
The Economist
Why the AI crash is good news
A federal-spending freak-out
Could Trump and Xi divide up the world?
How covid boosted America's murder rate
FEBRUARY 1ST–7TH 2025
The revolt against regulation



February 1st 2025

- The world this week
- Leaders
- Letters
- Briefing
- United States
- The Americas
- Asia
- China
- Middle East & Africa
- Europe
- Britain
- International
- Business
- Finance & economics
- Science & technology
- Culture
- Economic & financial indicators

- **Obituary**

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The world this week

- Politics
- Business
- The weekly cartoon
- This week’s covers

The world this week

Politics

January 30th 2025



Goma, the largest city in the east of the **Democratic Republic of Congo**, fell to M23, an armed group backed by **Rwanda**. The capture of Goma marks a stunning escalation of hostilities between Paul Kagame, Rwanda's president, and his country's much larger neighbour. African and Western diplomats have roundly condemned the attack but are unlikely to force Mr Kagame to reverse course. The incursion raises the risk of a wider conflict in the region, which suffered two devastating wars between 1996 and 2003.

Burkina Faso, **Mali** and **Niger** left the Economic Community of West African States, Africa's main regional bloc, and unveiled a common passport for their Alliance of Sahel States. The trio of military regimes claim they left ECOWAS because it failed to help them fight jihadists. But the more likely reason is their desire to escape pressure to hand power back to civilian governments.

Israel opened part of the Netzarim corridor into northern **Gaza** to allow displaced Palestinians to return to what remains of their homes. It opened the route 48 hours later than expected after disputes with Hamas over which hostages would be released as part of the ceasefire. More than 300,000 Palestinians returned to the area, which has been devastated in the war.

Donald Trump invited Binyamin Netanyahu to visit the White House. The **Israeli prime minister** is the first foreign leader to be invited during Mr Trump's second term. Mr Trump also resumed shipments of 2,000lb (907kg) bunker-buster bombs to Israel. Deliveries were suspended under Joe Biden last year.

A law banning activity by UNRWA, the UN's agency for Palestinians, on Israeli soil came into effect. The Israeli government says UNRWA is complicit with Hamas and that some of its employees took part in the massacres of October 7th. It is unclear how the ban will affect UNRWA's activities in Gaza or the West Bank.

Ahmed al-Sharaa, **Syria's** de facto ruler since the ousting of Bashar al-Assad, declared himself the country's interim president. He also announced the dissolution of Mr Assad's Baath party and the formation of a legislative council to govern Syria until a new constitution can be agreed.

An **American Airlines flight** from Wichita carrying 64 people crashed into the Potomac river by Washington, DC. The plane collided with an army Black Hawk helicopter that had three people on board. Roger Marshall, a senator from Kansas, described the "unbearable sorrow" of many people dying.

Confusion reigned in Washington after the **White House** issued and then retracted a memorandum that aimed to freeze trillions of dollars in federal loans and grants. A judge had suspended the edict. Separately, most federal workers were given the option of resigning with eight months' pay. The State Department, meanwhile, seemed to back away a little from an earlier announcement to pause nearly all **foreign-aid spending**.

The Senate held **confirmation hearings** for Robert F. Kennedy junior as Donald Trump's health secretary. Earlier, Pete Hegseth was confirmed as secretary of defence. The Senate was split 50-50 on confirming him, forcing J.D. Vance, the vice-president, to cast his tie-breaking vote in favour of Mr

Hegseth. It was only the second time ever that a tie-breaker has been needed for a cabinet appointment.

The **Justice Department** fired a dozen lawyers who had worked on the two criminal investigations into Mr Trump during Joe Biden's presidency. A spokesman said they could not be trusted to implement the new president's agenda. The head of the department's public-integrity section decided to step down.

Robert Menendez, a former Democratic senator from New Jersey, was sentenced to 11 years in prison for accepting bribes and acting as a foreign agent for Egypt. After the conviction was read out, Mr Menendez seemed to make an appeal to Mr Trump to pardon him, saying the president could restore "integrity" to the justice system. In 2017 Mr Menendez was tried for corruption in a separate case, but the jury couldn't reach a verdict.

Hardball diplomacy

Mr Trump threatened to impose stiff tariffs on **Colombia**, after the country's leftist president, Gustavo Petro, said he would not allow American military planes carrying Colombians deported from the United States to land. Mr Petro soon backed down and offered his presidential plane to transport the migrants. Mr Trump lifted the threat of tariffs and the first migrants arrived back in Bogotá, Colombia's capital, on Colombian military aircraft.

South Korea's president, Yoon Suk Yeol, was officially charged with insurrection over his order in December that briefly imposed martial law. A former defence minister and several security chiefs have been similarly charged. Mr Yoon's separate impeachment trial is being heard by the Constitutional Court.

Dozens of people were killed in a stampede at the Maha Kumbh Mela religious festival in northern **India**. Hundreds of millions of Hindus attend the six-week event attempting to take a ritual dip in waters that are considered sacred.

The **German** parliament passed non-binding measures to restrict migration, including the automatic refusal of entry to illegal migrants. The proposals

were put forward by Friedrich Merz, the leader of the Christian Democratic Union parliamentary bloc, which is on track to win the forthcoming general election. Mr Merz sparked outrage by turning to the Alternative for Germany (AfD) to help pass his measures, breaking a long-standing convention of snubbing the hard right.

Estonia and Lithuania promised to increase their spending on defence to more than 5% of GDP, a level that Donald Trump has called on NATO countries to aim for. A NATO summit in June is likely to raise spending targets for its members above the current 2% of GDP.

Milos Vucevic resigned as prime minister of **Serbia**, following weeks of protests over the collapse of a railway-station roof in Novi Sad, the country's second-biggest city, which killed 15 people. The roof collapsed after renovations that were carried out by a Chinese-led consortium. The fall of Mr Vucevic is a blow to Aleksandar Vucic, Serbia's president.

Alexander Lukashenko doesn't have to worry about democratic accountability. He was re-elected for a seventh term as president of **Belarus** with 87% of the vote in another sham election. The Kremlin congratulated Mr Lukashenko on his "solid victory". Poland's foreign minister mocked the result, and wondered if there would be room in prison for the 13% who voted for other candidates.

Never forget



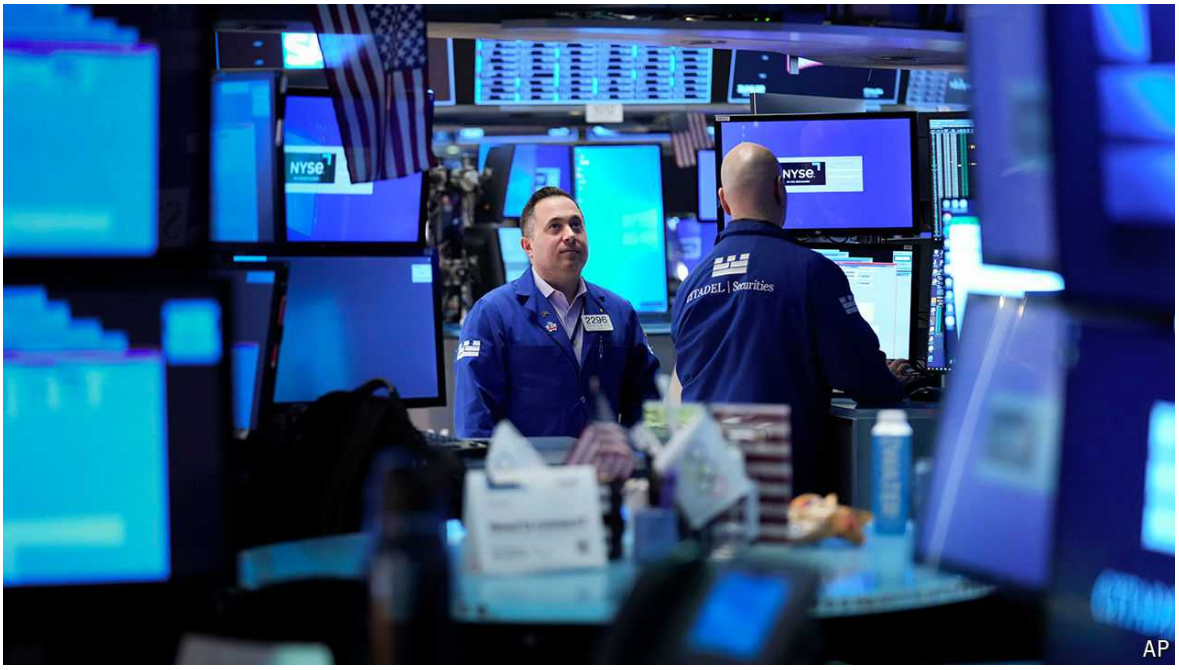
The remaining survivors of the **Auschwitz** death camp commemorated the 80th anniversary of its liberation. The Nazis murdered 1.1m people at the camp, 1m of whom were Jewish; 6m Jews were killed in the Holocaust overall. Several world leaders attended the commemorative event, including Emmanuel Macron, Volodymyr Zelensky, Olaf Scholz and King Charles. None made a speech; that was left for the survivors to do. Surveys in various countries have revealed a lack of awareness about what happened during the Holocaust, especially among younger people.

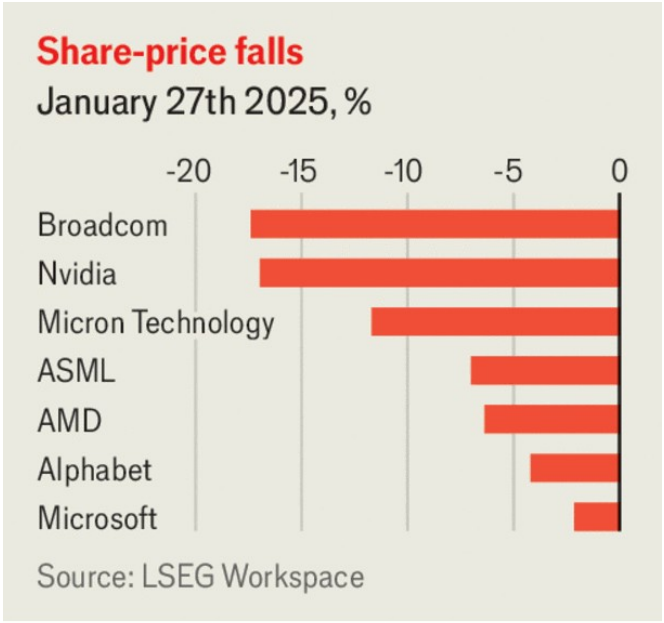
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The world this week

Business

January 30th 2025





The Economist

America's tech companies clawed back some of the losses from the stockmarket rout that accompanied news that **DeepSeek**, a Chinese generative artificial-intelligence firm, was seeing the same results as models from Western rivals, but with a fraction of the computing power and thus at a much lower cost. DeepSeek's chatbot surged to the top of Apple's iPhone download charts. Its success overturns the idea that companies have to spend huge sums on AI to stay ahead, which has been powering the stockmarket enthusiasm for all things AI-related. American tech companies lost $1trn in value over a single day, led by Nvidia, which shed $589bn of its market capitalisation, or 17% of its share price.

Adjusting profits

Investors were left disappointed by **Microsoft's** earnings, as revenue from its cloud business came in below expectations and it reported a big jump in capital spending. **Meta's** results were more pleasing and Mark Zuckerberg promised to spend "hundreds of billions" on AI. Orders for ASML's equipment for making high-end AI chips far exceeded expectations. The Dutch company's share price rallied and its chief executive described the advent of DeepSeek as "good news" for the chip industry.

Tesla's fourth-quarter revenue and profit missed Wall Street estimates. Elon Musk promised that the carmaker's investments in AI and robotics would bear fruit in 2025. Meanwhile, Tesla filed a lawsuit at the European Court of Justice over the EU's extra tariffs on imports of electric vehicles from China, which were imposed last October. About a fifth of EVs sold in the EU are made in China.

Charges related to the write-down of its Chinese joint ventures and a restructuring charge in China dragged down **General Motors'** annual net profit, to $6bn. But the carmaker's adjusted operating profit rose to $14.9bn, a record for the company.

Japan's central bank lifted interest rates for the first time since July and the third increase since ending its negative-rate policy last March. The **Bank of Japan** increased its main rate from 0.25% to 0.5%, the highest it has been since the global financial crisis, and revised up its inflation forecast. The

bank's governor, Ueda Kazuo, suggested that more interest-rate rises were on the way, without saying when.

The **Federal Reserve** kept its benchmark interest rate on hold at a range of between 4.25% and 4.5%. America's annual inflation rate has been steadily rising since September and the jobs market remains strong, factors that make the Fed wary of cutting rates. The path ahead is complicated by the uncertainty surrounding Donald Trump's policies: higher tariffs will only add to inflationary pressures. The president has made it clear that he wants interest rates to fall. After the Fed left rates unchanged he turned to social media to tear into its record.

The **European Central Bank** cut interest rates again, lowering the deposit facility from 3% to 2.75%. Shortly before the announcement figures showed that the euro area's economy unexpectedly registered zero growth in the fourth quarter of 2024 compared with the third quarter. German GDP shrank by 0.2%.

Canada's central bank also reduced its main rate, to 3%, the sixth consecutive cut. "We have a lot uncertainties out there," said Tiff Macklem, the Bank of Canada's governor, "We don't know what the US is going to do" regarding trade.

A little under 4.1m previously owned houses were sold in America last year, according to the National Association of Realtors. With mortgage rates remaining high, it was the lowest number of existing-home sales since 1995. Underlining the increasing lack of accessibility to the **property market** for many Americans, the median existing-home price rose to a record $407,500 in 2024.

Boom Supersonic, an American startup that is planning to build a faster-than-sound airliner, flew its one-third-scale demonstrator aircraft at Mach 1.1. It was the first non-military supersonic flight since Concorde was grounded in 2003.

