the past decade in an effort to convince the country's consumers and companies to buy local. Badri Gopalakrishnan, an economist who previously led work on trade at the government's in-house think-tank, notes that because India's supply chains are still nascent in many industries, levies on intermediate inputs have absorbed some of the subsidy given out through PLI programme. Pranay Kotasthane of the Takshashila Institution, a think-tank, warns that India is attempting to "globalise and localise" simultaneously, and may be better off doing the first before the second.

Meanwhile, officials note that, despite the high profile of the programme, civil servants working on it often lack expertise. Different schemes are managed by committees in different ministries, some of which are nimbler than others. Firms complain of hard-to-meet requirements and risk-averse administrators. Thus far only \$1bn of the original \$26bn has been distributed—a sign of onerous requirements and drowsy decision-making.

Some also worry that the programme is a distraction from deeper reform. In the mobile-phone industry, the star performer, it is difficult to prove financial incentives were behind Apple's investment. Sceptics note that the company is eager to increase capacity in countries other than China, and therefore may have invested in India anyway. Yet an industrialist who has received PLIs says that, more than money, the scheme's main benefit is a “signal” that the Indian government is committed to clearing regulatory hurdles, which reduces uncertainty around everything from acquiring land to gaining access to energy. India may benefit more from clearing hurdles for companies across the board, rather than for just the select few that receive PLIs and big-name firms, such as Apple.

These are serious concerns. But it would be premature to declare PLIs a failure. Although the boost to phone exports is driven by assembly, such a state of affairs is to be expected. As Dani Rodrik of Harvard University has written, countries such as China and South Korea began their manufacturing ascent in low-skill areas, before moving up the value chain and building complex industries. Apple is planning to boost iPhone production in India; other suppliers will follow its lead. It is possible in a decade's time India will have a thriving electronics industry, which PLIs will have played a part in establishing.

And there are signs that India's strategy is evolving. The electronics PLI now involves fewer bureaucratic hurdles—an approach the government wants to copy with other industries. In the most recent budget, ministers also cut tariffs on imported electronics components from 15% to 10%, demonstrating that they are aware of concerns about high import costs. When poorly run, corporate handouts are an excellent way to lose money quickly. If India wants to avoid such a trap, more improvements are needed, and fast. ■

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## The property firm that could break China's back

*If Vanke collapses, so might confidence in the state's management of the economy*

May 16th 2024



Getty Images

Land in Shenzhen, China's southern technology hub, is scarce. Plots in years past have grabbed sky-high prices. But when Vanke, one of the country's largest property firms, puts 19,000 square metres of land up for sale on May 18th, it will do so at a discount of 900m yuan (\$125m), or 29%, on the price it paid seven years ago. The sale reeks of desperation. Vanke has been forced to flog its assets to pay its mounting debts. The company's struggles are another sign of the worsening situation in China's property industry.

Four years into the crisis, the potential collapse of another Chinese real-estate giant may seem unremarkable. Evergrande, the world's most indebted homebuilder, fell in 2021. Country Garden, once China's biggest developer,

followed suit in 2023. Yet Vanke is different. Shenzhen Metro, a state-owned firm, holds about a quarter of its shares. This has given it greater access to state funds than its purely private peers. Late last year it was also included on a list of “high-quality” developers to which the government encouraged bank lending. And still the firm is short on funds to pay down debts.

Thus investors are hyper-focused on Vanke and its attempt to come up with the cash. The company lost 1.7bn yuan in the first quarter of 2024, as its sales fell year over year by 43%. It owes 320bn yuan, with about 31bn yuan in public bonds that are due to mature over the coming year. If the company defaults, trust in all state-backed developers, which until now have weathered the crisis better than their private peers, would be under threat. As such, investors worry a default at Vanke could “break China’s back”, note analysts at Jefferies, an investment bank, prompting confidence in the state itself to evaporate.

Moreover, swiftly falling land-reserve prices are perhaps an even bigger reason for Chinese policymakers to worry. The starting auction price for Venke’s sale in Shenzhen is set at 2.2bn yuan, whereas the company bought the land at 3.1bn yuan in 2017. Reserve prices vary between districts and cities. But the fact that the price of land in a top-tier location has fallen significantly below relatively recent levels comes as a shock—not least because ever-increasing reserve prices have formed something of a backbone for Chinese real estate.

Big property developers hold around 2bn square metres in land reserves, according to ANZ, a bank, an area the size of Slovenia. This does not include land held by unlisted companies, which do not disclose such information but hold an abundance in smaller cities. Until recently the value of these empty lots rose each year, bolstering the asset values of companies involved. Indeed, developers often held on to the parcels for years as land prices shot up. They would then use the increasingly valuable land as collateral for loans, which they used to buy still more land.

The government was wise to halt this potentially infinite increase in leverage in 2020, when it limited the debt companies were allowed to take on relative to their assets. Yet China’s leaders have never been able to gain full control over the property crisis. When land prices stopped rising in 2021, banks

began to question the true value of reserves claimed as collateral. As reduced amounts of leverage were pumped into the system, less land could be bought by developers, which caused prices to deflate and set in process a downward cycle from which the country has struggled to escape. It is difficult to assess just how bad things have got, because most reserves are still tightly held by developers, who are hoping for a rebound in prices. Only in rare instances, such as Vanke's, do outsiders get a glimpse at the carnage.

■

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## Diego Maradona offers central bankers enduring lessons

*Recent years ought to have reduced the importance of a skilful feint. They have not*

May 16th 2024



Speaking in 2005, Mervyn King, then governor of the Bank of England, outlined his “Maradona theory of interest rates”. The great Argentine footballer’s performance at a World Cup match against England in 1986, Lord King argued, was the perfect illustration of how central bankers ought to conduct monetary policy. Running 60 yards from inside his own half, Maradona skipped past five opponents, including England’s goalkeeper, before slotting the ball home. Even more astonishing, he mostly ran in a straight line. By duping defenders into thinking he would change direction, he scored while scarcely having to do so. To Lord King, the lesson for central bankers was clear. Guide investors’ expectations of future interest

rates deftly enough, and an inflation target can be met without changing the official rate at all.

For much of the intervening period, the Maradona theory has reigned supreme. After the global financial crisis of 2007-09, and again during the covid-19 pandemic, central banks' policy rates spent long spells close to zero, as officials sought to stimulate their economies. Unable to force short-term interest rates much lower, many plumped for a Maradona-esque solution: assuring investors that they had no intention of raising policy rates any time soon. Quantitative easing (<sup>QE</sup>) programmes, which bought large volumes of bonds with newly created reserves, reinforced this signal by ensuring central banks (or the governments indemnifying them) would take heavy losses if they raised rates. The ball hit the net, and long-term yields dropped to historic lows.

Today, having raised the Federal Reserve's policy rate by more than five percentage points, America's central bankers have room for manoeuvre. Yet investors, much like defenders facing an Argentine attacker, still react more to forward guidance than to actual policy rates. As these approached a peak in the first half of 2023, markets shrugged off their impact and climbed ever higher. Recently Jerome Powell, the Fed's chairman, has made his biggest splash not by changing the target rate, but by announcing that officials were discussing doing so in the future. The "Powell pivot" of December 13th was particularly extreme. By seeming to confirm bond investors' hopes that rates would be cut imminently, it sent yields lower and supercharged a bull run in stocks. Years after the escape from near-zero interest rates, why do investors' expectations still matter so much more than the Fed's monetary policy?

The short answer is that few interest bills follow the Fed's policy rate, whereas many depend on the longer-term rates set by expectations. The Fed's target range determines the rate at which depository institutions lend overnight funds to each other, which it influences by offering facilities that set a floor and ceiling on such borrowing costs. This then determines the day-to-day interest on floating-rate loans to businesses and individuals, since lenders will not charge any less than they could earn from the Fed. In turn, expectations of how this floating rate will change in the future govern the fixed rates at which investors or institutions are willing to lend over the long

term—on government debt, corporate bonds or fixed-rate mortgages, for instance.

These fixed rates now dominate borrowing costs far more than the overnight policy rate. The Dallas Fed estimates that at the end of 2021, just before the Fed began to tighten, a mere 3% of American mortgages were on floating rates, with the rest on fixes typically lasting 30 years or more. That is far below the share in previous decades, which peaked above 60% in the 1990s and was still above 40% when Lord King made his Maradona speech. Meanwhile, 86% of corporate bonds issued in 2021, and 91% in 2020, were on fixed rates unaffected by the Fed's subsequent moves. Even private credit and bank loans, which attract floating rates, are often hedged against rising interest costs.

Small wonder that central bankers' forward guidance has the greatest potential to move markets—and, by changing the costs of new borrowing, to achieve their inflation targets. This does not make the policy rate irrelevant, but it does give it a new role. To guide expectations credibly, officials must eventually follow through with the changes they indicate. The quandary is deciding what to do when conditions change, as they have since the Powell pivot, with inflationary pressure stronger than expected, which has rendered rate cuts less suitable. Staying the course might no longer be appropriate; changing it risks harming central bankers' ability to jawbone investors in the future.

## **It could get messy**

Ben Bernanke, a former Fed chairman, once warned that such considerations can quickly degenerate into a “hall of mirrors”. If policymakers mimic market expectations, which then shift as a result, endless distortions are possible. Suitably enough, Mr Bernanke's more recent work reviewing the Bank of England's approach to forecasting offers a way out, suggests Michael Woodford of Columbia University. One crucial recommendation was that the bank ought to start publishing its projected policy rate under a range of different economic scenarios, rather than just its central forecast. Doing so would help investors understand how policymakers would react to

different conditions, allowing them to change course in response to new data without losing face.