Boeing's net loss in 2024 amounted to $11.8bn. The company had a horrendous year, which began with a panel falling off a 737 MAX shortly after

take-off. That led to investigations of Boeing's production process, which curtailed its output. It also endured a six-week labour strike.

Rachel Reeves, **Britain's** chancellor of the exchequer, outlined plans to boost economic growth, including investing in a research triangle linking London, Oxford and Cambridge. She also backed plans for a third runway at Heathrow airport, though planes won't land there any time soon. A third runway has been under discussion for decades.

The money programme

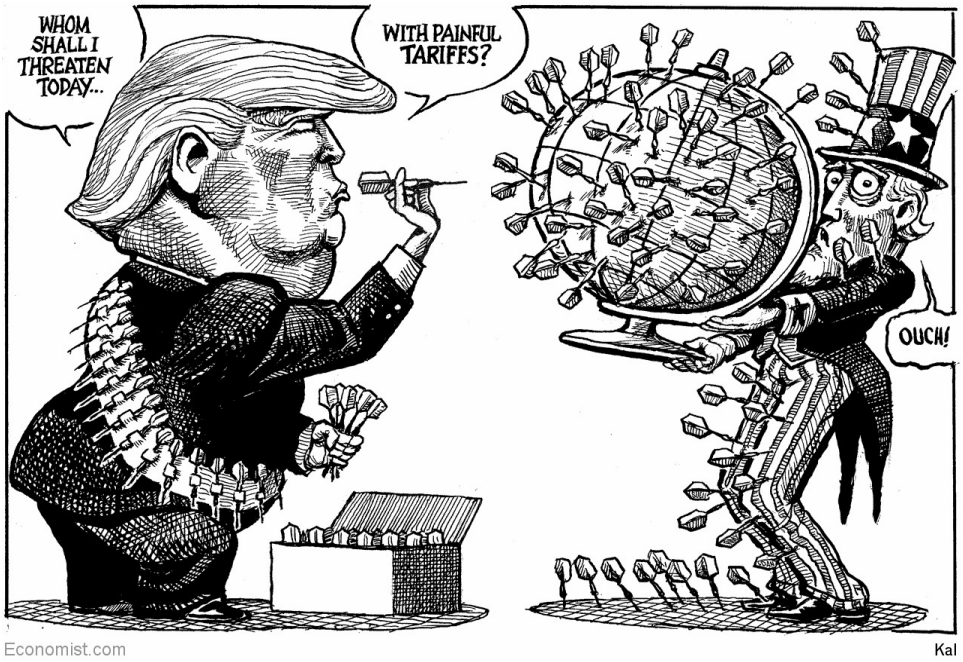
Reports emerged that the British government is considering extending the **"licence fee"** that funds the BBC to users of streaming services such as Netflix and Disney+. The licence fee is a tax on households that own a television or any other device that broadcasts live programming. Households that view only Netflix and the like have been exempt. But the BBC needs its money. Another proposal is to tax streaming directly, raising the prospect of "Squid Game 2" subsidising "EastEnders".

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The world this week

The weekly cartoon

January 30th 2025



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

Despite fears of a global tax war, Donald Trump has a chance to make peace
Donald Trump turns an angry gaze south
By cutting off assistance to foreigners, America hurts itself

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

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This week's covers

How we saw the world

January 30th 2025

A REVOLT AGAINST red tape is sweeping much of the world. President Donald Trump is determined to deregulate America's economy. From Buenos Aires and Delhi to Brussels and London, many other leaders share his desire to get rid of rules that strangle their economies. Even Vietnam's Communists have a plan to shrink the bureaucracy. Done right, the anti-red-tape revolution could usher in greater freedom, faster economic growth, lower prices and new technology. But Mr Trump's impulse to demolish essential functions of government before reinstating the ones he likes risks giving deregulation a bad name. The question is how to make reform bold enough to count, but coherent enough to succeed. One example to follow is Argentina. Javier Milei, the president, came into office having spent 18 months working out how to extract the government from areas where it did not belong. Once in power, he wasted no time in using bold strokes to reset expectations about the economy. His example can help Europe and America get deregulation right.



Leaders: Around the world, an anti-red-tape revolution is taking hold
Briefing: Many governments talk about cutting regulation but few manage to
United States: Donald Trump goes to war with his employees

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Leaders

- Around the world, an anti-red-tape revolution is taking hold
- By cutting off assistance to foreigners, America hurts itself
- The real meaning of the DeepSeek drama
- How to use “maximum pressure” to stop an Iranian bomb
- Rwanda does a Putin in Congo
- Despite fears of a global tax war, Donald Trump has a chance to make peace

Leaders | Sticky tape

Around the world, an anti-red-tape revolution is taking hold

Done right, deregulation could kick-start economic growth

January 30th 2025



IN HIS OWN inimitable style, President Donald Trump has identified something he dislikes and approached it with a wrecking-ball. Deprived of American funding by an executive order, aid programmes around the world are on the brink of collapse. But for the intervention of a judge at the 11th hour on January 28th, large parts of America's federal government might have suffered a similar fate.

However, when it comes to another kind of cutting—of rules, rather than spending—Mr Trump is part of a global trend. From Buenos Aires and Delhi to Brussels and London, politicians have pledged to slash the red tape that entangles the economy. Javier Milei has wielded a chainsaw against Argentine regulations. Narendra Modi's advisers are quietly confronting

India’s triplicate-loving babus. Rachel Reeves, Britain’s chancellor, plans to overhaul planning rules and expand London’s Heathrow Airport. Even Vietnam’s Communists have a plan to shrink the bureaucracy.

Done right, the anti-red-tape revolution could usher in greater freedom, faster economic growth, lower prices and new technology. For years excessive rules have choked housebuilding, investment and innovation. But Mr Trump risks giving deregulation a bad name. His impulse to start by demolishing essential functions of government before reinstating the ones he likes is a formula for human misery and economic harm. The question is how to make reform bold enough to count, but coherent enough to succeed.

- Many governments talk about cutting regulation but few manage to
- Even in India, bureaucracy is being curtailed
- Donald Trump goes to war with his employees

Ambition is needed because of the sheer quantity of today’s rules. As our Briefing sets out, Americans spend a total of 12bn hours a year complying with federal rules, including those on marketing and selling honey, and following standards on the flammability of children’s pyjamas. The federal code runs to 180,000 pages, up from 20,000 in the 1960s. In the past five years the European Parliament has enacted more than twice as many laws as America. Businesses are required to make painstaking sustainability disclosures, filling in more than a thousand fields on an online form—an undertaking that is estimated to cost a typical firm in Denmark €300,000 ($310,000) every year. In Britain, well-meaning rules protecting bats, newts and rare fungi combine to obstruct, delay and raise the cost of new infrastructure.

This proliferation of red tape reflects how the world is changing. The rise of the internet means that countries need codes to protect people from online scams; the warming planet demands rules to limit carbon emissions. Governments, petitioned by interest groups, often find it convenient to load the cost of compliance onto others. After the global financial crisis dented faith in capitalism, trusting the market to encourage good behaviour has seemed naive. Voters have also sought more regulation. As they have grown

older and richer, they have more to lose and have called on governments to protect their backyards and their nest eggs.

The trouble is that, even as particular groups benefit from each rule, society at large bears its costs. In much of the rich world getting anything built has become a daunting task, keeping house prices high. Highway projects suffer cost overruns and delays as they contend with endless judicial reviews. Proposals to dig mines in America, even for the metals needed for the energy transition, spend nearly a decade in permitting hell. Over-regulation most hurts small businesses, which lack compliance departments, deterring innovative newcomers from setting up shop. Incumbents, meanwhile, feel less incentive to invest because they know they are sheltered. And rules beget rules, as regulators find new things to regulate. Lumbered by regulation and ageing populations, economic growth and productivity in the rich world have slowed to a crawl.

That is why deregulation is so important. You need only look at history to see that it can be a magic potion which peps up the animal spirits. Margaret Thatcher's Britain, India in the early 1990s and southern Europe in the 2020s all sped ahead after their leaders undertook pro-market reforms. Under Mr Milei, Argentina is growing again; deregulation has brought the prices of some imports down by fully 35%.

This is a rare moment when politicians of all stripes have got religion. On the right over-regulation has sparked a backlash that prizes economic freedom. On the left politicians have realised that, with high interest rates and towering public debt, rapid growth is the only way to make welfare states affordable.

Yet the path ahead is strewn with pitfalls. The conundrum is how to be bold without being reckless. If Mr Trump and his advisers persist in slashing indiscriminately at the state, firing workers and freezing federal loans and grants in the belief that this will unshackle the economy, they are making a grave mistake. Rules and government are essential in any society. Redistribution makes America fairer, and so more stable. Without rules on food safety, road markings or bank capital, and the bureaucrats to enforce them, life would be shorter and less secure.

Elsewhere the danger is timidity, especially in slow-growth Europe, which sorely needs its own Department of Government Efficiency (DOGE) to cut back the bureaucratic undergrowth. That will require political courage. Each piece of deregulation brings small benefits to many, but imposes larger losses on a concentrated few, so reforms are often stymied by incumbent businesses, trade unions or environmentalists. No wonder then that, by the IMF's reckoning, half of all electricity and labour-market reforms for older workers discussed in the rich world over the past 30 years were never implemented.

Sticky tape

One example to follow is Argentina. Mr Milei's team came into office having spent 18 months working out how to extract the government from areas where it did not belong. Once in power, they wasted no time in using bold strokes to reset expectations about the economy. Europe needs DOGE-type ambition, while America needs Milei-type preparation. The danger is that neither will get this right. ■

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Leaders | Scorn thy neighbour

By cutting off assistance to foreigners, America hurts itself

Donald Trump's chaotic aid freeze makes his country weaker

January 30th 2025



FOREIGN AID is easy to decry. Money is often wasted or stolen. Its benefits are hard to see. And giving money to foreigners means less for voters at home. That makes it an ideal target for the America First president, Donald Trump.

But when so much assistance to so many of the world's needy disappears overnight, as it did when the State Department ordered almost all aid to be cut on January 24th, the harm was visible everywhere. Clinics closed their doors; antiretroviral drugs to treat those infected with HIV dried up; work on controlling other viruses ceased; the clearing of land-mines stopped; support for refugees evaporated. The American-backed camps holding captured

Islamic State fighters in Syria won a two-week waiver to keep receiving funds, which is only somewhat reassuring.

All this was a gift for China as it vies with America for soft-power supremacy. Why would an American president, even one so careless as Mr Trump, so wantonly damage his country's interests? One reason is public opinion. Americans think that foreign aid gobbles up a massive 25% of the federal budget, polls say. The real figure is closer to 1% ($68bn in 2023, not counting most aid to Ukraine). That's a very modest 0.25% of GDP.

A new administration is right to review spending, but a responsible one would start by doing no harm. Given that America supplies 40% of all humanitarian aid, it would let work continue while officials assessed what to extend, change or scrap. The Trump administration did it backwards: first halting assistance, then deciding case by case what should resume after 90 days. The ensuing shambles was predictable. Marco Rubio, the secretary of state, had to backtrack within four days. He announced a broad exemption for "life-saving humanitarian assistance"—though what this means is unclear.

The resulting chaos may have several explanations. One is that it was unintended. Mr Trump often appoints officials for their loyalty, not their competence. Many jobs remain unfilled. Or his people may be keen to show their zeal. Mr Trump's executive order told departments to pause "new obligations and disbursements of development assistance". Mr Rubio went further, also stopping existing programmes, including humanitarian and security projects as well as economic development.

Ideology may be to blame, too. The administration is using shock and awe to root out "woke" thinking and crush the deep state. Perhaps it wants to show that America First means what it says: that the world comes second. And perhaps Mr Trump relishes a burst of chaos. In an anarchic world the strong prevail, and nowhere is stronger than America.

The real explanation probably involves a mix of all these elements. It makes for erratic and callous policymaking. As with the demonisation of migrants at home, inflicting cruelty abroad may be an objective in itself.

A late convert to America First, Mr Rubio wants it to shape foreign policy. He says foreign states have abused the American-made order "to serve their interest at the expense of ours". And he insists that every dollar disbursed must make America safer, stronger or more prosperous.

This week he learned about unintended consequences. Risking a mass breakout of jihadists makes America less safe. Causing misery alienates friends and potential allies, making America weaker. And a poorer world will ultimately make America poorer, too. American generosity is not just charity. Foreign aid that creates a more stable and richer world is in America's greatest interest. Call it America First if you like. ■

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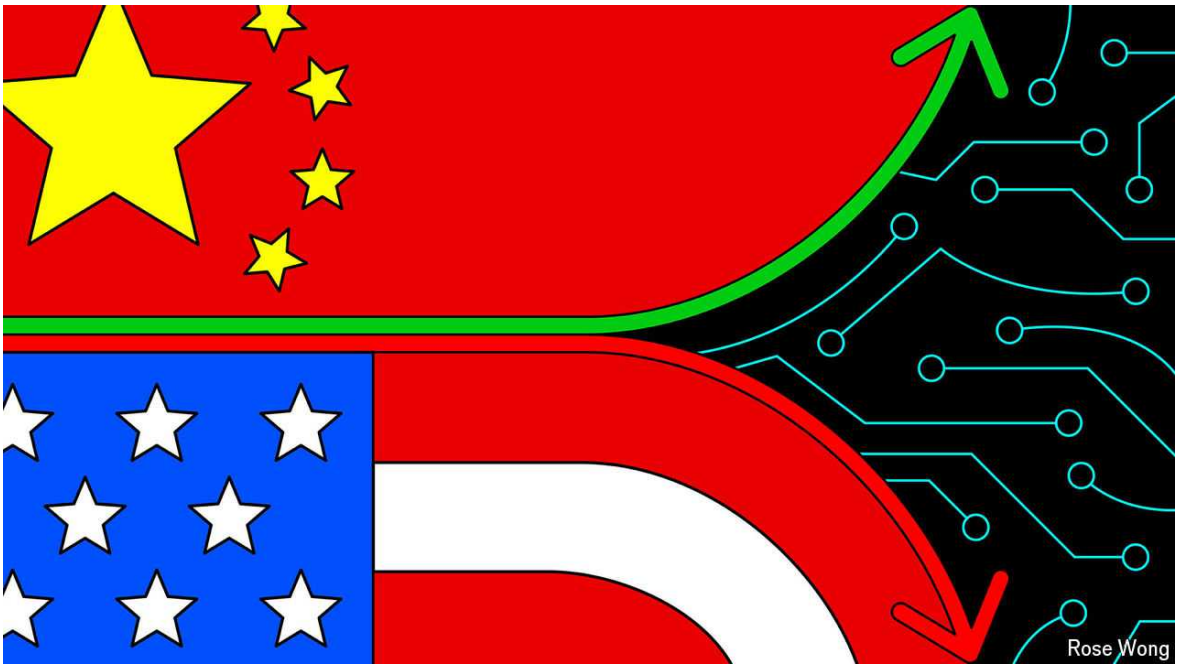
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Leaders | Seek and ye shall find

The real meaning of the DeepSeek drama

The Chinese model-maker has panicked investors. But it is good for the users of AI

January 29th 2025



The market reaction, when it came, was brutal. On January 27th, as investors realised just how good DeepSeek's "v3" and "R1" models were, they wiped around a trillion dollars off the market capitalisation of America's listed tech firms. Nvidia, a chipmaker and the chief shovel-seller of the artificial-intelligence (AI) gold rush, saw its value fall by $600bn. Yet even if the Chinese model-maker's new releases rattled investors in a handful of firms, they should be a cause for optimism for the world at large. DeepSeek shows how competition and innovation will make AI cheaper and therefore more useful.

DeepSeek's models are practically as good as those made by Google and OpenAI—and have been produced at a fraction of the cost. Barred by American export controls from using cutting-edge chips, the Chinese firm undertook an efficiency drive, even reprogramming the chips it used to train the model to eke out every drop of power. The cost of building an AI model that can stand toe-to-toe with the best has plummeted. Within days of its release, DeepSeek's chatbot was the most downloaded app on the iPhone.

- DeepSeek sends a shockwave through markets
- Chinese AI is catching up, posing a dilemma for Donald Trump
- Why Chinese AI has stunned the world

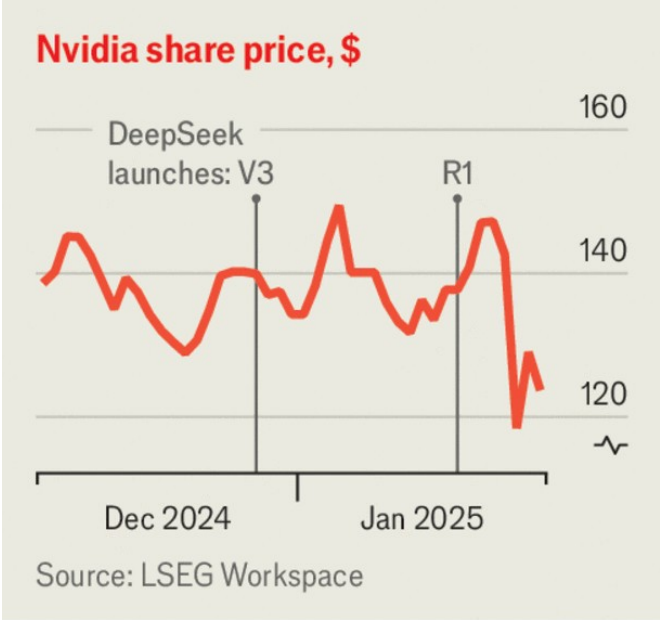
The contrast with America's approach could not be starker. Sam Altman, the boss of OpenAI, has spent years telling investors—and America's new president—that vast sums of money and computing power are needed to stay at the forefront of AI. Investors have accordingly been betting that a handful of firms stand to reap vast monopoly-like rents. Yet if fast followers such as DeepSeek can eat away at that lead for a fraction of the cost, then those potential profits are at risk.

Nvidia became the most valuable listed company in the world thanks to a widespread belief that building the best AI required paying through the nose for its best chips (on which its profit margins are reported to exceed 90%). No wonder DeepSeek's success led to a stockmarket drubbing for the chipmaker on January 27th. Others in the data-centre business are also licking their wounds, from Siemens Energy (which would have built the turbines to power the build-out) to Cameco (which would have provided the uranium to fuel the reactors to turn the turbines). Had OpenAI been listed, its stock would surely have taken a tumble as well.

Yet there are far more winners than losers from the DeepSeek drama. Some of them are even within tech. Apple will be cheering that its decision not to throw billions at building AI capabilities has paid off. It can sit back and pick the best models from a newly commoditised selection. Smaller labs, including France's Mistral and the Emirati TII, will be racing to see if they can adopt the same improvements, and try to catch up with their bigger rivals.

Moreover, efficiency gains are likely to result in greater use of AI. The Jevons paradox—the observation that greater efficiency can lead to more, not less, use of an industrial input—may come into play. The possible applications for a language model with computing costs as cheap as DeepSeek's ($1 per million tokens) are vastly more numerous than those for Anthropic's ($15 per million tokens). Many uses for cheaper AI are as yet unimagined.

Even Nvidia may not suffer too much in the long run. Although its market clout may be diminished, it will continue to sell chips in vast quantities. Reasoning models, including DeepSeek's R1 and OpenAI's o3, require much more computing power than conventional large language models to answer questions. Nvidia will be hoping to supply some of that.



The Economist

However, the real winners will be consumers. For AI to transform society, it needs to be cheap, ubiquitous and out of the control of any one country or company. DeepSeek's success suggests that such a world is imaginable. Take Britain, where Sir Keir Starmer, the prime minister, has unveiled a plan to use AI to boost productivity. If he does not need to pay most of the efficiency gains back to Microsoft in usage fees, his proposal has a better chance of success. When producers' rents vanish, they remain in the pockets of users.

Some have begun to suggest that DeepSeek's improvements don't count because they are a consequence of "distilling" American models' intelligence into its own software. Even if that were so, R1 remains a ground-breaking innovation. The ease with which DeepSeek found greater efficiency will spur competition. It suggests many more such gains are still to be discovered.

For two years the biggest American AI labs have vied to make ever more marginal improvements in the quality of their models, rather than models that are cheap, fast and good. DeepSeek shows there is a better way. ■

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Leaders | Dealmaking in the Middle East

How to use “maximum pressure” to stop an Iranian bomb

The Islamic Republic is closer than ever to obtaining nukes

January 30th 2025



AT HOME AND abroad, Iran is in trouble. In the space of less than a year, the country has lost one president, three allies (the leaders of Syria, Hamas and Hizbullah), several missile-production sites and all its best air-defence systems. It has a moribund economy, a growing energy crisis and a restive population. Small wonder the regime is relying on one of the few arrows left in its quiver—its nuclear programme.

The Islamic Republic is closer to a bomb than ever before, as our interview with the world’s nuclear watchdog explains. Since President Donald Trump in 2018 pulled America out of a multilateral nuclear deal, the JCPOA, Iran has accumulated uranium and centrifuges that can enrich it to weapons-grade.

Last October it could enrich uranium for five bombs in about a week, if it chose to do so. Its capacity to enrich uranium to 60%, near weapons-grade, has risen five-fold since then. To have a usable weapon, it would still need to make an explosive warhead that could fit onto a missile. That could take 12-18 months.

What is to be done? Hawks in Israel's government want to bomb Iran's nuclear sites. They have already smashed Hamas and Hizbullah, Iran's proxies, whose capacity to retaliate against Israel on Iran's behalf is hugely diminished. Direct Israeli strikes against Iran in April and October were devastatingly effective, destroying a good part of its air-defence systems. Israeli spies have turned Iran's circles of power inside out. All Israel needs, they argue, is for America to supply some bunker-busting bombs and to help parry the inevitable Iranian retaliation. Why not settle the issue once and for all?

- Iran's alarming nuclear dash will soon test Donald Trump

Strikes against Iran's nuclear facilities should not be ruled out. But Mr Trump should reject entreaties for action now. An attack would be highly risky: it could cause regional mayhem, sucking in America for years. And even a sustained campaign of bombing by America would not be able to destroy Iran's nuclear know-how. Meanwhile, there is an opportunity for diplomacy. To his credit, Mr Trump seems keen to take it.

One element of this is to make a credible threat of increased sanctions and the reinstatement of the "maximum pressure" policy of his first term. This makes sense. The Biden administration foolishly turned a blind eye to Iranian oil-smuggling, emboldening the regime. Helpfully, under what remains of the JCPOA, over the next eight months the remaining Western signatories, Britain, France and Germany, can choose to trigger a reimposition of UN sanctions on Iran, turning up the heat further.

But if Mr Trump's tougher approach is to bear fruit it must have a coherent objective. Some hardliners would like to try to use economic pressure to topple the Iranian regime. That is understandable—it is a decaying theocracy, hated by many of its people and facing a looming succession

crisis. But if it is pushed into a corner, it may lash out. Right now, its leaders have not decided to make a final dash for a bomb. Mr Trump's aim should be to keep it that way.

Even as he raises the pressure, he should make clear that he will offer Iran a deal that includes sanctions relief and support for its ongoing normalisation of ties with Saudi Arabia, providing the regime meets two tests. First, a major curtailment of the nuclear programme. Any new deal would not be as comprehensive as the one signed in 2015—the International Atomic Energy Agency now has gaps in its knowledge of how Iran has produced components for its centrifuges, for instance—but it would be better than the status quo, in which the path to a bomb is shortening every day.

Second, Mr Trump should demand that Iran permanently stops stirring up so much trouble across the region. With its one formal ally overthrown (Syria's tyrant Bashar al-Assad), and its extremist friends in Gaza and Lebanon mauled, the Islamic Republic's "axis of resistance" is severely weakened. Iran will not abandon its foreign allies entirely. It has huge political sway in Iraq, and will not sever ties with its clients there. But any deal should require it to end military support for Hamas, Hizbullah and Yemen's Houthis.

This would be an ambitious agenda—a "more for more" deal, requiring each side to make more concessions than they did for the JCPOA in 2015. Iran distrusts Mr Trump, who in his first term tore up the old nuclear deal and assassinated the general who masterminded Iran's regional meddling. Mr Trump has cause to loathe Iran's rulers, who plotted to murder him in 2024, according to federal prosecutors. Still, America's president has bargaining power. The uranium is piling up. Israel is straining at the leash. And the clock is ticking. ■

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Leaders | Africa in peril

Rwanda does a Putin in Congo

To understand the seizure of Goma, consider a parallel with Ukraine

January 28th 2025



SOMETHING AWFUL is happening in Congo. A rebel group called M23 seized control of Goma, the biggest city in the east of the country, on January 27th, killing several UN peacekeepers and prompting hundreds of thousands of locals to flee. Hardly anyone outside central Africa knows who M23 are or why they are fighting. So here's a helpful analogy: Donbas.

In 2014 Vladimir Putin grabbed much of Donbas, an eastern region of Ukraine, and pretended he had not. As a figleaf he used supposedly local separatists, whom Russia armed, supplied and directed. These forces, he claimed, were protecting ethnic Russians from persecution. The Kremlin denied that the Russian army itself was on the ground assisting the rebels,

though it was. Later, after Mr Putin's full-scale invasion of Ukraine, he annexed the bogus statelets he had created.



Rwanda's dictator, Paul Kagame, has copied these tactics in eastern Congo. The M23 rebels are armed, supplied and directed by his regime. They claim to be protecting Congolese Tutsis from persecution, but the threat to them is exaggerated. M23 is in fact a proxy for Rwanda, allowing it to grab a big chunk of Congolese territory while pretending not to. Thousands of Rwandan troops have crossed into Congo to help. Rwanda denies something that observers on the ground can plainly see.

- The fall of Goma heralds more bloodshed in eastern Congo
- Rwanda's reckless plan to redraw the map of Africa
- Photo essay: The fall of Goma

All this adds to Congo's horrific turmoil. Its various conflicts have driven 8m people from their homes, including 400,000 in the past month. In much of the east, men with guns rape and plunder with impunity. Precious minerals are systematically looted; Rwanda, which mines little gold at home, has mysteriously become a large gold exporter.

The parallel between Russia and Rwanda is imperfect. Rwanda has not formally annexed any of its neighbour's land. And whereas Ukraine is a functioning democracy, Congo is chaotic. Dozens of armed groups ravage the east. Rwanda is far from the only predator, but it is the most powerful. Following the Donbas model, it has informally created something that looks a lot like a puppet state on Congolese soil. And it may not stop at Goma. Some observers worry that Mr Kagame ultimately aims to topple the Congolese government.

Rwanda's actions are not merely illegal and wrong. They are a worrying symptom of a decaying international order. The taboo against taking other people's territory is crumbling, with Mr Putin spilling rivers of blood for soil, China menacing other countries' territorial waters and now President Donald Trump talking of expanding American territory. Against such a background, it is unsurprising when other leaders conclude that imperialism is back in fashion.

Rwanda's malign behaviour in Congo is not new. M23 first seized Goma in 2012. But donors swiftly pressed Mr Kagame's regime to pull the gunmen back, and a UN peacekeeping force all but crushed the group. Now the UN is weaker in Congo. Outside powers are distracted, and Rwanda has more patrons than it did in 2012, such as China, Qatar and Turkey. Under Joe Biden, American diplomats warned Mr Kagame against adventurism, keeping him partially in check. No one knows what Mr Trump's policy is, but it probably does not involve an articulation of why "might makes right" is a recipe for misery.