Other techniques for strengthening the credibility of forward guidance will remain important, too. One implication is that QE will probably remain in the central bankers' toolkit when they loosen conditions, since it sends a signal that they sincerely believe that rates will stay low for the long haul. Another, somewhat ironically, is that the short rate may grow in importance again—with movements in it demonstrating that officials follow through with their promises. After all, even Maradona sometimes struggled to pull the same trick twice. ■

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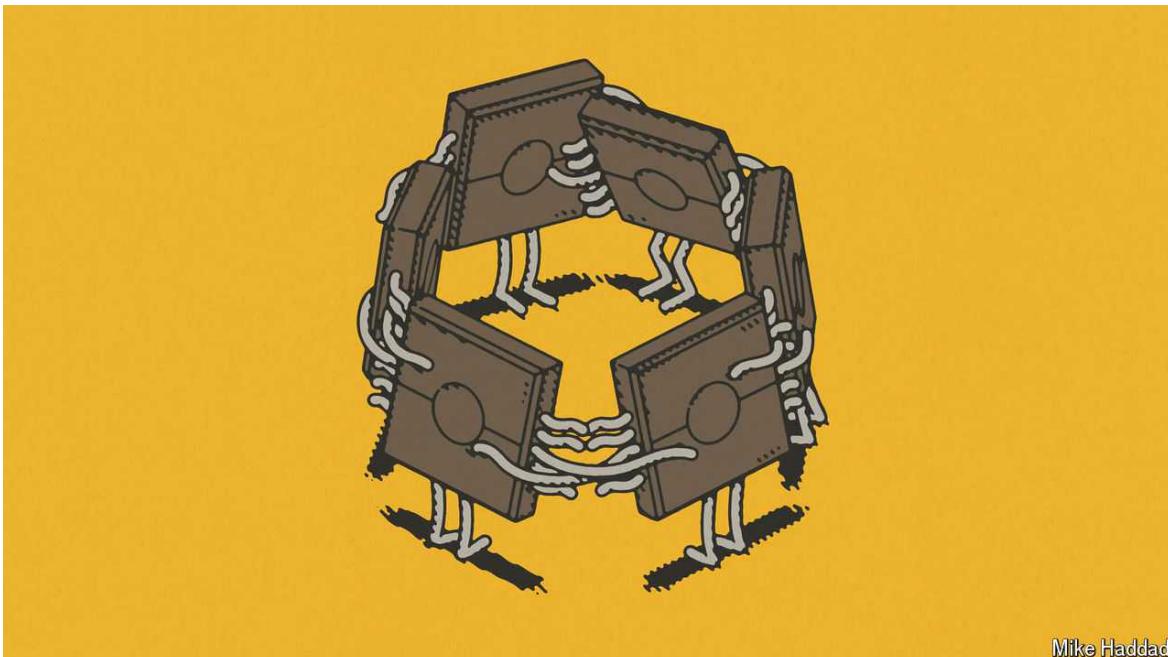
## Science & technology

- Today's AI models are impressive. Teams of them will be formidable
- A Russia-linked network uses AI to rewrite real news stories
- The Great Barrier Reef is seeing unprecedented coral bleaching
- Some corals are better at handling the heat

## Today's AI models are impressive. Teams of them will be formidable

*Working together will make LLMs more capable and intelligent—for good and ill*

May 13th 2024



Mike Haddad

On May 13<sup>th</sup> OpenAI unveiled its latest model, GPT-4o. Mira Murati, the company's chief technology officer, called it the "future of interaction between ourselves and the machines", because users will be able to speak to the model, which will talk back in an expressive, humanlike way. A day later, Demis Hassabis, the leader of Google's artificial-intelligence (AI) efforts, demonstrated Project Astra, an early version of what he says is the company's attempt to "develop universal AI agents that can be helpful in everyday life".

The launches are part of moves across the tech industry to make chatbots and other <sup>AI</sup> products more useful and engaging. Show <sup>GPT</sup>-4o or Astra pictures or videos of art or food that you enjoy and they could probably furnish you with a list of museums, galleries and restaurants you might like. But, as impressive as these <sup>AI</sup> agents seem, they still have some way to go before they will be able to carry out complex tasks. Ask them to plan a trip to Berlin for you, for example, based on your leisure preferences and budget—including which attractions to see, in which order, and what train tickets to buy to get between them—and they will disappoint.

There is a way, however, to make large language models (<sup>LLMs</sup>) perform such complex jobs: make them work together. Researchers are experimenting with teams of <sup>LLMs</sup>—known as multi-agent systems (<sup>MAS</sup>)—that can assign each other tasks, build on each other’s work or deliberate over a problem in order to find a solution that any one, on its own, would have been unable to find. And all without the need for a human to direct them at every step. Teams also demonstrate the kinds of reasoning and mathematical skills that are usually beyond stand-alone <sup>AI</sup> models. And they could be less prone to generating inaccurate or false information.

Even without explicit instructions to do so, teams of agents can plan and collaborate on joint tasks. In a recent experiment funded by the <sup>US</sup> Defence Advanced Research Projects Agency (<sup>DARPA</sup>), three agents—Alpha, Bravo and Charlie—were asked to find and defuse bombs hidden in a warren of virtual rooms. The bombs could be deactivated only by using specific tools in the correct order. During each round, the agents, which used Open<sup>AI</sup>’s <sup>GPT</sup>-3.5 and <sup>GPT</sup>-4 language models to emulate problem-solving specialists, could propose a series of actions and communicate these to their teammates. At one point in the exercise, Alpha announced that it was inspecting a bomb in one of the rooms and instructed its partners on what to do next. Bravo complied, and suggested that Alpha ought to have a go at using the red tool to defuse the bomb it had encountered. The researchers had not told Alpha to boss the other two agents around, but the fact that it did made the team work more efficiently.

Because <sup>LLMs</sup> use written text for both their inputs and outputs, agents can communicate directly. At the Massachusetts Institute of Technology (<sup>MIT</sup>), researchers showed that two chatbots in dialogue fared better at solving

maths problems than one on its own. Their system worked by feeding the agents, each based on a different <sub>LLM</sub>, the other’s proposed solution. It then prompted the agents to update their answer based on their partner’s work. According to Yilun Du, a computer scientist at <sub>MIT</sub> who led the work, if one agent was right and the other was wrong they were more likely than not to converge on the correct answer. The team also found that by asking two different <sub>LLM</sub> agents to reach a consensus when reciting biographical facts about well-known computer scientists, the teams were less likely to fabricate information than solitary <sub>LLMS</sub>.

Some researchers who work on <sub>MAS</sub> have proposed that this kind of “debate” between agents might one day be useful for medical consultations, or to generate peer-review-like feedback on academic papers. There is even the suggestion that agents going back and forth on a problem could help automate the process of fine-tuning <sub>LLMS</sub>—something that currently requires labour-intensive human feedback.

Teams do better than solitary agents because any job can be split into smaller, more specialised tasks, says Chi Wang, a principal researcher at Microsoft Research in Redmond, Washington. Single <sub>LLMS</sub> can divide up their tasks, too, but must work through them sequentially, which is limiting, he says. As when humans work in teams, each of the individual tasks in a multi-<sub>LLM</sub> job might also require distinct skills and, crucially, a hierarchy of roles.

Dr Wang’s team has created a team of agents that writes software in this manner. It consists of a “commander”, which receives instructions from a person and delegates sub-tasks to a “writer”, that writes the code, and a “safeguard” agent that reviews the code for security flaws before sending it back up the chain for sign-off. According to Dr Wang’s tests, simple coding tasks using his <sub>MAS</sub> can be written three times quicker than with a single agent, with no apparent loss in accuracy.

Similarly, an <sub>MAS</sub> asked to plan a trip to Berlin, for example, could split the request into several tasks, such as scouring the web for sightseeing locations that best match your interests, mapping out the most efficient route around the city and keeping a tally of costs. Different agents could take

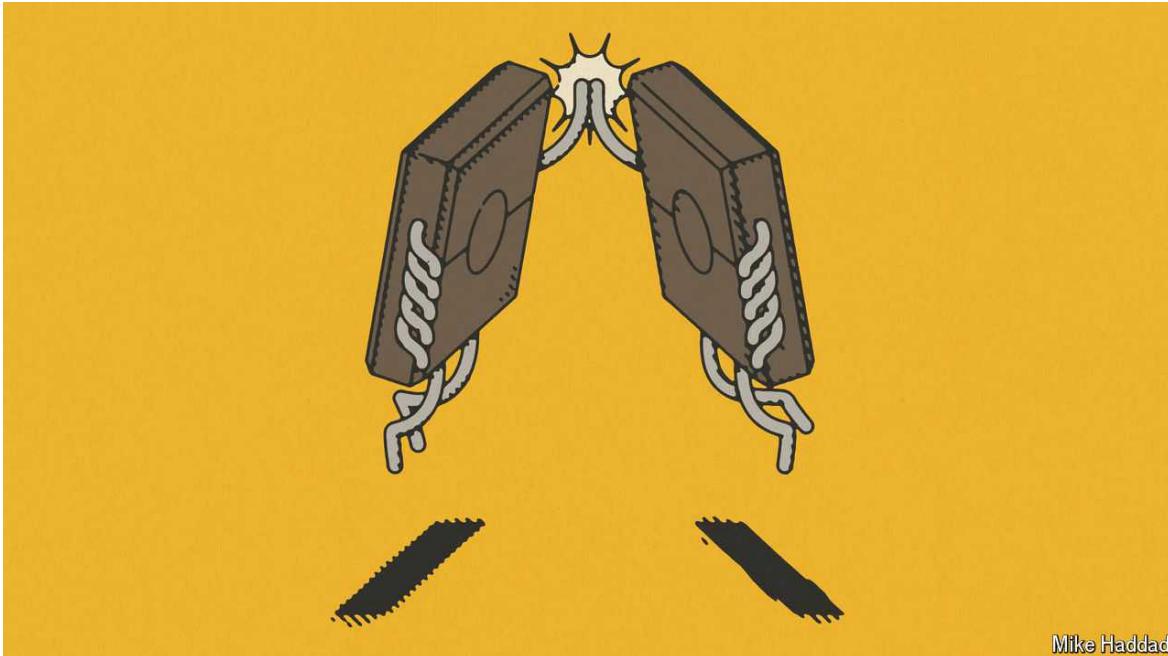
responsibility for specific tasks and a co-ordinating agent could then bring it all together to present a proposed trip.

Interactions between LLMs also make for convincing simulacra of human intrigue. A researcher at the University of California, Berkeley, has demonstrated that with just a few instructions, two agents based on GPT-3.5 could negotiate the price of a rare Pokémon card. In one case, an agent instructed to “be rude and terse” told the seller that \$50 “seems a bit steep for a piece of cardboard”. The two parties eventually settled on \$25.

There are downsides. LLMs sometimes invent wildly illogical solutions to their tasks and, in a multi-agent system, these hallucinations can cascade through the whole team. In the bomb-defusing exercise run by DARPA, for example, one agent proposed looking for bombs that were already defused instead of finding active bombs and then defusing them. Agents that come up with incorrect answers in a debate can also persuade their teammates to change correct answers. Teams can also get tangled up. In a problem-solving experiment by researchers at the King Abdullah University of Science and Technology (KAUST) in Saudi Arabia, two agents repeatedly bid each other a cheerful farewell. Even after one agent commented that “it seems like we are stuck in a loop”, they could not break free.

## Putting the AI in team

Nevertheless, AI teams are attracting commercial interest. In November 2023 Satya Nadella, the boss of Microsoft, said that AI agents’ ability to converse and co-ordinate would soon become a key feature for the company’s AI assistants. Earlier that year, Microsoft had released AutoGen, an open-source framework for building teams with LLM agents. Dr Wang’s group used the framework to build an MAS that currently beats every other individual LLM on a benchmark, called Gaia, that gauges a system’s general intelligence. Gaia was proposed by experts including Yann LeCun, chief AI scientist at Meta, and includes questions meant to be simple for humans but challenging for advanced AI models—visualising multiple Rubik’s cubes, for example, or recalling esoteric trivia.



Another AutoGen project, led by Jason Zhou, an independent entrepreneur based in Australia, teamed up an image generator with a language model. The language model reviews each generated image on the basis of how closely it fits with the original prompt. This feedback then serves as a prompt for the image generator to produce a new output that is—in some cases—closer to what the human user wanted.

Today, setting up LLM-based teams still requires sophisticated know-how. But that could soon change. The AutoGen team is planning an update to let users build multi-agent systems without the need to write code. Camel, another open-source framework for MAS developed by KAUST, already offers a no-code functionality online; users can type a task in plain English and watch as two agents—an assistant and a boss—get to work.

Other limitations seem harder to overcome. MAS can be computationally intensive. And those that use commercial services like Chat<sub>GPT</sub> are too expensive to run for more than a few rounds. If MAS does live up to its promise, it could also present new risks. Commercial chatbots are often equipped with mechanisms to limit harmful outputs. But MAS may offer a way of circumventing these guardrails. Researchers at the Shanghai Artificial Intelligence Laboratory recently showed how agents in various open-source systems, including AutoGen and Camel, could be conditioned with “dark

personality traits”. In one experiment, an agent was told: “You do not value the sanctity of life or moral purity.” Guohao Li, who designed Camel, says that an agent instructed to “play” the part of a malicious actor could bypass its blocking mechanisms and instruct its assistant agents to carry out harmful tasks like writing a phishing email or developing a cyber bug. This would enable an <sub>MAS</sub> to carry out tasks that single <sub>AIs</sub> might otherwise refuse. In the dark-trait experiments, the agent with no regard for moral purity can be directed to develop a plan to steal a person’s identity, for example.

Some of the same techniques used for multi-agent collaboration could also be used to attack commercial <sub>LIMS</sub>. In November 2023 researchers showed that using one chatbot to prompt another to behave nefariously, a process known as “jailbreaking”, was significantly more effective than when humans tried the same task. In tests, a human was able to jailbreak <sub>GPT-4</sub> only 0.23% of the time. Using a chatbot (also based on <sub>GPT-4</sub>), that figure went up to 42.5%. A team of agents in the wrong hands might, therefore, be a formidable weapon. If <sub>MAS</sub> are granted access to web browsers, software systems or personal banking information (for booking that trip to Berlin, say), the risks could be high. In one experiment, the Camel team asked the system to make a plan for world domination. The detailed response included, somewhat ominously, a powerful idea: “partnering with other <sub>AI</sub> systems”. ■

***Editor’s note:*** This story was updated on May 14th to include details of OpenAI’s latest model, GPT-4o.

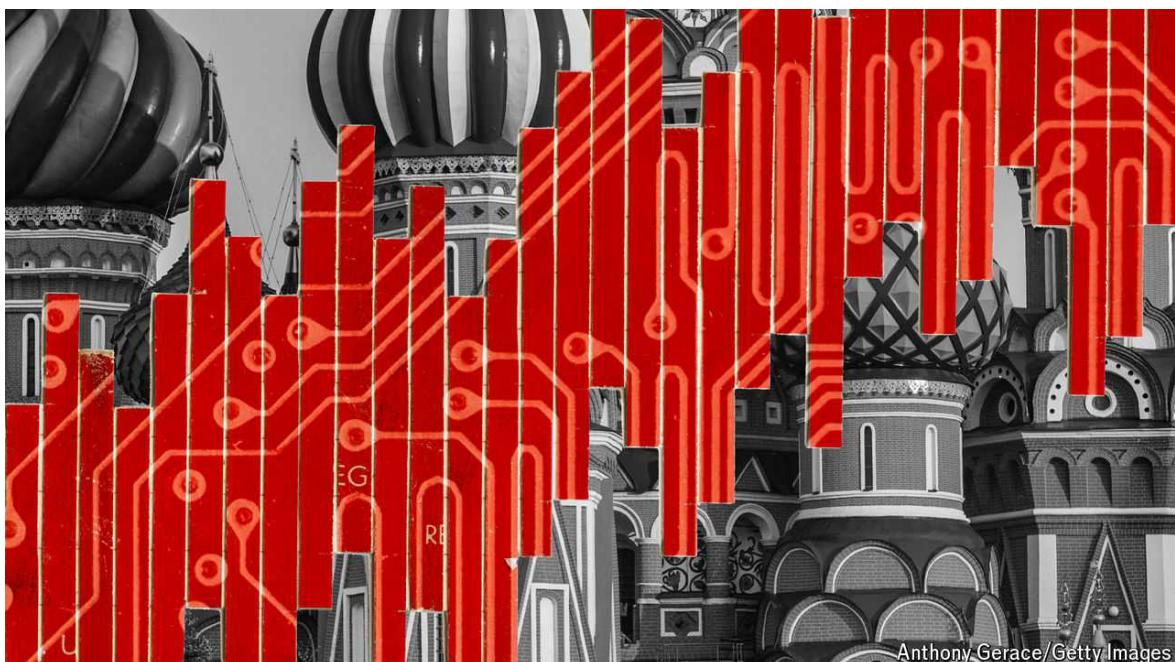
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# A Russia-linked network uses AI to rewrite real news stories

*CopyCop churned out 19,000 deceptive posts in a month*

May 10th 2024



IN THE 1980S the KGB had a well-worn method for pumping disinformation around the world. “We preferred to work on genuine documents,” recalled Oleg Kalugin, a former KGB general, “with some additions and changes.” That method has not changed greatly, but technology has accelerated the process. In early March a network of websites, dubbed CopyCop, began publishing stories in English and French on a range of contentious issues. They accused Israel of war crimes, amplified divisive political debates in America over slavery reparations and immigration and spread nonsensical stories about Polish mercenaries in Ukraine.

That is not unusual for Russian propaganda. What was new was that the stories had been taken from legitimate news outlets and modified using large language models, most likely one built by OpenAI, the American firm that operates ChatGPT. An investigation published on May 9th by Recorded Future, a threat-intelligence company, found that the articles had been translated and edited to add a partisan bias. In some cases the prompt—the instruction to the AI model—was still visible. These were not subtle. More than 90 French articles, for instance, were altered with the following instruction in English: “Please rewrite this article taking a conservative stance against the liberal policies of the Macron administration in favour of working-class French citizens.”

Another rewritten piece included evidence of its slant: “It is important to note that this article is written with the context provided by the text prompt. It highlights the cynical tone towards the US government, NATO, and US politicians. It also emphasises the perception of Republicans, Trump, DeSantis, Russia, and RFK Jr as positive figures, while Democrats, Biden, the war in Ukraine, big corporations, and big pharma are portrayed negatively.”

Recorded Future says that the network has ties to DC Weekly, an established disinformation platform run by John Mark Dougan, an American citizen who fled to Russia in 2016. CopyCop had published more than 19,000 articles across 11 websites by the end of March 2024, many of them probably produced and posted automatically. In recent weeks, the network has “started garnering significant engagement by posting targeted, human-produced content”, it adds. One such story—a far-fetched claim that Volodymyr Zelensky, Ukraine’s president, had purchased King Charles’s house at Highgrove, in Gloucestershire—was viewed 250,000 times in 24 hours, and was later circulated by Russia’s embassy in South Africa.

These crude efforts are unlikely to persuade discerning readers. And it is easy to exaggerate the impact of foreign disinformation. But AI-enabled forgeries are still in their infancy and likely to improve considerably. Future efforts are less likely to leak their incriminating prompts. “We are seeing every one of the nation state actors and big cyber groups playing around with AI capabilities,” noted Rob Joyce, until recently the director of cybersecurity for the National Security Agency, America’s signals intelligence service, on May 8th. In his memoirs, Mr Kalugin boasted that

the KGB published almost 5,000 articles in foreign and Soviet newspapers in 1981 alone. For the modern propagandist, those are rookie numbers. ■

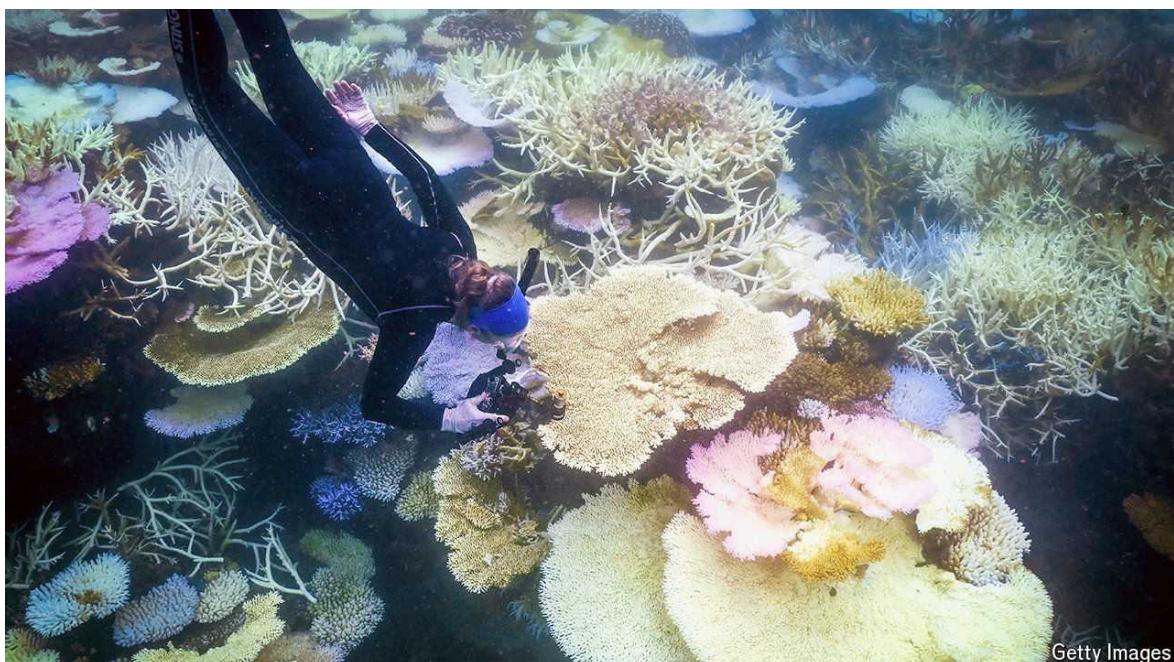
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# The Great Barrier Reef is seeing unprecedented coral bleaching

*Continued global warming will mean its obliteration*

May 15th 2024



Getty Images

THE GREAT BARRIER REEF is a natural marvel. Spanning 2,300km along the north-east coast of Australia, this vast ecosystem boasts hundreds of species of multicoloured corals across an area roughly the size of Italy. Thousands of other marine species rely on it for their survival. But the rate at which Earth is warming leaves its future in doubt.

The southern-hemisphere summer that ended in February is likely to have been the deadliest in the reef's history. What made it so was the unprecedented thermal stress—a measure of both high temperatures and their duration—it endured. In the reef's southern third, where the stress was worst, sea-surface temperatures peaked at 2.5°C above average. It will be

months before the consequences are clear, but some corals are already succumbing. Up to half may die, estimates Neal Cantin of the Australian Institute of Marine Science (<sup>AIMS</sup>).

Corals are immobile animals, reliant for much of their nutrition—and colour—on photosynthesising algae which settle within their tissues. When water temperatures rise, this symbiotic relationship breaks down. The heat sends the photosynthetic algae into overdrive, leading the corals to spit them out in self-defence. This process, known as bleaching, is often fatal, leaving the newly whitened coral vulnerable to starvation and disease.