Other Western governments are torn. Many have a soft spot for Rwanda. Its domestic orderliness makes it easier to run development projects there. Its soldiers serve on UN peacekeeping missions and protect French gas operations in Mozambique. Donors often give Mr Kagame the benefit of the doubt.

Enough. Rwanda is heavily aid-dependent. Donors should lean harder on it. America, which has had military ties with Rwanda, could change Mr Kagame's incentives with a phone call. Other African states should speak up, too. The alternative—to let Mr Kagame keep his Donbas—is far worse. A world in which the strong seize territory from the weak would be a scarier,

more violent place. If such a blatant breach of a country's borders is allowed to stand, there will be more of them. ■

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Leaders | Tax harmonies

Despite fears of a global tax war, Donald Trump has a chance to make peace

A global minimum tax on companies ought to be acceptable to America

January 30th 2025



That Donald Trump may unleash a global trade war is a frightening but familiar risk. Less well understood is the danger that he may also provoke a tax war. One of his first actions on returning to the White House was to warn other countries that if they adopt tax policies America dislikes, he may double tax rates on their companies and even their citizens.

This would be an extraordinary escalation of a long-running dispute over how governments tax foreign companies. After years of negotiations 136 countries agreed in 2021 to establish a global minimum corporate tax, which would make it much harder for multinationals to shift their profits to tax havens. But America is doing its best to scupper the deal. Whereas Joe

Biden's administration supported it, Republicans view it as an encroachment on Congress's taxation powers. President Trump's threat is intended to scare other countries into not implementing it.



It is easy to imagine a scenario in which the tax row blows up. Dozens of countries have already passed legislation for a global minimum, which requires them to hit any undertaxed firms, including American ones, with top-up levies. They cannot just ignore their laws to please Mr Trump. Moreover, many have also passed laws to tax companies, such as American tech giants, that provide digital services. As far as the Trump administration is concerned, the top-up taxes are extraterritorial and the digital taxes discriminatory. If it responds by doubling taxes on foreign firms and investors in America, it would invite retaliation. The same escalatory dynamic seen with tariffs would apply to taxes.

But things need not be so dire. What has the makings of a big, messy dispute could, if well managed, turn into a rare example of international co-operation with Trumpian characteristics.

Start with the dog that did not bark. Some hardliners in the Republican Party had wanted Mr Trump to go even further, by withdrawing America from the OECD, the club of mostly rich countries that is managing the global-minimum-

tax deal. That Mr Trump refrained from doing so suggests that his administration is still looking for a solution to the tax row in concert with other countries.

In part this willingness reflects the underlying reality of taxation: all countries have a right to tax business activity within their borders. Were the Trump administration to go totally rogue, American companies would be badly exposed in their dealings abroad. Foreign governments arguably have greater leverage over America in the domain of taxation than they do via tariffs. America's biggest firms are generally not major exporters of made-in-USA products (much to Mr Trump's chagrin), which insulates them from targeted tariffs. But they bestride the globe through networks of subsidiaries, leaving them vulnerable to taxation.

Another reason for compromise is that America's tax system is already tough on companies. Asked why they base their businesses in America, bosses seldom gush about the Internal Revenue Service. Even if Mr Trump succeeds in cutting corporate tax rates, America's overall tax regime will still be stricter than that prescribed by the OECD deal. In fact during Mr Trump's first term America imposed its own version of a minimum tax on firms' international earnings, helping inspire the effort to create a global standard.

All of this suggests that there ought to be enough wriggle room to find a deal that works for both America and the world. Other countries ought to recognise that the American corporate tax system, with a few tweaks to rates and coverage, is good enough. Republicans will have to recognise that an international agreement is not a terrible infringement on American sovereignty but a sensible approach to tax avoidance, which hurts America as much as other countries. Multinational companies, primed to fight every little tax increase, should recognise that a global minimum would not do much damage to their bottom lines—and would certainly be far less harmful than endless clashes between countries that layer taxes on top of tariffs. For Mr Trump it is a rare opportunity to be the author not of conflict but of an economic peace deal. ■

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Letters

- Letters to the editor

Letters | On Russian speakers in Ukraine, standing ovations

Letters to the editor

A selection of correspondence

January 30th 2025



Letters are welcome via email to letters@economist.com

Speaking Russian in Ukraine

Imagine, for a moment, a respected British publication printing this: “Indian politicians are struggling to Indianise Bombay (which they spell as Mumbai) and to make it fit into their decolonisation law.” Scandalous. And yet, there it was in *The Economist*, levelled not at India but at Ukraine (“Cancel culture in Ukraine”, December 21st) .

I am a Russian-speaking Ukrainian. Your article claims to speak for people like me. Thanks, but no thanks. The last thing I need is a sanctimonious

lecture on how “Russian is not only the language of the aggressor, it is also the language of the victim.” It may very well be, but it is the language of the murderous aggressor first and foremost. It is the language of the empire, which denied Ukraine nationhood and suppressed Ukrainian culture for decades. Moscow is now trying to re-colonise the land, no cost is too high, and no war crime is too heinous. Out of respect, we should postpone a conversation about the role of Russian culture in Ukraine until after Russian soldiers stop killing Ukrainians for being Ukrainian.

Your article evokes a mysterious Putin’s war. There is no such thing. Ask a Ukrainian. Was it Vladimir Putin who killed their loved ones? Was it Mr Putin who bombed their home in the middle of the night, children sleeping peacefully in their beds? Back in the 1930s, there was no Mr Putin around when Moscow manufactured genocide by famine that took millions of innocent Ukrainian lives. From the tsars to commissars, Russia’s leaders change, the violence remains.

Your article yearns to celebrate Odesa as a cosmopolitan city and a melting pot of cultures. I’m all for that. Odesa is a city I’ve visited many times, where I have friends and it is a place I love. But let us wait until after the Russian people atone for what they have done.

ANDREW CHAKHOYAN
Academic director
Multilateralism, Globalisation and Corporate Diplomacy
Graduate School of Social Sciences
University of Amsterdam

Your essay was a productive intervention on behalf of Ukraine’s future, which was appreciated by many in Odessa. The liberal Anglophone press has been reluctant to criticise Ukraine’s internal politics for fear of inadvertently supporting Mr Putin’s claims. But war radicalises politics.

Since Russia’s invasion in February 2022 a dangerous narrative has gained momentum in Ukraine calling for the eviction of everything Russophone from the country. A minority of radical ethno-nationalists has taken advantage of war trauma to insist that the Russian language itself carries Russia’s murderous imperialism, and that all traces of it must be erased. This

dangerous ideology, presented as patriotism, has circulated in Ukrainian social and mass media, largely unopposed.

It is based on a political lie because murderous imperialism can be articulated equally well in Japanese, German, Italian, English and Russian. It is dangerous because Russian is spoken on both sides of this war, by Russian murderers and Ukrainian defenders and victims alike.

This poses a serious social and political threat. Millions of Ukrainians, including soldiers, speak Russian. So attacks on "Moscow-mouthed" speakers of the "enemy tongue" alienate millions of Ukrainian citizens and could even provoke civil war. The Kremlin may well have spent billions on the Ukrainian right. After all, the division of enemy societies along ethnic lines is the crux of General Valery Gerasimov's doctrine of "hybrid war."

More surprising is the endorsement of this attack on the Russian language by Ukraine's own government under a president who won election on a stridently liberal, anti-ethnic platform. Since the invasion a slew of discriminatory, unconstitutional laws have banned the use of Russian across educational, cultural, service and information spaces. Russian no longer exists even as a school subject. A bill proposing to outlaw Russian speech in school corridors is under review. One cannot publish or send Russian-language books, including by Ukrainian writers. Contrary to Mr Putin's narrative, these are the consequences rather than the causes of his war.

ANASTASIA PILIAVSKY
Anthropologist
King's College London

MAYA DIMERLI
Writer and translator

VITALY OPLACHKO
Businessman and retired sea captain

EUGENE DEMENOK
Writer and art historian

ANTONINA AND UGO POLETTI
Editors of the *Odessa Journal*

EVA NEYMANN
Film director

To add some context to the debate over Odesa's bust of Alexander Pushkin and its language politics. First, Pushkin, though an opponent of autocracy, was no liberal in respect to imperial Russia's subject peoples, as witnessed by a notorious poem condemning the Polish rising of 1830-31. In this he resembles a depressingly large percentage of Russian "liberals" today.

Second, in my experience, air-raid-frazzled Odesans are switching from Russian to Ukrainian entirely of their own free will, as Kyivans have been doing for 20 years already. Walk into a café and address the staff (apologetically) in Russian, and you can expect a studiedly blank look and brisk reply in excellent English.

Yes, there are some language bigots out there, and some heavy-handed language policies. (State television's dubbing of Russian-speaking soldiers into Ukrainian stirs resentment, for example.) But that doesn't mean that the switch isn't overwhelmingly voluntary, for instance all the Andriys who used to be Andreis, the Dmytros who were Dimas, and so on. They have not Ukrainianised their names in obedience to a law, or for fear of vigilantes, but because they don't want to live with a Russian label. Choosing to speak Ukrainian similarly asserts allegiance to country, and rejection of a now viciously aggressive enemy culture. The same Russian-heritage Ukrainian friends who are angered by state TV's dubbing into Ukrainian send me their New Year's greetings in Ukrainian, and it would feel very odd if they did otherwise.

Lastly, Western Odesaphiles nostalgic for the city's old Russophone culture should bear in mind that the extent to which former subject nations feel inclined to preserve imperial-era monuments depends on the grace, or lack of it, with which they were let go. In short, if Pushkin's statue goes blame Vladimir Putin, not Volodymyr Zelensky.

ANNA REID
London

Lazar Vaisbein, or Waissbein, better known as Leonid Utesov, was not just "a singer and bandleader popular from the 1920s" who mixed klezmer and

jazz (I am a descendant of his). Born in Odessa he was a celebrated actor, director and composer. He performed in Sverdlov Square in Moscow on Victory Day in May 1945, and was the first comic actor and singer to be awarded the prestigious title of People's Artist of the USSR in 1965. Prior to that, in 1934, he had starred in the first ever Soviet musical, "Jolly Fellows", which was seen by millions of devoted fans. He was the object of a Russian postage stamp issued in 1999.

He had been also, to boot, a favourite of Stalin, who decorated him on several occasions. His statue is to be seen in many Russian and Ukrainian towns and cities. He remains to this day one of the most popular entertainment figures, known to everyone in what are now two different countries.

Utesov sang and acted in Russian, Ukrainian and Yiddish, and would have been horrified at what the attempts at cultural "decolonisation" are doing to the city of his birth. The inextricable integration of the three cultural strains is what stamped Odessa with its unique seal and produced everything that is of value and interest that comes from that region. Such attempts also show an amazing ignorance of history. Far from being Russia that "colonised" the Ukraine, it was the latter that gave birth to the former in the Middle Ages.

DANIEL WAISSBEIN
Oxford



Take a risk on Africa

Your special report of Africa's financial challenges (January 11th) relayed a familiar narrative of risk and stagnation. But it missed a crucial point: Africa is already doing the hard work. Take Somalia. Two decades ago, we were one of the least investable countries in Africa. Today, reforms in governance, financial regulation, debt relief and oversight are yielding results. Somalia's National Transformation Plan, like many others across the continent, relies on private investment to achieve its goals. Yet outdated perceptions of risk persist, holding back progress.

The debt cycles of the past didn't stem from African ambition but from a global investment framework stuck in old-world thinking. The key lies in trusting local partners who understand the terrain and can navigate the complexities of high-friction environments. Attempts to bypass local expertise have failed. High-friction places demand collaboration, that's how you de-risk. So to global investors still on the sidelines: take the leap. Work with us. Build with us. Risk isn't something to avoid, it's something to share.

AHMED YUSEF
Chief executive

Hormuud Telecom
Mogadishu, Somalia

The company I started 27 years ago began by exporting freshly cut tropical fruit from Ghana to supermarkets. We have six factories now in sub–Saharan Africa and employ 5,000 people. I know of several other startups in Africa that have grown swiftly and successfully using European skills and experience coupled with African zeal and energy. We call our business model the "joint effort enterprise" based on diversity, a strong supportive culture and profit. This model avoids all the pitfalls of neo-colonialism and accusations of exploitation because we are all in this together for the long term, right from the start.

This blend of cultures sees off the worst of corrupt practices in Africa, circumvents political incompetence, and brings ambition, hope and income to thousands of staff and farmers.

ANTHONY PILE
Chairman
Blue Skies Holdings
Pitsford, Northamptonshire



Clap trap

A Back Story column (January 11th) reported on the latest trend for theatre audiences to stand and applaud even the dullest of performances, or "ovation inflation". Dorothy Parker once described Katharine Hepburn's performance in "The Lake" as "running the gamut of emotions from A to B." The play still managed to generate loud applause. Things have changed. I remember when John Osborne's "Look Back in Anger" opened to a mixed reaction from the audience at London's Royal Court theatre in the 1960s. And heckling has a long theatrical tradition. Audiences threw tomatoes and other projectiles at the cast of Shakespeare's plays. That tradition is neatly summed up in the apocryphal story of a turgid production of "The Diary of Anne Frank", when one member of the audience shouted at the arriving German soldiers, "She's in the attic".

DAVID WOODS
Philadelphia

The theatre is not the only arena succumbing to this malaise. The wonderful Lords cricket ground in London is tracking a similar course. Before the pandemic, when a player achieved a score of 50 runs in a Test match, the famous Lords hum would be replaced by the sound of people steadying their champagne and putting their hands together for a well deserved round of applause. Rarely would a 50 be deemed tenacious or outrageous enough to warrant a standing ovation.

Sadly, all has changed and I increasingly find myself surrounded by a forest of people jumping eagerly to their feet. I had hoped this was a passing fad. However, your insight that the phenomenon of ovation inflation may be linked to higher ticket prices, so people feel they need to "have the time of their lives", took the wind out of my sails, given the increasing cost of attending a cricket match. I fear ovation inflation is here to stay.

JONNY BROWN
Holmfirth, West Yorkshire

The standing ovation trend is just one manifestation of the inflation of superlatives that has crept into our daily lives. When everything ends with an exclamation mark ("We have received your order!" for that bathroom tap washer), when everything is "IMPORTANT INFORMATION" (for the 79 pence your online grocery service is refunding for the spilled yoghurt in your delivery), when

perfectly plausible things are "INCREDIBLE" (like the 5% discount on your broadband subscription), then it is not surprising that it takes a little bit more than traditional applause to show some appreciation for the mediocre play you just saw.

JEM ESKENAZI
London

The encore has also become a meaningless ritual at rock concerts. No longer is there any suspense about whether the band will come back and play a few additional songs as a reward for audience enthusiasm.

By stark contrast, in "The Song Remains The Same", a documentary about Led Zeppelin's 1973 tour, the band finish their set, wave to the exuberant crowd and then happily proceed directly to their waiting limousines.

STEVE KATZ
Falls Church, Virginia

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Briefing

- Many governments talk about cutting regulation but few manage to
- Even in India, bureaucracy is being curtailed

Briefing | The war on red tape

Many governments talk about cutting regulation but few manage to

Yet radical deregulation is often a big boost to growth

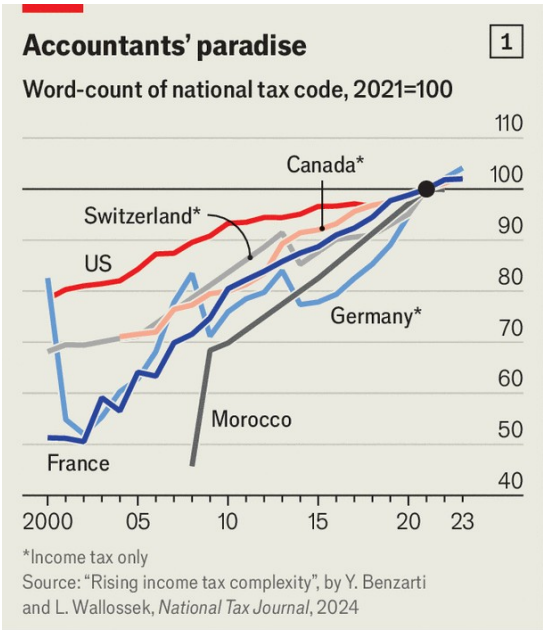
January 30th 2025



He brandished a chainsaw at campaign rallies, to signify his eagerness to clear-cut the thickets of bureaucracy and regulation impeding the economy's progress. Perhaps more strikingly, he has actually lived up to this act. In November Javier Milei, the president of Argentina, told *The Economist* he had already taken 800 steps to reduce red tape and planned 3,200 more such "structural reforms".

He is not alone. Politicians around the world, on both the right and the left, are embracing deregulation. Donald Trump has created a "Department of Government Efficiency" (DOGE) headed by Elon Musk, an entrepreneur, to shrink government and slash red tape. He has also initiated a maelstrom in

the civil service. Last year New Zealand set up a "ministry for regulation", to which citizens can report any "red-tape issue". On January 29th the European Commission pledged to cut corporate reporting requirements by 25%, and by 35% for small firms.



Even countries renowned for their powerful states are joining in. François Bayrou, France's prime minister, promises "a strong movement of de-bureaucratisation". Vietnam plans to abolish a quarter of government agencies. India's bureaucracy, a byword for Dickensian obstruction, is slimming down. The push to reform how Western governments operate "is potentially bigger than the Reagan-Thatcher revolution" of the 1980s, argues John Cochrane of Stanford University.

- Around the world, an anti-red-tape revolution is taking hold
- Even in India, bureaucracy is being curtailed
- Donald Trump goes to war with his employees

The world is not short of red tape to cut. According to the Regulatory Studies Centre at George Washington University, federal regulations in America now exceed 180,000 pages, up from 20,000 in the early 1960s. Official figures suggest that the federal government imposes 12bn hours of paperwork on Americans each year, or about 35 hours per person, up from

27 hours per person in 2001. The complete text of all German laws has 60% more words than in the mid-1990s. Over the past 20 years tax codes from Canada to Morocco have swollen (see chart 1).

Friend or foe?

Not all regulations are onerous. Shortly before John Quincy Adams became America's sixth president in 1825, he described the confusion caused by the absence of a unified system of weights and measures, noting that it hindered trade between states. As president, he supported rules to make life easier for both companies and consumers. Today regulations help reduce the number of people sickened by rotten food, impoverished by financial scams or disadvantaged by racism.

It can be hard to distinguish good regulations from bad. Bureaucrats hoping to reduce outbreaks of salmonella may in the process prevent children from setting up lemonade stands without a licence. Weighing the benefits against the costs is sensible, but tricky. Take estimates of the cost to American banks of filing the "currency transaction report" required by law every time someone withdraws or deposits $10,000 or more. The government says this costs about $3.50 a report; banks $10-80.

Despite these caveats, however, there are many indications that the regulatory build-up is harmful. It seems logical that as a society evolves, some new rules should be added and some old ones scrapped. Yet research by Davide Furceri of the IMF and colleagues finds "a remarkable slowdown" in rescissions since the 1990s in rich and poor countries alike. The share of Americans who think the government does "too much" currently exceeds those who want it to "do more" by an unusually wide margin, according to Gallup, a pollster.

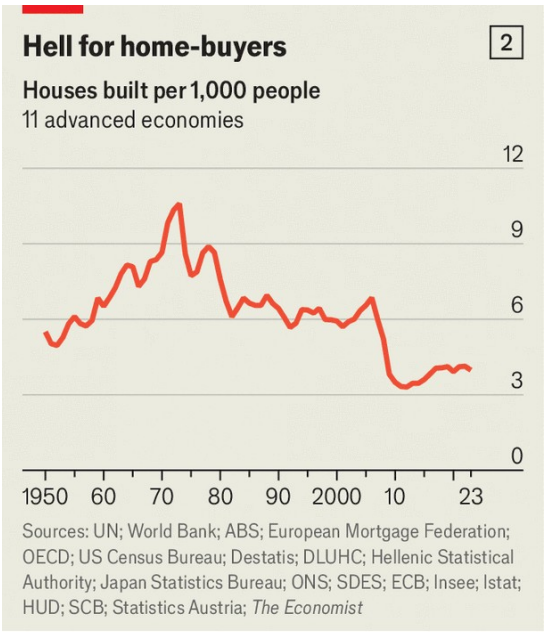
Productivity statistics offer another clue. Data from Britain suggest that the administrators of government benefits are 20% less productive than they were in the late 1990s. Excluding defence, Canada's federal bureaucracy is no more productive than it was a decade ago, even as private-sector productivity has grown by 7%. In Australia productivity in non-profit professions, including public administration, fell over the past decade.

According to a recent study from the European Central Bank which focused on the euro area's five biggest economies, "the public sector made a negative contribution to productivity per person" over the past five years.

One of Mr Trump's recent orders called for "modernising federal technology and software to maximise governmental efficiency". In the 1970s and 1980s the average federal employee had three times as much software at her disposal as the average private-sector employee. Now she only has 1.7 times as much. No surprise, then, that although federal productivity grew by 50% from 1987 to 2010, it has since flatlined.

Many rules are clearly pointless. Hundreds of thousands of firms in California must put up signs stating that their premises "contain chemicals known to the state of California to cause cancer". Other firms must post signs in bathrooms telling staff to wash their hands. Hotels must have signs next to pools urging people with "active diarrhoea" not to bathe. In France a house cannot be sold unless a notary reads the contract aloud in the presence of the buyer and seller. Each of these bureaucratic follies is typically only a minor expense and inconvenience. Cumulatively, however, they stifle economic activity, like Gulliver tied down by lots of pieces of string.

A recent paper by Leah Brooks of George Washington University and Zachary Liscow of Yale Law School gives a sense of how regulatory burdens can add up. From the late 1950s to the mid-1980s, they find, the cost in America of building a mile of highway rose from $8.5m in 2016 prices to more than $25m. (It has risen further since.) Cost overruns and huge delays are now par for the course when it comes to infrastructure. Some big projects, including a high-speed rail system in California, will probably never be built, given how tied up they are in environmental reviews. Britain has a vast queue of planned wind farms awaiting the promise of a future grid connection before beginning construction.



The Economist

Across the rich world house-building has become much less responsive to rising house prices in recent years, making homes harder to afford (see chart 2). Architects and builders face long delays and high costs getting projects approved. The labour market is also hamstrung. Across the rich world the share of employment in jobs with mandatory qualifications is rising. Bakers, hairdressers and painters often have to obtain licences before being allowed to work. That reduces competition and raises prices.

Regulations distract businesses from more profitable pursuits. In France senior managers spend 20% of their time dealing with them, according to the World Bank. Businesses in Germany typically need 122 days to obtain an operating licence. Getting an import licence takes about a month in the Netherlands. In 2023 more than 40% of Greek firms identified tax administration—as opposed to the rates themselves—as a "major or very severe constraint" on their operations. In America thousands of firms a year are eligible for a tax refund after making a loss. But the process is so complex that only 37% of eligible firms actually claim the money, according to a paper published in 2021 by Eric Zwick of the University of Chicago.

Economists have tried to calculate the macroeconomic costs of all these bits of string. Mr Bayrou has cited a paper by Bruno Pellegrino of Columbia University and Geoffery Zheng of New York University, which finds that

red tape costs the French economy close to 4% of GDP every year. ("*Insupportable!*" declares the prime minister.) The OECD estimates that compliance costs eat up around 4% of business output in member-countries on average. Chang-Tai Hsieh of the University of Chicago and Enrico Moretti of the University of California, Berkeley, attribute similarly staggering costs to land-use regulations.

These papers focus on particular types of red tape, though, rather than bureaucratic inflexibility in the round, and thus can provide only a partial view of the problem. It is tempting to look at the economic performance of countries that have slashed red tape in recent years. Under Mr Milei Argentina has climbed out of its perma-recession. Greece, previously an economic laggard, topped our end-of-year rankings of the best-performing economies in both 2022 and 2023.

Research by Goldman Sachs, a bank, has identified a group of companies, including banks, telecoms firms and energy firms, that are most likely to benefit from a deregulatory drive in America. Since the middle of last year, as the chances of a bonfire of red tape have grown, their share prices have risen by 23% on average, compared with 14% for the wider market.

Capital flows are another indicator. Drawing on statistics from PitchBook, a data provider, we estimate that in the past decade two-thirds of the world's venture capital has flowed to industries with relatively little red tape, such as consumer services and tech, whereas only a third has gone to more heavily regulated ones such as health care and manufacturing.

Why has the rich world allowed itself to be tied up? One explanation is a growing appetite for safety. Richer people, after all, have more to lose and older people are more risk-averse. Consumers, via their political representatives, thus demand regulation. Forcing businesses to remind employees to wash their hands feels reassuring, even if it achieves little in practice.

In fact, efforts by governments to give citizens more say on policy may have helped red tape to proliferate. A Supreme Court case in 1971, *Citizens to Preserve Overton Park v Volpe*, established the idea that pressure groups could seek judicial reviews of government agencies' decisions. This

prompted regulators to be more exacting and firms to go to greater lengths to be sure they are following the rules.

Regulation also tends to work like a ratchet, always getting tighter. In part, this reflects risk-aversion on the part of regulators: why scrap a rule and suffer recriminations if that goes wrong when you can simply leave it in place? Bureaucracies also have their own interests. A person whose only job is to enforce a rule is unlikely to wish to abolish that rule.

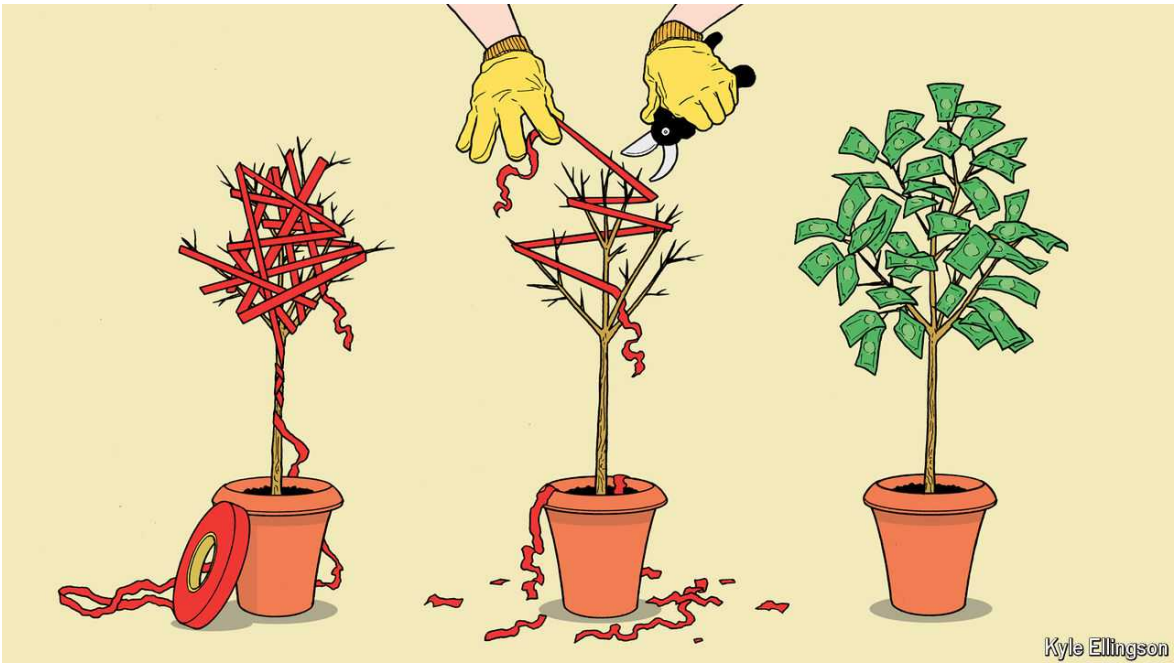
As a result, many promises to cut red tape come to little. In the 1980s Ronald Reagan created his own DOGE, the Grace Commission, which did not achieve much. In 2010 Britain set up an Office of Tax Simplification, which stood by helplessly as the tax code expanded. In 2023 the government decided to abolish not all its byzantine tax rules, but the OTS.