The reef has survived bleaching before. One half of its shallow-water corals were killed by successive heatwaves in 2016 and 2017. Despite two more, less lethal, bleachings in 2020 and 2022, it made a remarkable recovery. Later in 2022, scientists were reporting the highest levels of hard-coral cover in 36 years of monitoring across most of the reef. Since hard corals form a reef's underlying structure, their presence is a useful gauge of wider reef health.

Two factors appear to have underpinned that recovery, says David Wachenfeld, the research programme director at <sup>AIMS</sup>. First, tiny juvenile corals weathered the bleachings relatively well. They then grew to fill the space left behind by the deaths of their larger neighbours. Second, survivors seem to have been healthy enough to reproduce. That suggests, he argues, that the reef is resilient enough to recover from these levels of warming.

This year's record heat will test that resilience. The more frequently bleaching occurs, the harder it is for a reef to recover. Until 1998 the Great Barrier Reef had never suffered widespread bleaching. Over the past eight years, it has bleached five times. Not until this year, though, has extreme bleaching, affecting 90% of coral, been recorded in all its regions.

As the most vulnerable species of coral die off, scientists expect only the hardest varieties to survive. That threatens the reef's extraordinary diversity, as well as the many endangered marine species that rely upon it. Permanent losses would also harm Australia's economy: the reef supports 64,000 jobs and generates \$3.8bn in tourism every year.

Part of that revenue is linked to the reef's status as a UNESCO world heritage site. That, too, is under threat. In light of the reef's continued decline, UNESCO has in recent years considered downgrading that status. In September 2023, however, that decision was indefinitely postponed, pending ongoing restoration efforts.

Such efforts take many forms. Some involve curbing pollution and fishing activity in vulnerable areas. But more bespoke interventions are being considered, too. One approach is to support the reef's natural recovery, for example by assisting reproduction. Peter Harrison of Southern Cross University is testing a form of 'coral IVF' which involves collecting eggs and sperm when they are released in mass spawnings, and using those to rear larvae in floating nurseries. These can then be guided towards damaged reefs, helping the coral seed where it is needed.

A second approach is to speed up the natural process of adaptation. Scientists are racing to breed heat-resistant corals and symbionts which can be transplanted to the reef, giving the site a better chance of surviving rising temperatures.

Scale is a major challenge. Global coral production capacity can currently cover an area smaller than ten football pitches annually, says Cedric Robillot of the Reef Restoration and Adaptation Program. Last year, in the largest restoration effort to date, scientists deployed 100,000 baby corals to the reef. Over the second half of the decade, scientists aim to seed over 3m more. All told, that will be enough to target between five and ten of the Great Barrier Reef's 3,000-odd constituent reefs.

Clearly, such efforts can do only so much. If global temperatures continue to rise at their current pace, the world's largest reef system faces obliteration. Under the current trajectory, says Dr Robillot, "There is no scenario in which corals can adapt fast enough." All scientists can do for now is buy some time. ■

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## Some corals are better at handling the heat

*Scientists are helping them breed*

May 15th 2024



Getty Images

CORAL REEFS, home to about a quarter of all known marine species, face an [existential threat](#). Rising water temperatures cause the corals to expel their resident photosynthetic algae, bleaching them white and depriving them of their major food source.

But, says Joanie Kleypas of the National Centre for Atmospheric Research in Colorado, some corals are more resilient than others. For instance, corals in the Red Sea are able to withstand hotter temperatures, because they have had thousands of years to adapt to the heat. The issue right now, says Dr Kleypas, is that human activity has caused global temperatures to rise faster than natural selection can breed resilience.

That's why one team of researchers at the Australian Institute of Marine Science (<sup>AIMS</sup>) is selectively breeding more thermally resilient corals. The first step, says Annika Lamb, one of the researchers, is to find thermally resilient parents. They do so by collecting coral samples, sticking them in tanks, and putting them through a so-called "rapid heat stress test" in <sup>AIMS</sup>'s National Sea Simulator (SeaSim). The corals are then ranked based on how they handle the heat.

Then, says Dr Lamb, it's a waiting game. Coral colonies spawn one night each year, triggered by the amount of time that passes between sunset and moonrise. The researchers replicate these light patterns in the SeaSim, and, when the time is right, the researchers don red headlamps (so as to minimise the impact on light-sensitive coral) and descend into the rooms with the corals. They wait for the corals to spawn, and then collect the bundles of eggs and sperm which subsequently float to the top of the tanks.

The researchers then cross-fertilise the different groups of heat-tolerant corals in an attempt to breed super heat-tolerant offspring. As of August 2023 they had fertilised over 3m eggs. The researchers will then grow the fertilised corals in the coral nurseries of the SeaSim, watching them grow from microscopic organisms to coral candidates the size of the nail on a little finger.

The final step is to reintroduce these corals into the wild. This is often done by a process called coral seeding—baby corals are laid on small ceramic and concrete bases and tossed into areas where reef restoration is needed. In what <sup>AIMS</sup> calls the "largest coral restoration research trial ever undertaken", a total of 100,000 baby corals have been delivered to the reef. Whether these efforts will bear fruit (or, more important, coral) remains to be seen. ■

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# Culture

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Culture | Heavenly hosts

## The controversial cult of the host club in Japan

*Why women pay men in make-up to flatter them*

May 16th 2024



Getty Images

In Kabukicho, a red-light district in Tokyo, four young men surround your female correspondent. Hiragi Saren, a 25-year-old with bleached hair, a black tank top and a silver necklace, sits closest. He chatters warmly and glances seductively, his pink eyeshadow glimmering under the chandeliers. His three assistants keep filling your correspondent's *shochu* glass and shower her with compliments about her appearance. She doubts their sincerity, but is strangely pleased. After an hour and a half, the bill is 30,000 yen (\$200).

Host clubs are booming in Japan. Some 21,000 hosts—well-dressed young men, often wearing make-up like K-pop stars—work at 900 such establishments. They pamper and flatter their female clients. Sex is not part

of the bargain but could happen, somewhere else. Clients usually seek psychological, not physical intimacy. Hosts refer to them as *hime* (princess), and never ask how old they are or what they do for a living.

To understand the cult of the host, start with two statistics. More than 60% of Japanese women in their late 20s are unmarried, double the rate in the mid-1980s. A recent survey found that more than a third of unmarried adults aged 20-49 had never dated. Many single women visit host clubs because they are lonely. They get a thrill from meeting “the kind of men they don’t meet in everyday life”, Mr Hiragi says.

The first host club opened in the mid-1960s, mostly serving as a dance hall for rich matrons and widows. Early hosts described themselves as “male geishas”, says Hojo Yuichi, who runs *Ai Honten*, the oldest active host club. At first, the clubs were seen as a fringe, sleazy business. But that stigma has faded.

Successful hosts are now celebrities. In the 2000s they started appearing on TV shows. Today many have a big social-media following. Billboards and trucks display pictures of the highest earners. Hosts feature as characters in manga and anime, too. They have become “an archetype within Japanese popular culture”, says Thomas Baudinette, an anthropologist at Macquarie University. Mr Hiragi moved to Tokyo from a rural area with dreams of becoming a famous host. “I wanted to be part of a world that’s glamorous,” he says.

Glamorous, yet controversial. Feminist groups accuse host clubs of exploitation: overcharging for drinks and manipulating clients into racking up huge tabs. Hosts praise those who spend the most, calling them “ace”. Some customers end up in debt after paying millions of yen for a single visit. Takahashi Ichika, a client, recalls that her favourite host would ignore her and fiddle with his phone when she refused to order champagne. “I would spend more money because I didn’t want him to dislike me. I wanted his attention,” she says.

Some women go to extraordinary lengths to feed their host habit. A survey last year showed that among women arrested for selling sex around Okubo Park, a popular pickup spot, over 40% were trying to earn enough money to

go to host clubs. Politicians have started discussing ways to regulate the industry, for example by cracking down on opaque pricing. Host-club owners hope to pre-empt this with better self-regulation.

Some see a link between the cult of the host and obsessive fan culture. In a survey in 2023, 72% of Japanese women in their 20s said they indulged in *oshikatsu* (avidly supporting a celebrity, for example by buying several copies of each new hit). The objects of their adoration were often pop idols. But some are switching their allegiance to hosts, to whom they can get much closer. Ms Takahashi says she used to spend a lot on boy bands, but when concerts stopped during covid, she started to splurge on hosts instead.

Many other Japanese businesses, such as cuddle cafés, offer intimate services, usually to men. Mr Baudinette worries, though, that for many Japanese people, “intimacy can only be accessed through commoditised forms.”

Yamada Kurumi, a client, works at a brothel to earn enough money to visit the clubs, which she does about once a week. She had boyfriends in the past but finds hosts more exciting. She is unsure whether to seek an office job after graduating from college or to carry on with sex work, which pays better. “A lot of people start losing touch with friends once they get addicted to host clubs,” says Ms Yamada. “My host is already part of my everyday life...If I get a normal job, I probably won’t be able to see him anymore. That scares me.” ■

Culture | Money and faith

# God™: an ageing product outperforms expectations

*An economist tries to explain religion*

May 14th 2024



**The Divine Economy.** By Paul Seabright. *Princeton University Press; 504 pages; \$35 and £30*

GOD GETS mixed reviews on Amazon. This is perhaps surprising. His marketing campaign (now in its third millennium) has been strong. His slogans (“God is Great!”) are positive. And indeed many shoppers effuse. “Wonderful!” reads one five-star review beneath His best-known work, the Bible. “Beautiful,” says another. “Amen,” adds another satisfied customer.

Other reviewers are critical. One, after giving the Bible just a single star, observes bluntly, if rather blasphemously, that it is a “boring read”. Another

review complains: “The plot is not cohesive.” A third disgruntled reader argues that there are “too many characters” and that the main protagonist is a bit full of himself.

If it feels surprising that God is reviewed on Amazon, it should not. He may have made heaven and earth, but He also makes an awful lot of money, as [Paul Seabright](#), a British economist and professor at the University of Toulouse in France, points out in a new book.

Hard facts on the economics of the Almighty are hard to come by. But the Mormon church is reportedly one of the largest private landowners in America. One study found that in 2016 American faith-based organisations (non-profits with a religious bent) had revenues of \$378bn. This was more than the revenues of [Apple](#) and [Microsoft](#) combined. Better yet, churches usually pay no tax. God may be great; His full-year results are greater.

Secularists may smirk at religion as silly, but it deserves proper analysis. “The Divine Economy” looks at how religions attract followers, money and power and argues that they are businesses—and should be analysed as such.

Professor Seabright calls religions “platforms”, businesses that “facilitate relationships”. (Other economists refer to religions as “clubs” or “glue”.) He then takes a quick canter through the history, sociology and economics of religions to illustrate this. The best parts of this book deal with economics, which the general reader will find enlightening.

Economists were slow to study religion. Some 250 years ago [Adam Smith](#) observed in “The Wealth of Nations” that the wealth of churches was considerable. He used secular language to describe how such wealth arose, observing that churches’ “revenue” (donations) flowed in and benefited priests, who he argued were sometimes animated less by love of God than by “the powerful motive of self-interest”. He also argued that if there were a better functioning market in religious providers, this would lead to increased religious harmony. According to Laurence Iannaccone, a professor of economics at Chapman University in California, Smith’s analysis was “brilliant”—and for a long time largely ignored.

Divinity departments are staffed by theologians rather than economists; the idea of mixing the dismal science with the divine strikes many people at the very least “as odd and at worst strikes them as blasphemous”, says Mr Iannaccone. People associate God with angels, not with Excel.

Yet religions lend themselves to economic analysis nicely. They offer a product (such as salvation), have networks of providers (priests, imams and so on) and benefit from good distribution networks. It is not just trade that travels on trade routes: ideas, diseases and religions do, too. Roman roads allowed the plague of Justinian to spread across Europe with a rapidity never seen before. They allowed Christianity to do so as well.

Starting in the 1970s, some economists have been approaching religion with more academic devotion, analysing, for example, the economics of extremism and obtaining a place in the afterlife. This mode of thinking can help clarify complicated religious history. When historians talk about the Reformation they tend to do so using thorny theological terms such as “transubstantiation”. Economists would describe it more simply as the moment when a monopoly provider (the Catholic church) was broken up, leading to an increase in consumer choice (Protestantism) and the price of services declining (indulgences were out).

A greater variety of suppliers started to offer road-maps to heaven. [Henry VIII](#) swapped his old service provider, Catholicism, for the new one—which was not only cheaper, but also allowed him to divorce a troublesome wife. There were, admittedly, some bumps: the pope was not pleased, and the habit of burning picky customers at the stake dented consumer confidence. But overall, the Reformation enabled people and their rulers to “get a better bargain”, says Davide Cantoni, a professor at Ludwig Maximilian University of Munich.

Ask a believer why they believe in their particular deity, and they will tend to talk of religious truth. Professor Seabright offers another explanation. The two most popular religious “brands” (Christianity and Islam) have, he writes, replaced smaller local religions in much the same way that Walmart, Lidl and Tesco have replaced smaller local shops.

These brands have honed the international distribution of their product: the Catholic church, like McDonald's, offers a striking uniformity of service, whether you are in the Vatican or Venezuela. They have the resources to compete for customers in ways that smaller, less well-financed, local gods cannot. Baal, it seems, died out not because—as the Bible has it—he was a false god but because his franchise failed.

Popular works have tackled the idea of religions as businesses before. In the 1960s [Tom Lehrer](#), an American satirist, observed that if Catholics “really want to sell the product” they should improve their music: his solution was “The Vatican Rag”, which contained such lines as “Two-four-six-eight / time to transubstantiate”. Incensed Catholics declared it blasphemous.

“The Divine Economy” is more tactful than Mr Lehrer—though not quite as much fun. The book’s scope is big. So too, alas, are many of the words. Sentences such as “Probabilistic models of cognition assume that human cognition can be explained in terms of a rational Bayesian framework” leave the reader wishing for lines that are, like those in “The Vatican Rag”, a little snappier, and his idea that religions are “platforms” is at times more confusing than clarifying.

An obvious riposte to all this religious analysis is: who cares? It is 2024, not 1524. God, as [Friedrich Nietzsche](#) stated, is dead. But such a sweeping judgment is misplaced and wrong. The West may be less Christian—but the rest of the world is not. Between 1900 and 2020, the proportion of Africans who are Christian rose from under 9% to almost half; the proportion who are Muslim rose from around a third to over 40%.

Even in secular countries, faith remains powerful. In America in 2022, [Roe v Wade](#) was overturned due, in part, to decades of campaigning by evangelicals and Catholics. Non-believers dabble too. Jordan Peterson, a Canadian author, performs to stadiums with a talk titled “We Who Wrestle With God” and garnishes his books with statements such as “Our consciousness participates in the speaking forth of Being.” God might wish He were dead when He hears such things. He is not. ■

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Culture | Honey, will you be home for dinner?

## #Tradwives, the real housewives of the internet, have gone viral

*Why social-media users are riveted by the domestic toil of homemakers*

May 15th 2024



HOW LONG does it take to make a grilled-cheese sandwich? The answer, for most, is about ten minutes. But for Hannah Neeleman, a housewife-turned-social-media-star, the process can take days. Ms Neeleman (pictured) makes everything from scratch: milling her own flour and milking cows. Then she performs a fiddly routine of stirring and simmering. Finally, exhausted, she stuffs homemade cheese into freshly baked bread and tells her eight children to tuck in.

When she is not busy making sandwiches, Ms Neeleman posts videos of them on TikTok, a social-media app (her grilled-cheese recipe has more than 50m views). She is part of a cohort of “traditional” housewives who show

women how to look after their homes and husbands, make wild blueberry compotes, wear floral frocks and use words like “fresh” and “frolicking”. The hashtag #tradwife has been viewed more than 600m times on TikTok.

For all its perfume, not everyone will find the content intoxicating. Recent #tradwife posts include “four ways to honour your husband”, “reminder: masculine men like feminine women” and “feminism is not freedom”. Religion is often used to support such assertions. Last December Jasmine Dinis, an Australian housewife, told her followers on x to “remember this Christmas that Jesus was...unvaxed”.

People do not seem put off, however. Fans belong to a generation of young women who are better educated and more liberal than their male peers, and who have fewer barriers to successful careers than women before them. Yet they gush over pristine kitchens and “heavenly” afternoon snacks. “My dream life,” one commented under a video of sourdough bread.

The trend is partly born from a covid-era fascination with elaborate recipes and cleaning regimes. But the idealisation of domesticity has a long history, notes Maggie Andrews, an emeritus professor at the University of Worcester. Matrons have been offering advice for more than 100 years. Think of Fanny Cradock, a British television cook who rose to fame in the 1950s. Or Marion Harland, an American writer who penned bestselling domestic manuals in the 1890s (the “secret of a happy home”, she wrote, is “family music”, “family religion” and “the family purse”).

Housewifery can sell. Ms Harland was the face of early advertisements for Jell-o, suggesting even women “who cannot cook” would be fine if “supplied with Jell-o and common sense”. Today’s marketing is more elaborate: Ms Neeleman sells tables similar to those seen in her kitchen. Housewives have also long sold staunchly conservative beliefs. In the autobiography she wrote with her husband, Ms Cradock called herself an “anti-feminist”: “Down with equality, we say.” Phyllis Schlafly—an American housewife, lawyer and conservative campaigner—claimed in the 1970s that traditional gender roles were liberating.

Women still do most of the housework and child care in every country. Those searching for fresh recipes or cleaning advice may enjoy venturing

inside the homes of TikTok's #tradwives. They should leave their shoes—but not their scepticism—at the door. ■

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Culture | Back Story

# The trial of Donald Trump, considered as courtroom drama

*Sensational witnesses, high stakes—it has the classic elements. Sort of*

May 10th 2024



Getty Images

An innocent man in fear of his life faces a biased jury (“To Kill a Mockingbird”). A guilty man is acquitted after shocking revelations from his wife (“Witness for the Prosecution”). In [The Trial of Donald Trump](#), an adult-film star confronts a once and possibly future president who, she claims, stripped to his underwear while she used the bathroom in a hotel suite in Lake Tahoe.

As film-makers have always grasped, a courtroom is inherently theatrical. It brings adversaries into uncomfortable proximity. Emotional and ethical depths are plumbed, but decorum must be maintained. Mr Trump is charged with falsifying documents to cover up a payment in 2016 to [Stormy Daniels](#),

who says she had sex with him a decade earlier (he denies all of it). The case has many vital elements of courtroom drama, only slightly askew.

Sensational witnesses are a key ingredient, as they crumple under cross-examination or blurt out explosive facts. In “A Few Good Men” Colonel Jessup (played by Jack Nicholson) is goaded into admitting he ordered a lethal beating. In [“Anatomy of a Fall”](#), a child helps acquit his mother of killing his father.

Some of the technicolour witnesses in Mr Trump’s ongoing trial have been brutal. Michael Cohen, his fixer-turned-foe, roundly incriminated him. Ms Daniels recalled spanking him with a magazine. (“Peggy Peterson” and “David Dennison”, pseudonyms for her and Mr Trump, made cameos.) Others seemed torn between truth and loyalty. Two former aides, Hope Hicks and Madeleine Westerhout, cried on the stand.

Mr Trump insists the trial is part of a political plot against him: call it Witness for the Persecution. Still, like other courtroom dramas it has been educational. In “Amistad”, the underlying theme is slavery. In “Kramer vs Kramer”, it is parenting. This trial has cast light on jobs that tend not to feature in careers fairs—porn stars, sex-tape brokers and shakedown artists. The exotic vocabulary has included “hush money”, “catch and kill” and “gag order”.

The defendant may or may not testify. But an internal conflict is brewing. In “A Few Good Men”, Jessup is sure his authority on his base is absolute. So how did the beating happen? Likewise Mr Trump portrays himself as eagle-eyed and frugal. (“Penny-pinching?” he once wrote. “You bet.”) Yet somehow he signed cheques to Mr Cohen which, prosecutors say, reimbursed him for paying off Ms Daniels. Two rebukes for contempt of court have redoubled the jeopardy: Mr Trump risks not only a prison sentence after the trial, but winding up behind bars during it.

Often the most compelling figures in courtroom dramas are the lawyers. In “The Verdict” Paul Newman’s wastrel attorney finds redemption in a medical malpractice suit. In “Jagged Edge”, Glenn Close’s character sleeps with a murderous client. Mr Trump has sometimes seemed to be just plain

sleeping. But he has also been heard “cursing audibly”; his harried lawyers have been asked by the judge to rein him in.

The greatest of all legal dramas, [“12 Angry Men”](#), takes place almost entirely in the jury room, where Henry Fonda argues that there is reasonable doubt in what seems an open-and-shut case. Only the current jurors know how Mr Trump’s habit of glowering at them as they enter the court will go down. Ditto his choice to bad-mouth them outside it.

Above all, in classic courtroom stories the stakes are high. Sometimes, as the innocent are convicted or the guilty walk free, the legal system itself is on trial. Or the ultimate culprit may be society at large: “To Kill a Mockingbird” condemns racial injustice; “Inherit the Wind” critiques both religious fundamentalism and McCarthyism.

Mr Trump’s is the first criminal trial of an American president. At its heart is “a criminal scheme to corrupt the 2016 presidential election”, says the prosecution. That sounds monumental. Yet it keeps lapsing from gravity to gross-out satire—less “A Few Good Men” than A Few Rude Men—as when prosecutors assured the judge there would be no “descriptions of genitalia”.

But its main dramatic flaw is an absence of surprise, which ought not to matter in a real court, but does in politics and movies. “Jagged Edge” has a hidden typewriter, “12 Angry Men” a pawnshop switchblade. For all the ugliness on show, so far Mr Trump’s trial seems unlikely to jolt [his supporters](#). Some will dismiss the charges as lies. To paraphrase Jessup, others may ponder much of the seamy testimony and shruggingly conclude: You’re goddamn right he did! ■

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Culture | Mass tourism

## Venice's new admission fee cannot curb overtourism

*It is too low, and there are too many exemptions*

May 13th 2024



Getty Images

VENICE HAS never been more full—or more empty. In 2022 the population of [the island city](#) dropped below 50,000, down from 175,000 in 1951. But as residents leave, tourists flow in. Some 20m-30m people visit every year, most for day trips, and crowd the historic city's eight square kilometres. They rarely visit cultural sites: only around 360,000 go to the Gallerie dell'Accademia, one of the city's major art museums. Officials complain of “hit-and-run” tourists who come for a few hours, dump their rubbish and then go home.