DOGErs talk about firing half of America's bureaucrats. But that does not in itself reduce red tape. If the rules stay the same then the remaining half will have twice as much to do, making the bureaucracy even slower than before.

Yet governments sometimes manage to pare regulation. The Grace Commission was a dud, but Reagan did deregulate certain industries. A paper published by the OECD in 2006 found that between 1975 and 1985 roughly a fifth of America's rules about energy, transport and communications were scrapped. That inspired other rich countries. By the 2000s across the OECD as a whole product markets for airlines, telecoms and energy firms were about half as regulated as in the 1970s.

Some countries, inspired by America, have gone even further in their anti-red-tape drive. In "The Other Path", a book published in 1986, Hernando de Soto documented the months of waiting, and constant demands for bribes, faced by Peruvians trying to start a business. The process now takes 26 days on average, the World Bank estimates. Post-Soviet countries have been particularly enthusiastic reformers. In the mid-1990s Estonia introduced a flat tax for both corporate and labour income, replacing a far more complex system. It has followed up by moving almost all government services online, which officials estimate produces savings worth 2% of GDP. Following the Rose Revolution of 2003 Georgia cut the number of taxes from 21 to six,

while reducing the number of types of businesses which required a licence to operate from 909 to 159.



What needs to happen for a red-tape revolution to succeed? A deep recession or a debt crisis, as in Greece, may focus minds. In post-Soviet states, not only were their economies swooning, but people were also eager for a clean break from the past. Disillusionment with the status quo, visible in surging support for populist politicians, may mean that today's voters have more appetite for change than normal.

Certainly there are more concrete plans for what needs to be done. In Britain activists have launched the Looking for Growth group, providing politicians with ideas on how to get the economy moving. One idea is that instead of trudging from agency to agency for years, developers should apply only to a single entity. A recent report written by Mario Draghi, a former Italian prime minister, has sensible recommendations for streamlining the EU's labour and product markets. New Zealand's new ministry for regulation has turned its attention to the approval process for agricultural goods and the rules governing barbershops, among other things. Even in San Francisco, red-tape central, things are changing. Small-business owners recently rejoiced at a tweak to a rule specifying that security doors on shop windows had to be 75% transparent. Now just 20% will do.

Cutting red tape will not necessarily send growth soaring. Even if Mr Musk is successful, Mr Trump's other policies, such as jacking up tariffs and deporting millions of workers, could easily erase the benefit. Effective deregulatory drives anger people who lose out, including those exposed to more competition and NIMBYs who dislike growth. But a boost to construction, business formation and innovation is worth ruffling a few feathers for. ■

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Briefing | Self-restraining Raj

Even in India, bureaucracy is being curtailed

Many small steps could make a big difference

January 30th 2025



In offices that used to house India's planning commission, Sanjeev Sanyal, an economic adviser to the prime minister, is pursuing what he calls "process reforms"—small tweaks to streamline government as opposed to big structural changes like overhauling the tax code.

Take the process of closing a business. In 2021 it took 499 days on average and involved placing advertisements in newspapers. By last year it took only 90. Applying for patents, too, used to be an ordeal owing to a shortage of qualified staff to review the claims. Hundreds have been hired and the number of patents granted has risen from 6,000 in 2015 to more than 100,000 last year.

Other agencies have been abolished or shrunk. Gone are the Tariff Commission, which was set up in 1951 but never set any tariffs (the commerce and finance ministries did that), the All-India Handloom Board, the All India Handicrafts Board and the Central Organisation for Modernisation of Workshops. Several film-promotion organisations, including the Directorate of Film Festivals and the Children's Film Society, have become one.

There is much more to do. Despite heavy investment in India's ports, ships often get stuck waiting for customs and security clearances for their cargo. It can be so hard to claim any money from the Provident Fund, the national pension scheme, that many workers see contributions as a tax rather than a form of savings. But at least there is now a process for process reforms. ■

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United States

- Donald Trump goes to war with his employees
- America’s foreign aid pause puts lives at risk
- Donald Trump revives ideas of a Star Wars-like missile shield
- Kash Patel is a crackpot
- An alternative theory to explain America’s murder spike in 2020
- Donald Trump’s Defining Decade

United States | Executive power

Donald Trump goes to war with his employees

The president wants to shrink and remake the civil service

January 29th 2025

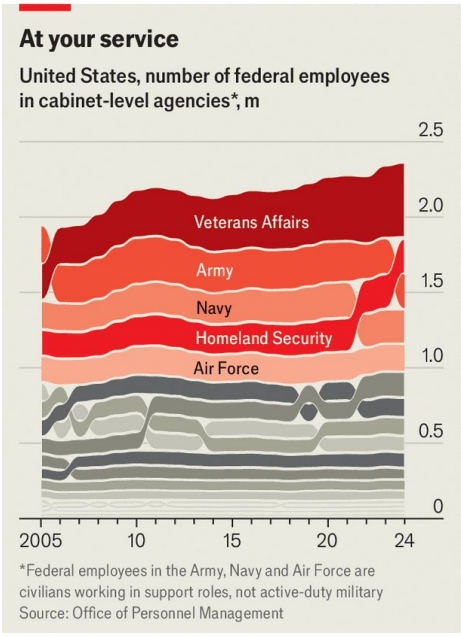


TO GET a sense of what Donald Trump's first week did to the federal government, talk to people who work in it. "I've been with the government for over ten years, I lived through the first Trump administration, and nothing compares to this," says one Treasury employee. Some workers are busy scrubbing their personal social media for items that could be interpreted as disloyal. Others are scrubbing up their resumés, anticipating that they will soon be looking for new work. Those who plan to stay expect their jobs to get worse, as colleagues flee or are not replaced. Everyone is "in absolute panic mode", says another senior civil servant.

As a candidate, Mr Trump promised that he would "shatter the deep state". Since taking office, it has become more clear what he meant. In a barrage of

executive orders, Mr Trump has asserted that he can do just about whatever he likes to the federal government. He has, he claims, "sole and exclusive authority" over the executive branch, to include hiring, firing and all spending decisions. In effect, Mr Trump is claiming he is not merely a president, putting into action laws enacted by the legislature. Rather he thinks he is something closer to a king, able to withhold or redirect expenditure as he sees fit.

On January 27th Mr Trump revealed quite how far he intends to push. He decreed that all grants and loans that the federal government makes—excepting disbursements for Social Security, Medicare, and some other vaguely defined categories—would be suspended the following day, even though Congress had approved them. This apparent usurpation of Congress's role under Article I of the constitution was "sweeping and vast" and "really, really illegal", says Eloise Pasachoff of Georgetown University law school. The memo laid out no legal justification for the freeze, and on the evening of January 28th a federal judge stopped it temporarily. The next day the administration rescinded its memo. What happens next is unclear. A parallel freeze of all foreign aid created similar chaos.



The Economist

In the meantime Mr Trump has launched an extralegal power grab almost as ambitious against the federal bureaucracy—the over 2m civil servants who

actually implement federal policy. He has directly fired dozens of senior staff, including senior immigration officials, Department of Justice prosecutors and others he and his appointees have identified as being hostile to his goals. These included more than a dozen inspectors-general (watchdogs who investigate departmental efficiency and wrongdoing). In the case of the inspectors-general, the president is required by law to give 30 days' notice and an explicit reason to justify firing. He did neither.

- Around the world, an anti-red-tape revolution is taking hold
- Many governments talk about cutting regulation but few manage to

These decisions came on top of a complete hiring freeze across most departments (the military, immigration authorities, as well as jobs related to Social Security and veterans' health care are exempt). He also reinstated an unimplemented order from his last term allowing his administration to redesignate many career civil service jobs as political and thereby remove the usual protections and sack whomever he wants. He has pledged to shut down all "diversity, equity and inclusion" jobs in government. To top it off, he banned all work from home.



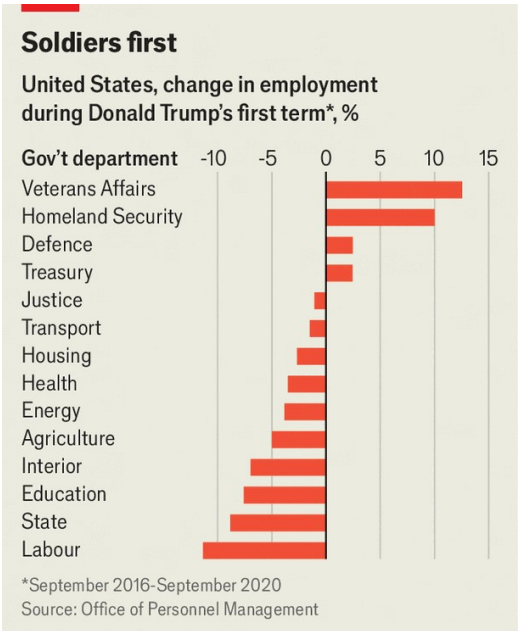
The Economist

The aim is to get federal workers who do not like Mr Trump to leave. On January 28th an email went out from the Office of Personnel Management

(OPM) offering every single federal employee "deferred resignation". In essence, the terms were: agree to leave in this financial year and you can work from home until then. The touches—including instructions to reply with the word "RESIGN" by February 6th—implied the influence of Elon Musk, the billionaire head of Mr Trump's Department of Government Efficiency, or "DOGE". Since the OPM is not actually a corporate HR department, the offer is unlikely to withstand scrutiny. Federal tech employees report that outsiders, many seemingly junior employees of Mr Musk's companies, have come into offices to take over government IT systems and do "code reviews".

Were Mr Trump to make these changes stick—a questionable prospect—it would amount to "probably the most fundamental alteration of the civil-service system since 1883", says Don Moynihan, of the Ford School of Public Policy at the University of Michigan (a verdict many in the White House would love). That was the year Congress created a civil service commission which began to professionalise government jobs. Mr Trump wants to recreate "the spoils system" of political patronage that prevailed until then, says Max Stier, of the Partnership for Public service, a charity which works to improve government. That was a model whereby new presidents came in and immediately distributed the bulk of government jobs to their unqualified supporters.

The president appears to have little interest in the idea that most government officials should be non-partisan experts who work to keep the public safe, among other goals. Under Mr Trump's plan, decisions about hiring and firing would be made by his political appointees.



The Economist

Will he succeed? This seems unlikely, says Larry Jacobs, of the University of Minnesota. "Mr Trump's orders," he says, are "impressively sweeping and breathtaking in their institutional arrogance", but he argues that much of what Mr Trump is trying to do will probably be undone by the courts or Congress. He points out that even after Mr Trump appointed sympathetic new members in his last term, the Supreme Court often overruled him. Congress has ceded much power to the presidency, but controlling the federal purse is a prerogative it is unlikely to yield readily.

Yet it could take years for challenges to work their way through the courts. The damage done in the meantime could be considerable. Employees who find other jobs after being pushed out will not necessarily return just because a court says their dismissal was wrong. Talented new hires will not join. And with government lawyers cowed by fears of firing, all manner of illegality could reign. Mr Stier worries about things like the Internal Revenue Service and the Department of Justice being used to punish Mr Trump's enemies, without civil-service lawyers able to say no.

King Don come

Even the best-case outcome is not good. In the last Trump administration, hiring freezes caused parts of government to shrink and jam up (see chart).

Some of this may have been intended: the issuing of green cards and citizenship applications ground to a halt thanks in part to cuts at the State Department. But queues also lengthened for basic government services like getting passports, or tax refunds.

The "swamp", as Mr Trump might call it, may feel like a lot of busybodies in Washington pushing around bits of paper. It is certainly true that it can often be slow, rule-bound and unaccountable. But a system based more on political loyalty than on merit is one primed for failure. Bureaucrats make sure that foods are not poisonous; that cars do not explode when they crash; and that toxic waste is not dumped into the wilderness. "The federal government is very vulnerable," says Paul Light, a political scientist at New York University. Mr Trump, he says, risks becoming "the president of 'I didn't give a shit and a lot of people got killed.'" ■

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United States | Aid and a bet

America’s foreign aid pause puts lives at risk

Donald Trump sought disruption. He hurt America first.

January 30th 2025

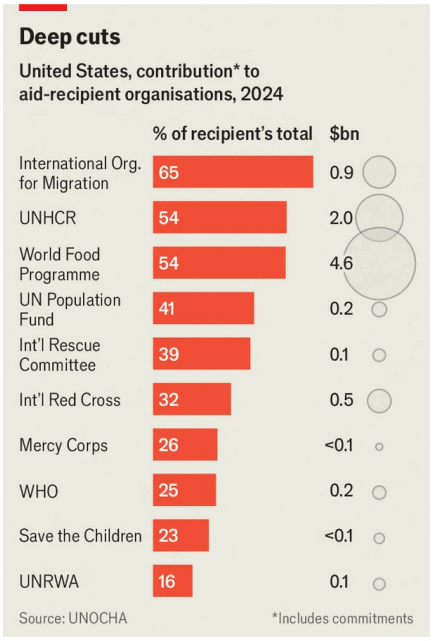


THE SPRAWLING al-Hol camp in north-eastern Syria is part of a network of prisons holding tens of thousands of detainees and family members from Islamic State’s jihadist “caliphate”, which was smashed by America and its allies in 2019. Western securocrats have long worried that prisoners might break out and wreak bloody havoc, in Syria and abroad. Such fears have intensified given the turmoil after the fall of Syrian dictator, Bashar al-Assad, in December.