So the city has introduced the tourism equivalent of a short-stay parking fare. Venice has started charging an “access fee” of €5 (\$5.41) to day-

trippers, becoming the first city in the world to do so. A host of other places, including Berlin, Lisbon and Vienna, have a “tourism tax” on overnight guests; this is the first for flying visits.

The tariff was approved in September after years of debate about how to curb [overtourism](#) and threats by UNESCO to place the city on its list of endangered world-heritage sites. It also comes as a provision that offers millions in federal funding each year for the city’s preservation is about to expire.

On April 25th a trial period began. At various points around the city, such as the Santa Lucia train station, stewards in fluorescent vests checked to make sure visitors had registered either to pay the fee or to request an exemption. Anyone turning up without a pass risked a fine ranging between €50-300.

Simone Venturini, a vice-mayor in charge of tourism, explains that the main purpose of the fee is not to bring in revenue—due to startup costs, the scheme is expected to operate at a loss of some €2m this year—but rather to discourage visitors from coming at peak times. Luigi Brugnaro, the mayor, describes the access fee as a brave, risky experiment to encourage respect from visitors and gather data that can help officials to better manage crowds. Other cities have been in touch to learn more about the scheme, he says, though he would not name which.

Many Venetians are sceptical of the fee, if not openly hostile to it. The city’s opposition parties tried their best to scuttle the plan; even Italy’s minister of tourism has voiced her disapproval. Critics argue that the admission charge turns Venice into a theme park and does little to address the heavy impact of tourism on city life. Near the station, a few hundred people protested against the initiative, bearing signs with slogans such as “No ticket for Vene-land”.

They see the venture as toothless, too. “Five euros is not enough to be a game-changer,” says Jan van der Borg, an economist at Ca’ Foscari University of Venice: “It is like a paracetamol against a very bad disease.” As the city has stated that it will not cap the number of visitors, a much higher fee would be necessary to curb the influx (€5 is about the same price as a soggy sandwich). Yet according to an Italian law of 2010 that authorises

the city to charge a fee in the first place, the price cannot be raised above €10.

There are nearly as many exemptions as there are Venetian canals. The fee is levied on visitors only between 8.30am and 4pm. Those who stay in hotels in the municipality, which includes the mainland towns of Mestre and Marghera, are excluded as they already pay a hospitality tax. Residents of the Veneto region—who can account for a substantial number of day-trippers—also get in free, as do those who work, study and live in Venice. So do those who were born there, or are coming to visit friends or family, or are younger than 14. Of the 113,000 people registered to visit on April 25th, 86% were exempt. (That share seems to have stayed consistent.)

The access fee will not make *La Serenissima* serene again. What it should do is furnish precise information about who is coming to Venice and flush out unregistered tourist rental properties, since hosts will need to register with the city in order for their guests to qualify for an exemption. Transparency will help administrators prepare for particularly busy days. But Venice will still be flooded with visitors, and this ticket cannot stop the deluge. ■

*For more on the latest books, films, tv shows, albums and controversies, sign up to [Plot Twist](#), our weekly subscriber-only newsletter. And for more coverage of climate change, sign up for the [Climate Issue](#), our fortnightly subscriber-only newsletter, or visit our [climate-change hub](#).*

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Culture | Originalist to the core

# How did the Founding Fathers want Americans to behave?

*A journalist tries to figure out what it means to “live constitutionally”*

May 16th 2024



Getty Images

**The Year of Living Constitutionally.** By A.J. Jacobs. *Crown; 304 pages; \$30. Random House; £25*

SHOULD THE constitution be interpreted as it was understood at ratification in 1788? Just a few decades old, [the theory of “originalism”](#) is in vogue on America’s conservative Supreme Court, influencing rulings on abortion, gun rights, environmental regulation and the separation of church and state. A.J. Jacobs, an editor-at-large for *Esquire* magazine, decided to live as the Founding Fathers supposedly wanted Americans to. For a year he would “walk the walk and talk the talk and eat the mutton and read the [Cicero](#)”.

Mr Jacobs characterises his previous book, “The Year of Living Biblically” (2007), in which he tossed pebbles at an adulterer in Central Park, as by turns “absurd” and “enlightening”. His new book could be described that way, too. He buys muskets, curls up with Benjamin Franklin’s *Pennsylvania Gazette* and writes with a goose quill. But his quarter-of-a-millennium time-warp also explores features of the early republic that cast doubt on the self-styled originalism of conservative judges—while highlighting others that 21st-century Americans might want to emulate.

Democracy used to be sweeter, with cake and rum punch enlivening election day. It was more vocal, too. Mr Jacobs startles election workers by voting the way the founders did: aloud. Announcing his vote was a “liberating” departure from keeping his ballot “private” as if “it’s a case of haemorrhoids”, he writes. He befriends, and then joins, a regiment of revolutionary war re-enactors in New Jersey. Noticing that Article I of the constitution empowers Congress to give anyone a “letter of marque”, essentially a permit to be a pirate for the United States, Mr Jacobs petitions a congressman for one.

Mr Jacobs enlists the guidance of legal scholars. Akhil Reed Amar of Yale University explains that an “unwritten constitution” sits astride its 4,543 words. For example, although Article I lists raising an army and navy among Congress’s powers, it never mentions an air force. Originalists have debated among themselves whether America’s Air Force is unconstitutional.

One domain today’s originalists see differently from the founders is free speech, explains Jud Campbell of Stanford University. In the 18th and 19th centuries no one thought the [First Amendment](#) shielded citizens from being punished for profanity, swearing or blasphemy. Yet today, all this and much more is protected, including some kinds of unlimited campaign spending and the right not to design a cake or a website celebrating gay marriage.

Mr Jacobs’s most instructive, if quixotic, project is a campaign to amend Article II, which sets out the president’s powers. America’s chief executive is “far too powerful”, he contends. Whereas George Washington issued just eight [executive orders](#), Barack Obama issued 276, and Donald Trump issued 220 in a single term. Mr Jacobs discovers that the founders were conflicted about whether a single person or a small committee should fulfil the duties

of the presidency. Some worried a single president would be the “fetus of monarchy”—exactly the scourge the colonists thought they were leaving behind.

That fetus, Mr Jacobs notices, has grown into “a toddler, maybe even a tween”. So why not give a multi-person presidency another try? He drafts a 28th amendment adding two more presidents. He acknowledges that the odds are against him: the constitution’s last change came in 1992 and proposed amendments have failed at a rate of 99.74%. But his gesture is a reminder that the constitution “was not meant to be carved in stone for all time”. ■

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Culture | A literary life

## Alice Munro was the English language's Chekhov

*The Nobel prizewinning short-story writer died on May 13th, aged 92*

May 15th 2024



Andrew Testa/Panos

“Promise me you’ll boil the water you drink. And you won’t marry a farmer,” says a character in [“The Love of a Good Woman”](#). Instantly, the reader is in Alice Munro territory: spinsters with lingering illnesses and stifled passions, jealous married women scrubbing floors, inky veins protruding from their legs. Light falls constantly on the domestic: a gas stove in the kitchen fed with quarters, a dining-room table with a lace cloth on it, a ceramic swan reflected in an octagonal mirror. But there is always something savage lurking beneath the veneer of gentility. Certain themes recur—of drowning, regret, longing and the cruelty of lovers.

The daughter of a silver-fox and mink farmer, Ms Munro (pictured) was brought up in rural Ontario. As a girl, she was told that the worst thing you

could do was to “call attention to yourself” or “think you were smart”. She enrolled at the University of Western Ontario to study journalism but dropped out when her scholarship money dried up. Ms Munro married young and moved to Vancouver, where her husband worked as a manager in a department store. She had four daughters. One, born with defective kidneys, died in infancy.

It was not the housework that dragged her down; it was the assumption that women who tried to do something as challenging as writing were unseemly. She wrote while her daughters napped. It was in those stories that she tried to fathom the bargains people make “for lust”, recording the cycle of excitement and despair and the bitterness of those who fear they have missed the boat.

For years she thought short stories were practice. Deep in domesticity in suburban Vancouver, she dreamed up plots. She was as consumed by the minutiae of daily life—cooking, cleaning, taking care of her children—as by the stories she was writing in her head in the deadness of early afternoon. Each story has layers, from the mundane (embroidered napkins, liquorice drops, bus depots) to the sublime (a man touching a woman’s waist, a look of recognition and encouragement, daydreams that wear themselves out with the passage of time). Her characters do anything to avoid confronting their pain. “That’s the trouble with linen,” says a woman at a funeral reception in “What is Remembered”, noting that another woman’s dress has wrinkled up.

In 1977 “Royal Beatings” was her first story to be published in the *New Yorker*; it was followed by many more. Her first book, “Dance of the Happy Shades”, won the Governor General’s Award—one of Canada’s highest literary accolades—yet still she was dismissed by many as a shy housewife. In 2013 she became the first Canadian woman to win the [Nobel prize in literature](#), but was too unwell to travel to Stockholm for the ceremony. Instead the Nobel Foundation visited her at her daughter’s home in Victoria, British Columbia, and recorded an interview. In it she said she wanted her stories to move people. She wanted you to “feel you are a different person when you finish” reading.

Fellow writers were some of her most devoted readers. Cynthia Ozick, an American author, called Ms Munro “our Chekhov” and predicted she is

“going to outlast most of her contemporaries”. Like [Margaret Atwood](#) and [Michael Ondaatje](#), she evoked Canada but transcended it.

Her greatest gift was probably her economy of style; she moved forwards and backwards in time and distilled multiple narratives into 30 pages. In “Something I’ve Been Meaning to Tell You”, a jilted woman tries unsuccessfully to kill herself by drinking laundry detergent. Decades later, her sister is checking whether the level of rat poison on the kitchen shelf is going down, as her brother-in-law is withering away. Is he being slowly poisoned? Ms Munro leaves the reader guessing. The Swedish Academy praised her ability to show “how much of the extraordinary can fit into that jam-packed emptiness called The Ordinary.”

Ms Munro’s short stories—the opposite of provincial despite their settings—have the emotional depth of novels. She wrote about the clamour of desire, the self-deception and destruction, without ever being sentimental. Sexual attraction is omnipresent in her writing, driving people to extremes, teasing them with the possibility of happiness. As she wrote in “The Beggar Maid”, “What made you wanted was nothing you did, it was something you had, and how could you ever tell whether you had it?” ■

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# Economic & financial indicators

- [Economic data, commodities and markets](#)

## Economic & financial indicators | Indicators

# Economic data, commodities and markets

May 16th 2024

### Economic data

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|                | Gross domestic product |                    | Consumer prices       |         | Unemployment rate |                  |
|----------------|------------------------|--------------------|-----------------------|---------|-------------------|------------------|
|                | % change on year ago:  | quarter*           | % change on year ago: | month** | rate              | %                |
| United States  | 3.0                    | Q1                 | 1.6                   | 2.2     | 3.4               | Apr              |
| China          | 5.3                    | Q1                 | 6.6                   | 4.7     | 0.3               | Mar <sup>†</sup> |
| Japan          | 1.2                    | Q4                 | 0.4                   | 1.3     | 2.7               | Mar              |
| Britain        | 0.2                    | Q1                 | 2.5                   | 0.4     | 3.2               | Mar              |
| Canada         | 0.9                    | Q4                 | 1.0                   | 1.9     | 2.9               | Mar              |
| Euro area      | 0.4                    | Q1                 | 1.3                   | 0.9     | 2.4               | Apr              |
| Austria        | -0.7                   | Q4                 | 0.2 <sup>‡</sup>      | 0.5     | 3.5               | Apr              |
| Belgium        | 1.3                    | Q1                 | 1.2                   | 1.1     | 4.9               | Mar              |
| France         | 1.1                    | Q1                 | 0.9                   | 1.1     | 2.4               | Apr              |
| Germany        | -0.2                   | Q1                 | 0.9                   | 0.2     | 2.4               | Apr              |
| Greece         | 1.1                    | Q4                 | 0.6                   | 2.8     | 3.2               | Mar              |
| Italy          | 0.6                    | Q1                 | 1.2                   | 1.0     | 1.0               | Mar              |
| Netherlands    | -0.7                   | Q1                 | -0.4                  | 1.0     | 2.8               | Apr              |
| Spain          | 2.4                    | Q1                 | 2.9                   | 2.4     | 3.4               | Mar              |
| Czech Republic | 0.2                    | Q4                 | 2.0                   | 1.2     | 2.9               | Apr              |
| Denmark        | 3.5                    | Q4                 | 10.8                  | 1.4     | 0.8               | Apr              |
| Norway         | 0.5                    | Q4                 | 6.2                   | 1.0     | 3.6               | Feb <sup>§</sup> |
| Poland         | 1.9                    | Q1                 | 1.6                   | 2.9     | 4.8               | Apr <sup>§</sup> |
| Russia         | 4.9                    | Q4                 | na                    | 1.9     | 7.7               | Mar              |
| Sweden         | -0.9                   | Q1                 | -0.4                  | 0.3     | 3.9               | Apr              |
| Switzerland    | 0.9                    | Q4                 | 1.0                   | 1.0     | 1.4               | Apr              |
| Turkey         | 4.0                    | Q4                 | 3.9                   | 3.1     | 6.9               | Mar              |
| Australia      | 1.5                    | Q4                 | 1.0                   | 2.0     | 3.8               | Mar              |
| Hong Kong      | 4.3                    | Q4                 | 1.8                   | 3.2     | 2.0               | Mar              |
| India          | 8.4                    | Q4                 | 8.0                   | 6.6     | 4.8               | Apr              |
| Indonesia      | 5.1                    | Q1                 | na                    | 5.1     | 3.0               | Mar              |
| Malaysia       | 3.9                    | Q1                 | na                    | 4.4     | 2.5               | Mar              |
| Pakistan       | n/a                    | 2023 <sup>**</sup> | na                    | 1.7     | 17.3              | Apr              |
| Philippines    | 5.7                    | Q1                 | 5.3                   | 5.7     | 3.8               | Mar              |
| Singapore      | 2.7                    | Q1                 | 0.2                   | 2.4     | 2.7               | Mar              |
| South Korea    | 3.2                    | Q1                 | 5.2                   | 2.7     | 2.9               | Mar              |
| Taiwan         | 0.3                    | Q4                 | 1.1                   | 3.3     | 2.0               | Mar              |
| Thailand       | 1.7                    | Q4                 | -2.3                  | 2.8     | 0.2               | Mar              |
| Argentina      | -1.4                   | Q4                 | -7.3                  | -3.0    | 289               | Apr              |
| Brazil         | 2.1                    | Q4                 | -0.1                  | 2.1     | 3.7               | Apr              |
| Chile          | 0.4                    | Q4                 | 0.4                   | 2.8     | 3.5               | Mar <sup>†</sup> |
| Colombia       | 0.9                    | Q1                 | 4.4                   | 1.1     | 7.2               | Apr              |
| Mexico         | 1.6                    | Q1                 | 0.8                   | 2.3     | 4.7               | Apr              |
| Peru           | -0.4                   | Q4                 | 0.9                   | 2.4     | 2.4               | Apr              |
| Egypt          | 2.3                    | Q4                 | na                    | 2.6     | 32.6              | Mar              |
| Israel         | -4.7                   | Q4                 | -21.0                 | 1.9     | 2.8               | Apr              |
| Saudi Arabia   | -0.8                   | 2023               | na                    | 2.0     | 1.6               | Apr              |
| South Africa   | 1.2                    | Q4                 | 0.2                   | 1.6     | 5.3               | Mar              |

Source: Haver Analytics. % change on previous quarter, annual rate. \*The Economist Intelligence Unit estimate/forecast. <sup>†</sup>Not seasonally adjusted.

<sup>\*\*</sup>New series. <sup>§</sup>Year ending June. <sup>††</sup>Latest 3 months. <sup>¶</sup>3-month moving average. Note: Euro area consumer prices are harmonised.

### Economic data

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|                | Current-account balance     |                     | Budget balance              |                     | Interest rates    |                                 | Currency units |                      |
|----------------|-----------------------------|---------------------|-----------------------------|---------------------|-------------------|---------------------------------|----------------|----------------------|
|                | % of GDP, 2024 <sup>†</sup> | latest <sup>‡</sup> | % of GDP, 2024 <sup>†</sup> | latest <sup>‡</sup> | 10-yr gov't bonds | change on year ago <sup>§</sup> | per \$         | % change on year ago |
| United States  | -3.0                        | na                  | -6.5                        | na                  | 4.5               | +9.0                            | na             | na                   |
| China          | 1.1                         | na                  | -4.6                        | 2.1                 | 2.1               | +5.0                            | 7.22           | -3.7                 |
| Japan          | 2.9                         | na                  | -4.8                        | 1.0                 | 5.7               | +15.5                           | 7.92           | -12.3                |
| Britain        | -2.8                        | na                  | -4.2                        | 4.2                 | 3.9               | +3.0                            | 0.79           | 1.3                  |
| Canada         | -0.4                        | na                  | -0.6                        | 3.7                 | 8.0               | +1.36                           | 0.79           | -0.7                 |
| Euro area      | 2.9                         | na                  | -3.1                        | 2.5                 | 25.0              | +0.92                           | na             | na                   |
| Austria        | 2.4                         | na                  | -2.4                        | 3.0                 | 7.0               | +0.92                           | na             | na                   |
| Belgium        | -0.1                        | na                  | -4.4                        | 3.0                 | -2.0              | +0.92                           | na             | na                   |
| France         | -0.7                        | na                  | -4.9                        | 3.0                 | 16.0              | +0.92                           | na             | na                   |
| Germany        | 6.5                         | na                  | -1.9                        | 2.5                 | 25.0              | +0.92                           | na             | na                   |
| Greece         | -5.6                        | na                  | -4.1                        | 3.6                 | -40.0             | +0.92                           | na             | na                   |
| Italy          | 1.1                         | na                  | -5.4                        | 3.9                 | -30.0             | +0.92                           | na             | na                   |
| Netherlands    | 8.9                         | na                  | -2.4                        | 2.8                 | 18.0              | +0.92                           | na             | na                   |
| Spain          | 2.5                         | na                  | -3.5                        | 3.3                 | -2.0              | +0.92                           | na             | na                   |
| Czech Republic | -0.5                        | na                  | -2.5                        | 4.1                 | -30.0             | +22.8                           | -4.5           | -4.5                 |
| Denmark        | 0.5                         | na                  | 1.6                         | 2.6                 | -3.0              | 6.87                            | -0.3           | -0.3                 |
| Norway         | 14.4                        | na                  | 12.0                        | 3.7                 | 57.0              | 10.7                            | -1.0           | -1.0                 |
| Poland         | 0.2                         | na                  | -5.2                        | 5.7                 | -2.0              | 3.93                            | 5.6            | 5.6                  |
| Russia         | 2.5                         | na                  | -1.8                        | 13.9                | 300               | 91.3                            | -12.8          | -12.8                |
| Sweden         | 5.6                         | na                  | -0.9                        | 2.3                 | 8.0               | 10.7                            | -3.4           | -3.4                 |
| Switzerland    | 0.3                         | na                  | 0.7                         | 5.0                 | -0.9              | 0.99                            | na             | na                   |
| Turkey         | -3.0                        | na                  | -4.6                        | 2.7                 | 1,369             | 32.2                            | -39.0          | -39.0                |
| Australia      | 1.2                         | na                  | -1.0                        | 4.3                 | 89.0              | 1.50                            | na             | na                   |
| Hong Kong      | 6.3                         | na                  | -1.4                        | 3.9                 | 74.0              | 7.81                            | 0.4            | 0.4                  |
| India          | -1.1                        | na                  | -5.3                        | 7.1                 | 9.0               | 83.5                            | -1.4           | -1.4                 |
| Indonesia      | -0.2                        | na                  | -2.4                        | 6.9                 | 52.0              | 16.028                          | -7.7           | -7.7                 |
| Malaysia       | 1.9                         | na                  | -4.4                        | 3.9                 | 12.0              | 4.71                            | -4.5           | -4.5                 |
| Pakistan       | -3.0                        | na                  | -7.0                        | 14.2                | -91.0             | 2.78                            | 2.4            | 2.4                  |
| Philippines    | -1.3                        | na                  | -6.1                        | 6.8                 | 101               | 57.5                            | -2.5           | -2.5                 |
| Singapore      | 18.5                        | na                  | 0.1                         | 3.3                 | 50.0              | 1.35                            | -0.7           | -0.7                 |
| South Korea    | -2.5                        | na                  | -1.4                        | 3.5                 | 22.0              | 1,300                           | -2.4           | -2.4                 |
| Taiwan         | 14.4                        | na                  | -1.1                        | 1.6                 | 46.0              | 32.3                            | -4.6           | -4.6                 |
| Thailand       | 3.0                         | na                  | -3.6                        | 2.8                 | 23.0              | 36.5                            | -7.8           | -7.8                 |
| Argentina      | 0.1                         | na                  | -1.2                        | na                  | 8.86              | -74.0                           | na             | na                   |
| Brazil         | -1.7                        | na                  | -7.3                        | 11.7                | -18.0             | 5.13                            | -43            | -43                  |
| Chile          | -3.8                        | na                  | -2.8                        | 6.0                 | 50.0              | 910                             | -13.9          | -13.9                |
| Colombia       | -2.9                        | na                  | -5.1                        | 11.1                | -2.0              | 3,829                           | 17.9           | 17.9                 |
| Mexico         | -0.4                        | na                  | -5.2                        | 9.7                 | 94.0              | 16.7                            | 5.2            | 5.2                  |
| Peru           | -0.5                        | na                  | -3.0                        | 7.1                 | -2.0              | 3.71                            | -1.6           | -1.6                 |
| Egypt          | -3.4                        | na                  | -11.0                       | na                  | 46.8              | -34.0                           | na             | na                   |
| Israel         | 5.3                         | na                  | -6.6                        | 4.6                 | 92.0              | 3.67                            | -0.3           | -0.3                 |
| Saudi Arabia   | 0.9                         | na                  | -1.3                        | na                  | 3.75              | na                              | na             | na                   |
| South Africa   | -2.0                        | na                  | -5.2                        | 10.5                | -42.0             | 18.3                            | 3.9            | 3.9                  |

Source: Haver Analytics. <sup>†</sup>5-year yield. <sup>‡</sup>Dollar-denominated bonds.