There could scarcely be a worse time for the Trump administration to order, as it did on January 24th, an immediate halt to almost all aid work—at al-Hol and around the world—pending a 90-day review to ensure foreign assistance aligns with America First principles. The only exceptions were

aid for Israel and Egypt (mostly military) and "emergency food aid". Waivers could subsequently be issued on a case by case basis.

America is by far the world's largest aid donor, spending $68bn in fiscal 2023, the most recent year. The US accounts for about 40% of all humanitarian assistance provided by governments. The announcement of an abrupt cutoff of much of this money hit humanitarian agencies like an earthquake. American-funded projects wobbled and some risked collapse.



The Economist

The affected work included the distribution of antiretroviral drugs for people infected with HIV under a scheme known as PEPFAR, credited with saving some 26m lives since 2003; medical services for Rohingya refugees in Bangladesh; mine-clearing in South-East Asia; reconstruction of bombed-out energy infrastructure in Ukraine; pro-democracy work in Russia's near-abroad; and much more.

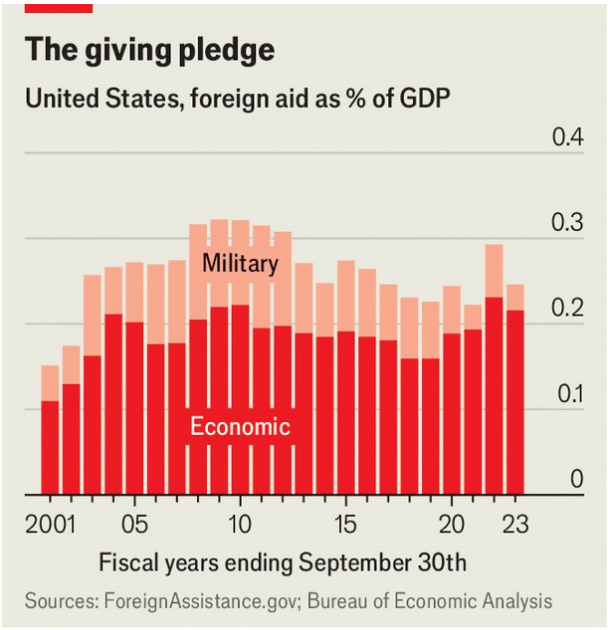
"Every dollar we spend, every program we fund, and every policy we pursue must be justified with the answer to three simple questions: Does it make America safer? Does it make America stronger? Does it make America more prosperous?" the state department said.

Among the casualties were groups working at al-Hol, home to about 40,000 Islamic State (IS) fighters and their relatives, among them European women

who married combatants and bore their children. The Kurdish-dominated Syrian Democratic Forces (SDF), which controls north-eastern Syria, is in charge of security at the camps. But aid workers speak of a free-for-all within. Women loyal to IS hold sway with guns and train a new generation of ideologues. The perimeter is pierced by tunnels, allowing weapons in and inmates out. Killings are commonplace. Children are sold as fighters. "It's more an IS base than a prison," says a Western researcher.

Blumont, the American firm that manages al-Hol (and a smaller camp called Roj) under a state department contract, says its teams left the camps when they received the stop-work order, and arranged for other groups to provide "very much reduced basic services". Some humanitarian groups said they were issuing termination letters for their staff. On January 27th Blumont received a 14-day waiver and said its staff returned the next day.

Amid chaos and an outcry that countless lives were at risk, Marco Rubio, the secretary of state, later widened exemptions to include "life-saving humanitarian assistance". This includes "medical services, food, shelter, and subsistence assistance, as well as supplies and reasonable administrative costs." Programs would not be funded if they involved abortion, family-planning, transgender surgeries or other aid deemed not to be life-saving.



The Economist

Even with this concession, aid groups say confusion abounds. “Does work on clean water count as life-saving aid?” asked an official in one large NGO. Some projects were being closed because of the uncertainty. The status of PEPFAR is unclear.

Waivers apparently still need to be issued case-by-case. Whether the government has the staff to process them quickly is another question. Few of the state department’s political appointees have yet arrived. USAID, the main American development agency, has furloughed hundreds of senior staff and contractors. One spoke of a “sad and apocalyptic” atmosphere.

The state department says the full halt was necessary because “it is impossible to evaluate programs on autopilot”, arguing that those running them have little incentive to give details if the money keeps flowing. It claims to have already saved about $1bn, halting things such as the delivery of condoms to Gaza, sex education globally and clean-energy programmes for women in Fiji. The department offered no details to support its $1bn estimate.

Al-Hol offers just one example of how stopping work suddenly for such dubious reasons is an avoidable act of self-harm. “Without aid, it’s difficult to maintain the security of the camps,” says Ali Rahmoun, a spokesman for the Syrian Democratic Council, the political wing of the SDF. “The jihadists won’t just be a problem for Syria but for the region and even Europe.”

Americans would be in danger, too. Shamsud-Din Jabbar, a 42-year-old US army veteran, rammed his Ford pickup into a crowd in New Orleans on New Year’s Day, killing 14. He was killed by police. In his vehicle they found IS’s black flag. ■

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United States | Pebble dash

Donald Trump revives ideas of a Star Wars-like missile shield

He wants a swarm of missile-toting satellites to take out incoming threats

January 30th 2025



IN THE LATE 1980s Edward Teller, the father of the hydrogen bomb, and Lowell Wood, an astrophysicist, proposed a seemingly bizarre scheme to defend America against missile attack. The “Brilliant Pebbles” system envisaged thousands of small satellites in low-Earth orbit, each housing heat-seeking missiles to take out incoming Soviet nukes long before they released their warheads. The idea faded, not least because the technology seemed distant. Now Donald Trump is resuscitating it.

On the campaign trail Mr Trump promised to build an “Iron Dome” for America, referring to an Israeli missile-defence system. The name is a misnomer. The Israeli system is designed to take out short-range rockets.

What Mr Trump meant, and spelt out in an executive order published on January 27th, was a more ambitious effort to detect and counter intercontinental ballistic missiles (ICBMs) and the like. America already has a system designed to do that, known as Ground-Based Midcourse Defence (GMD), which relies on interceptors in Alaska and California.

Mr Trump's proposal differs in important respects. One is its scope. GMD was intended to parry limited attacks involving a small number of ballistic missiles, such as might occur in an attack by North Korea. Mr Trump's shield is supposed to block "any foreign aerial attack", which would imply not only both cruise and ballistic missiles, but also a full-scale strategic attack by Russia or China involving many hundreds of missiles at once.

Critics of missile defence say this is folly, because it is generally cheaper to build additional offensive systems than interceptors to stop them. Russia and China—which are building missile shields of their own—have also argued that American defences risk undermining nuclear deterrence, because they might one day allow America to strike enemies without fearing retaliation. Advocates retort that the missile threat has changed: long-range non-nuclear missiles could now paralyse military facilities in the continental United States, allowing enemies to coerce America into staying out of a distant war.

In any case, Mr Trump's favoured design is also noteworthy. GMD targets incoming missiles when they are in mid-flight. In theory it is easier to take out a missile in its "boost phase" (as it is taking off), when it is moving more slowly. The problem is that this is a fleeting moment—three to five minutes for ICBMs. The new order calls for "proliferated space-based interceptors capable of boost-phase intercept". That amounts to a Brilliant Pebbles-like system: a lot of small, armed satellites, some of which would be above Russia, China and other foes at all times.

The cost of building tiny computers and putting thousands of them into orbit is far lower than it was in Mr Teller's days—partly thanks to Elon Musk. But it is still eye-wateringly expensive, and liable to hoover up a good chunk of the defence budget. America would require 500 satellites in total to have just three to four interceptors in range of North Korean launchpads, estimates Bleddyn Bowen of Durham University; hundreds more than that would probably be needed, he says.

A key technical challenge will be building space sensors with "fire-control-quality tracking"—good enough at spotting and tracking enemy missiles to guide interceptors to them—says Tom Karako of CSIS, a think-tank. But if the technology proves mature, the implications could go beyond missile defence. "We will see the emergence, gradual understanding, and eventually acceptance of 'space fires'," says Mr Karako, which could include satellites capable of targeting, with both explosive and electronic means, targets on the ground, those in the air and other satellites in orbit.

There are many doubters. Mr Trump aired similar ideas in his first term but failed to back them with hard cash. Spending for an American Iron Dome will compete with a string of other priorities, from a bigger navy to more nuclear weapons. "It's always a budget question," says Mr Karako. "Show me your budget for missile defence, and I'll tell you what your 'Iron Dome for America' is." ■

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United States | Deep-state news

Kash Patel is a crackpot

Is he also a menace?

January 29th 2025



Kash Patel likes conspiracy theories. Luckily for everyone else, conspiracists are normally kept far away from America's federal law-enforcement and intelligence machinery, with all its powers of surveillance, investigation and arrest. Donald Trump has tested this premise in his choice of Mr Patel to lead the FBI. The 44-year-old lawyer—whose Senate confirmation hearing was on January 30th—has called that organisation "one of the most cunning and powerful forces of the deep state". If Mr Trump follows through on his occasional threats to retaliate against his enemies, that task may fall to his nominee.

Like Pete Hegseth, who won confirmation as defence secretary by a whisker, in pre-Trump times Mr Patel would have had little chance of running a

government agency, let alone one this size. The FBI has 38,000 employees, 55 field offices and an $11bn budget. He lacks management experience, scorns the organisation, and his partisanship flouts a post-Watergate norm that law enforcement and intelligence gathering must be insulated from politics.

Mr Patel's animus towards the national-security establishment started with the Trump-Russia probe. As a congressional aide, Mr Patel seized on real faults in the investigation, then exaggerated them. An FBI lawyer had doctored an email to support an application to wiretap a Trump campaign adviser; this was illegal, and Mr Patel helped expose it. In his telling, however, he discredited the whole inquiry as a nefarious plot to undermine Mr Trump, orchestrated by the justice department (DOJ) and the intelligence agencies. Mr Patel has called former top brass at the DOJ and the FBI corrupt "crooks" and "gangsters" and asked: "Who's arresting these guys?"

Perhaps he will. An appendix to Mr Patel's book names 60 deep-state baddies. Democrats call it the Trump administration's "enemies list". Steve Bannon, a MAGA troublemaker, recently conceded that the book "might not be a literary thing"—"more typing than writing"—but said that the list is a good preview of future targets. The president offered a more ambiguous preview on inauguration day when he ordered the attorney-general to scour the DOJ for past instances of lawfare and seek "remedial actions". By lawfare he meant the two (now dismissed) federal indictments against him and the FBI's raid of Mar-a-Lago, his Florida estate. Already more than a dozen DOJ lawyers who brought those cases have been fired.

Actual prosecutions against the president's enemies would be hard. They would contend with judges, juries, defence lawyers and evidentiary rules. Investigations of the type Mr Patel would oversee involve fewer constraints. This is especially true when the FBI can cobble together a national-security justification. Then judicial review for, say, a wiretap becomes less burdensome. Everything is classified to boot.

At the FBI, a culture of complying with the law will militate against baseless expeditions, says Daniel Richman, a law professor at Columbia University and former adviser at the bureau under James Comey, the director whom Mr Trump fired in 2017. But line agents and prosecutors will find it hard to object to an inquiry where there is a coherent basis for one, even if the

motives behind it are political. Meanwhile, probes exact punishing costs from their targets.

Mr Patel is especially keen on pursuing leakers and their friends in the media. “When you have an underlying illegality committed by a government agent, anyone that participates in that illegality can and should be charged,” Mr Patel has said. He has also suggested “clawback mechanisms” for the money that news outlets make “by printing lies”.

Equally significant is what Mr Patel might deprioritise at the FBI: namely, investigations of far-right activity. This may pick up as groups that went quiet after January 6th re-form thanks to Mr Trump’s pardons. Mr Patel has insinuated that the FBI had a hand in the insurrection. That is a MAGA conspiracy theory, built on the fact that 26 FBI informants were there that day, including four who entered the Capitol. In truth the riot was among the largest intelligence failures in FBI history.