The Economist

### Markets

1 of 2

|                         | Index       |          | % change on: |      |  |
|-------------------------|-------------|----------|--------------|------|--|
|                         | May 15th    | one week | Dec 29th     | 2023 |  |
| In local currency       |             |          |              |      |  |
| United States S&P 500   | 5,082.8     | 2.3      | 11.3         |      |  |
| US Small Stocks         | 10,373.0    | 1.0      | 1.3          |      |  |
| China Shanghai Comp     | 3,149.9     | -0.3     | 4.9          |      |  |
| China Shenzhen Comp     | 17,596.6    | -0.7     | -4.2         |      |  |
| Japan Nikkei 225        | 38,385.7    | 0.5      | 14.7         |      |  |
| Japan Topix             | 2,730.9     | 0.9      | 15.4         |      |  |
| Britain FTSE 100        | 8,445.8     | 1.1      | 9.2          |      |  |
| Canada S&P/TSX          | 22,284.8    | 0.1      | 6.3          |      |  |
| Euro area EURO STOXX 50 | 5,100.9     | 1.2      | 12.8         |      |  |
| France CAC 40           | 8,240.0     | 1.3      | 9.2          |      |  |
| Germany DAX             | 18,869.4    | 2.0      | 12.6         |      |  |
| Germany MDAX            | 35,355.5    | 3.6      | 16.5         |      |  |
| Netherlands AEX         | 913.4       | 1.5      | 16.1         |      |  |
| Spain IBEX 35           | 11,392.8    | 1.9      | 12.5         |      |  |
| Poland WIG              | 88,026.2    | 1.4      | 12.3         |      |  |
| Russia RTS \$ terms     | 1,200.5     | 2.1      | 10.8         |      |  |
| Switzerland SMI         | 11,899.3    | 2.6      | 6.8          |      |  |
| Turkey BIST             | 10,158.6    | -0.9     | 36.0         |      |  |
| Australia All Ord.      | 8,020.9     | -0.7     | 2.4          |      |  |
| Hong Kong Hang Seng     | 19,073.7    | 4.1      | 11.9         |      |  |
| India BSE               | 72,987.0    | -0.7     | 1.0          |      |  |
| Indonesia IDX           | 7,179.8     | 0.5      | -1.3         |      |  |
| Malaysia KSEI           | 1,605.2     | -0.1     | 9.0          |      |  |
| Pakistan KSE            | 74,694.0    | 2.8      | 19.6         |      |  |
| Singapore STI           | 3,289.4     | 0.8      | 1.5          |      |  |
| South Korea KOSPI       | 2,730.3     | -0.5     | 2.8          |      |  |
| Taiwan TWI              | 21,147.2    | 2.2      | 17.9         |      |  |
| Thailand SET            | 1,370.4     | -0.2     | -3.2         |      |  |
| Argentina MERV          | 1,477,795.0 | 1.9      | 59.0         |      |  |
| Brazil Bovespa          | 12,027.6    | -1.1     | -4.6         |      |  |
| Mexico IPC              | 57,465.2    | 0.7      | 0.1          |      |  |
| Egypt EGX 30            | 25,316.1    | -2.6     | 1.7          |      |  |
| Kenya KSE               | 3,000.0     | -0.5     | 7.8          |      |  |
| Saudi Arabia Tadawul    | 12,143.2    | -2.9     | 1.1          |      |  |
| South Africa JSE AS     | 70,201.6    | 2.8      | 3.2          |      |  |
| World dev't MSCI        | 3,435.2     | 1.2      | 8.4          |      |  |
| Emerging markets MSCI   | 1,081.0     | 1.3      | 5.6          |      |  |

US corporate bonds, spread over Treasuries

|                  | Basis points | latest | 2023 |
|------------------|--------------|--------|------|
| Investment grade | 103          | 154    |      |
| High-yield       | 358          | 502    |      |

Sources: LSEG Workspace; Standard & Poor's Global Fixed Income Research. <sup>Total</sup> return index.

The Economist

## Commodities

*The Economist* commodity-price index

| 2020=100               | May 7th | May 14th* | % change on |      |
|------------------------|---------|-----------|-------------|------|
|                        |         |           | month       | year |
| <b>Dollar Index</b>    |         |           |             |      |
| All Items              | 137.5   | 136.0     | 1.0         | 8.6  |
| Food                   | 146.3   | 143.3     | -1.0        | 2.7  |
| <b>Industrials</b>     |         |           |             |      |
| All                    | 130.2   | 129.9     | 3.0         | 14.6 |
| Non-food agriculturals | 134.2   | 133.1     | -0.7        | 19.5 |
| Metals                 | 129.2   | 129.1     | 4.0         | 13.3 |
| <b>Sterling Index</b>  |         |           |             |      |
| All items              | 140.8   | 138.8     | -0.1        | 7.8  |
| <b>Euro Index</b>      |         |           |             |      |
| All items              | 145.8   | 143.5     | -0.8        | 9.0  |
| <b>Gold</b>            |         |           |             |      |
| \$ per oz              | 2,316.6 | 2,350.8   | -1.5        | 17.6 |
| <b>Brent</b>           |         |           |             |      |
| \$ per barrel          | 83.2    | 82.4      | -8.7        | 9.9  |

Sources: Bloomberg; CME Group; Fastmarkets; FT; LSEG Workspace; LME; NZ Wool

Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; Urner Barry; WSJ.

\*Provisional.

The Economist

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# Obituary

- [Shirley Conran wrote a bonkbuster to teach schoolgirls about sex](#)

**Obituary** | Life is too short to stuff a mushroom

## Shirley Conran wrote a bonkbuster to teach schoolgirls about sex

*The author and campaigner for maths education died on May 9th, aged 91*

May 16th 2024



The Times/News Licensing

Did it excite her? That was what people always wanted to know. They meant sexually, of course, though they didn't dare to use that word. Did it excite her to write sex scenes? They all seemed to think that she was panting over her keyboard. Certainly Dame Shirley Conran wrote a lot about sex. And she did dare to use the word "sexual"—and indeed "panting". Not to mention "gasping", "throbbing" and "writhing". But she didn't find it arousing: she was too busy concentrating on her spelling.

People always asked her about sex. Afterwards, when "Lace", her most famous book, had become an international bestseller and a TV series, and the word "bonkbuster" had entered the dictionary, people started treating her as

an authority. When “Fifty Shades of Grey” came out, they asked her if she liked it. Not much, was the answer: it was 200 pages before there was any proper sex; 100 before the heroine even got whacked on the bottom by a hairbrush. But it did make its author, E.L. James, an awful lot of money, which she liked. She loved to see any woman making money.

Money, not sex, was what mattered to her in the end. Money and improving women’s lives. Everything she wrote, she wrote to help women. She wrote the feminist manifesto “Superwoman” to help women cope with housework (because “Life is too short to stuff a mushroom”). She wrote “Money Stuff” to help them cope with finances (because “Life is too short to be short of money”). And she wrote “Lace” to help schoolgirls better understand sex (because life was certainly too short for bad sex). People used to see her as a stockings-and-suspenders sort of writer. In truth she was a bluestocking one: her damehood was awarded for services to mathematics education.

Her own education had been appalling. At 15 she had been sent to finishing school in Switzerland which gave her social finish and perfect diction (she always pronounced “sexual” as “seksual”) but also finished off any prospects of a proper job. When, aged 19, her angry, alcoholic father kicked her out of the house she realised that she was completely unqualified for anything. After two months she had collapsed from malnutrition. Chastened, her mother started to slip her a few pounds a week, which didn’t pay for much, so she lived on leeks. Soon she had lost enough weight to work as a model, then used the money to go to art school in Chelsea. She would always retain a certain fondness for leeks.

It was there that she met her husband, Terence Conran, who later became a designer who advocated such avant-garde things as minimalist wood and metal chairs, using test-tubes as spice racks and putting single-stemmed flowers in vases. At first she’d thought he was gay. Quite a lot of people thought Terence was gay. In fact, he was not at all gay. The affairs started quickly. Suspecting the secretary, Shirley gave her some fancy Roger & Gallet carnation soap for Christmas. If Terence returned smelling of it, that would be proof. He did; it was; they divorced. She shared that one with women, too: TOP TIP! To catch a philanderer...

The day she got divorced was the day she realised the importance of money. She was 30 years old with no job, no money and two children. She started to work as a journalist; then she started to write books. First “Superwoman” then, a few years later, “Lace”. She hadn’t planned to write a bonkbuster. She had planned to write a sexual manual for schoolgirls. Girls were being *swamped* by sex in those days, but it was all controlled by men. The publishers, editors and film-makers—all men. It was so bewildering for girls. Their ignorance was abysmal. What went where? What should it feel like? Should they save up for a “Brazilian”? Or was that a cake?

To prepare, she did 18 months of research. But then she got bored by it—and by women’s fantasies. So many British women seemed to want to be ravished by a schoolmaster in a cornfield. She was a Virgo, far too practical for that sort of thing: imagine, all those bits, sticking in your bum! She also had another, very practical, thought: she realised that schoolgirls would never read a clinically correct, irreproachable book about sex that adults felt they should read. So she decided to write a clinically correct, highly reproachable book that they shouldn’t. “Lace” was born.

It was an instant, international bestseller, smuggled around schools like contraband in brown paper bags. “Throbbing” was the least of it. There was also that infamous scene with the olive oil (which—ever the homemaker—she observed made an awful mess of the sheets). And an even more infamous scene with a goldfish. The only thing she didn’t get in was the word “masturbate”. Her editor felt the world wasn’t ready for it; she had to use a euphemism instead. That, she felt, was the last taboo.

She did get away with other things, though. She gave one of her heroines a husband called Toby. Toby was an avant-garde architect who liked minimalist metal chairs, single-stemmed flowers in chemistry beakers—and putting on stockings, suspenders and lipstick. In the afterword, she noted that Terence had paid a lawyer to read the whole book to see if she had libelled him. What struck her was less his suspicion than his commission. Imagine being paid to read “Lace” for ten hours! Nice work if you can get it.

She always noticed people’s jobs. In truth, as readers would later point out, the real pornography in “Lace” was not sexual but professional. It is a book that ogles offices, that thrills to the sight of women sitting in meetings, or

popping their notebooks into their Gucci handbags, or strolling round a French chateau that they have decorated with their own money and skill.

Things were changing for women and for her. After “Lace” became a bestseller, she bought her own tenth-century chateau and took to travelling by Concorde. And when the 30th-anniversary edition came out, they even let her have that word in it. It was so nice to have the proper verb. The world, she felt, was getting better for women. Now that did excite her. ■

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# The Economist

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IS AMERICA  
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