The fact that Mr Patel is even in contention for the FBI job underscores how much has changed between the two Trump administrations. In the first term, the president moved to install him as deputy director of the CIA. Gina Haspel, then its boss, threatened to quit and Mr Trump backed down. He tried the same gambit at the FBI before Bill Barr intervened. Both Ms Haspel and Mr Barr had stature accrued over long, distinguished careers; with that came the wherewithal to say no. Mr Patel, by contrast, owes his ascendancy to Mr Trump. On a podcast last year, he intimated how he would handle a lawful but awful order from the president. “If the guy gives me a lawful chain-of-command authority, you want me to not execute it?”■

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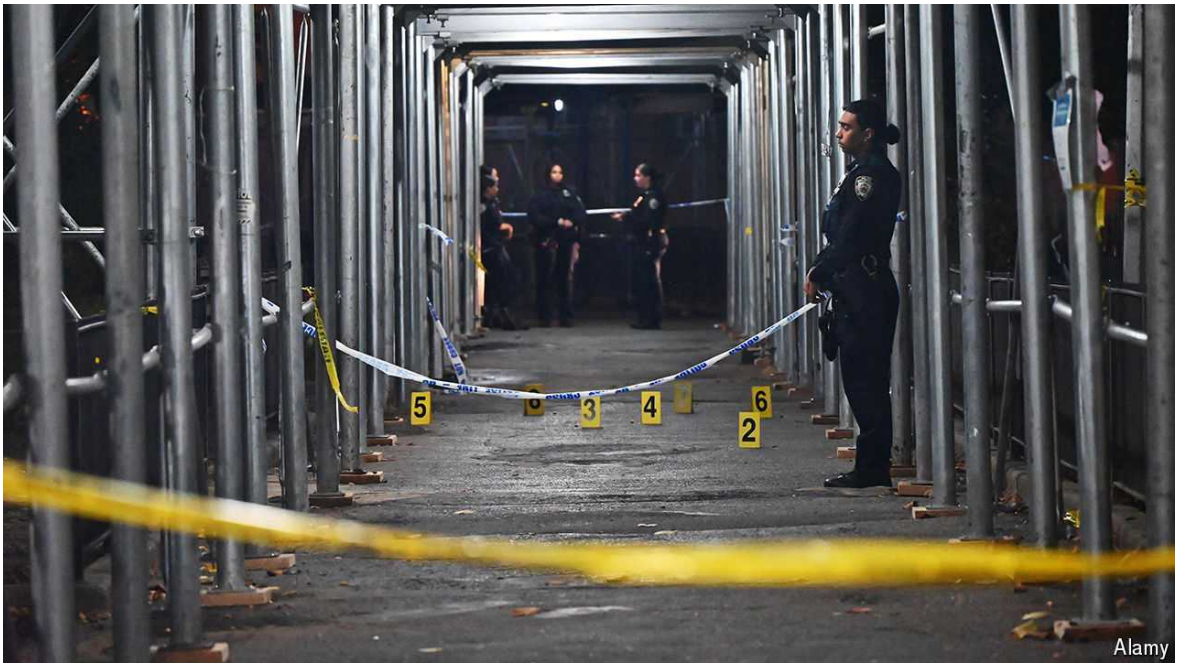
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United States | Murder mystery

An alternative theory to explain America's murder spike in 2020

What if it wasn't about policing?

January 30th 2025

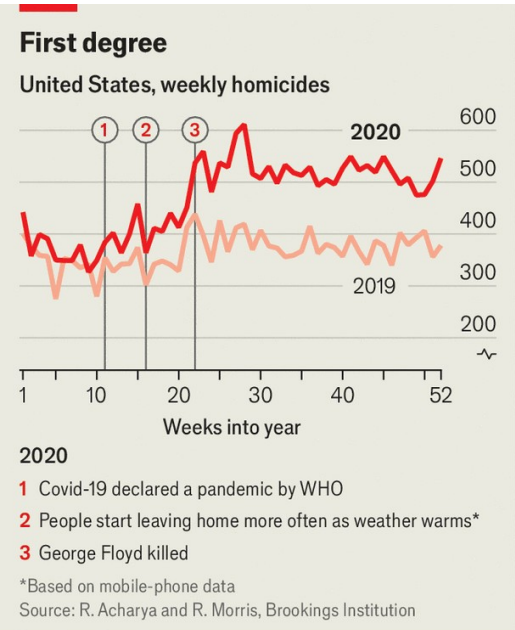


You might call it a new golden age. America's economy is strong, overdose deaths are falling and crime rates are down. For the second consecutive year murders in America have plummeted. The surge in violence in 2020, which was the deadliest year in over two decades, may now seem like a distant memory to some. Yet for criminologists and policymakers the question of what caused that spike in the first place remains unanswered.

A popular theory, advanced prominently by Heather Mac Donald of the Manhattan Institute, a think-tank, is that it was caused by a "George Floyd effect". The theory is as follows: after the murder of Floyd by police officers in Minneapolis in 2020, police lost trust in high-crime communities and

among African-Americans, leading to lower clearance rates for murders. When people think they will not get caught, they commit more crime. Another version of the Floyd effect thesis holds that police officers, beset by rising public hostility, deliberately pulled back from high-crime neighbourhoods, for fear of being prosecuted for doing their jobs. Either way, protests against police brutality lead directly to more murders, a bitter unintended consequence for the protesters and, perhaps, evidence of the kind of soft liberalism from big-city Democrats that Donald Trump was elected to expunge.

A recent report from the Brookings Institution, a think-tank, advances an alternative theory. Rohit Acharya and Rhett Morris, the report's authors, argue that the rise in murders began in April 2020, about six weeks before the murder of Mr Floyd. They contend that high unemployment and school closures in poor neighbourhoods, both brought about by covid-19 and the policy response to it, left teenage boys idle. This, not the Floyd effect, was responsible for the murder spike. This would suggest an awful trade-off: those early lockdowns saved many lives, but they also may have resulted in more murders.



The Economist

Using weekly national homicide data, Messrs Acharya and Morris show that throughout the summer of 2020 murders rose 30% compared with the

summer of 2019. Crucially, they do not find an inflection point around the end of May, when Mr Floyd was killed. Across the six weeks preceding his death national weekly murders increased by around 17 murders per week, a rate 70% greater than the same period in 2019. And during the six weeks following his death, murders rose at a similar rate.

What, then, caused this increase? The authors theorise that the economic circumstances of the pandemic are to blame. Criminologists concur that, in general, poverty correlates with crime rates. In Atlanta, 65% of all homicides occur in neighbourhoods where at least 30% of the population lives below the poverty line. Nearly every big American city displays this trend. Poorer neighbourhoods were also disproportionately affected by the pandemic: job losses and high-school dropout rates were far higher. Cities with a greater share of young men living in these conditions saw larger increases in homicides in 2020.

Juveniles typically commit few murders. Though roughly half of murders go unsolved and not all jurisdictions report the age of the murderer, the available data suggest that fewer than 10% of homicides are committed by those under the age of 18. Yet between 2019 and 2020 juveniles accounted for an estimated 15-20% of the overall surge. That seems consistent with the idea that closed schools and idle teenage boys are a big part of the story.

Criminologists tend to be wary of single explanations. “It’s very difficult to come up with a definitive conclusion about what happened in 2020, because so many things changed at the same time”, says Aaron Chalfin, a criminologist at the University of Pennsylvania who was not involved with the Brookings report. He notes that, in the past, unemployment rates have not correlated with murder rates, although that does not necessarily mean no such relationship arose during the pandemic. And teasing out the interactions between variables is trickier still. Were school closures in poorer neighbourhoods responsible for juveniles committing more murders, or was it school closures plus fewer police officers patrolling the streets?

The research, says Neil Gross, a professor of criminology at Colby College (who was also not involved in the study), suggests that the nature of social ties in poor areas matters. Crime is often lower where “people know their neighbours and can look out on the street for errant teenagers and contact

their parents", says Mr Gross. That suggests yet another potential suspect: such neighbourhood watchers were locked down at home. ■

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United States | Lexington

Donald Trump’s Defining Decade

Will America’s president overcome the 1970s, or just refight its battles?

January 30th 2025



Donald Trump invoked the 1890s in laying out the agenda for his second term. But from his demand for the Panama Canal to his declaration of a national energy emergency to his order releasing the records of the assassination of John F. Kennedy to the music he grooved to at his inaugural balls, Mr Trump, in his first days back in office, has instead evoked a different decade: the 1970s, formative years for him, and for America.

It was in 1971 that Mr Trump, then in his mid-20s, moved from Queens into Manhattan, taking a rent-stabilised studio apartment with a view of a water tank. He had ambitions to turn his father’s Brooklyn-based business building middle-class housing into something grander. By the decade’s end he would be a millionaire in his own right, married to a glamorous immigrant and a

fixture at clubs like Studio 54, with growing celebrity for projects such as his eponymous tower rising on 5th Avenue.

As he exited the 1970s in his mid-30s, the apprentice years of adulthood behind him, Mr Trump, like many Americans, had reasons to be cynical about politics and business, to be fearful of inflation and oil scarcity and urban crime, to be drawn to conspiracy theories, to think America had lost the national self-assurance of his childhood in the 1950s. During what Tom Wolfe branded "The 'Me' Decade", amid revelations of dirty deeds by sainted figures, as Americans more freely embraced and divorced each other, old ideas about duty and service came to seem like frauds. "Forget foundationless traditions, forget the 'moral' standards others may have tried to cram down your throat," advised one bestseller in those years, "Looking out for Number One".

"The 1970s were daunting and frightening because habits and institutions that had succeeded brilliantly for half a century suddenly sputtered," David Frum writes in his history of the decade, "How We Got Here: The 70s". "*Never*—not even during the Depression—had American pride and self-confidence plunged deeper." The disillusion, fear and reaction of those years hardened into the worldview that has carried Mr Trump twice to the Oval Office.

At the start of the 1970s Mr Trump met Roy Cohn, the man who probably influenced him more than anyone besides his father, sharpening his reflex to fight all comers for every advantage, as he is doing now as president. A ferocious New York lawyer, Mr Cohn became Mr Trump's mentor, "introducing him to the netherworld of sordid quid pro quos that Cohn ruled", wrote Mr Trump's dogged biographer, Wayne Barrett, in "Trump". Over the course of the 1970s Mr Trump became the largest individual donor in New York state and local elections. "I can buy a US senator for $200,000," he once told an associate back then.

Revelations spilling out of the Watergate investigations were teaching all Americans similar lessons, and implicating more than just President Richard Nixon. America's great corporations for years had evaded the law with donations to politicians of both parties. Not only Nixon had secretly

recorded meetings in the Oval Office. So had Lyndon Johnson and John Kennedy.

In 1976 Congress for the first time created a permanent committee to oversee the intelligence agencies, and it revealed shocking secrets about coups and assassinations by the CIA. Then came revelations about the FBI. Robert Kennedy himself had ordered wiretaps on Martin Luther King. As suspicions of skulduggery grew, Congress in 1976 ordered investigations into the assassinations of John Kennedy and King. Hollywood seized on the spectre of rot in America's foundations for the plots of such movies as "Three Days of the Condor", about CIA murders of Americans, "Chinatown" and the "Godfather" series. Mr Trump's response in 2017 when an interviewer called Vladimir Putin a killer—"You think our country's so innocent?"—was straight out of the 1970s.

Government was coming to seem not just corrupt but incompetent. New York City teetered at the edge of bankruptcy as officials struggled to stem rising theft and homicide. "Welcome to Fear City" read pamphlets bearing a death's head that police officers in casual clothes handed out to tourists in 1975. During a citywide blackout in 1977, chaos swept the streets, resulting in hundreds of injuries to police officers and thousands of arrests for looting. One might well have called it American carnage.

Four years of the condor

Nationally, new laws in the 1960s led to a surge in immigration in the 1970s, and illegal immigration along with it. Backlash was building against new rights granted to non-citizens, as it was against policies meant to advance integration and equality such as affirmative action and busing. Mr Trump first hired Cohn to defend him against a Justice Department suit accusing the Trumps' company of excluding black renters. Asked at a deposition in 1974 when the first black people moved into one of his projects, Mr Trump replied, "I don't care and I don't know." He was insisting on the same sort of "colour-blindness" he declared in his inaugural address this month to now be government policy.

Mr Trump once lamented that during the 1970s America lost "the feeling of supremacy that this country had in the 1950s". In the 1970s, ceding control of the Panama Canal divided conservatives. In a televised debate with Ronald Reagan, William Buckley, the founding editor of *National Review*, said turning the canal over would bring Americans "increased security and increased self-esteem". Time has proved him correct as far as security goes. But to many on the right the treaty with Panama became an exhibit of the same weakness that led to failure in Vietnam and the Iranian hostage crisis. Mr Trump's pledge to retake the canal is a direct assault on the 1970s, and it underscores a basic question about his second term: will he lead Americans to transcend that decade at last, or to wallow in it? ■

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The Americas

- Donald Trump turns an angry gaze south
- Armed groups are terrorising Colombia’s border with Venezuela
- Brazil’s ragged finances are holding back its green ambitions

The Americas | Latin America First

Donald Trump turns an angry gaze south

Relations with Central America are likely to worsen

January 30th 2025



THE TRADE war between the United States and Colombia on January 26th was over within a day—about the same time it took Teddy Roosevelt's gunboats to engineer the secession of Panama from Colombia in 1903 as the prelude to digging the Panama Canal. Now, as then, force won. Colombia stopped resisting President Donald Trump's deportation of its unwanted nationals. But America First bullying may yet provoke a backlash.

The row casts a pall over the first trip abroad by Marco Rubio, the new US secretary of state. He will begin a five-country tour of Central America and the Caribbean on January 31st. A son of Cuban immigrants, he hopes to project a new American focus on Latin America. He speaks of "partnership and co-operation" to tackle mass migration, drug smuggling, autocracy and

Chinese encroachment. Meanwhile, his boss is domineering with leaders who displease him and talks of imperial expansion in the western hemisphere. Latin Americans may feel they are trading decades of benign neglect for an insistence that the United States will get what it wants, whatever the cost.

Mr Trump has threatened to impose 25% tariffs on Mexico and Canada; refused to rule out the use of force to retake the Panama Canal; declared Mexican drug gangs to be "foreign terrorist organisations", with an implied option to use military force against them; suggested Canada should be absorbed by the United States through "economic force"; and revived his bid to buy Greenland from Denmark.

The bust-up with Colombia marks a warning to those who would oppose him. Mr Trump had vowed to "repel the disastrous invasion of our country". As soon as he took office, law-enforcement agencies started rounding up unauthorised migrants and loading them with fettered hands onto military planes to be deported.

This offended Colombia's president, Gustavo Petro. Though his country had long accepted deportees, at 3:41am on January 26th he posted a bombshell on X, the social-media platform: "The US cannot treat Colombian migrants as criminals. I deny the entry of American planes carrying Colombian migrants into our territory." In the early afternoon a furious Mr Trump announced immediate retribution, including 25% tariffs rising to 50% in future on all imports from Colombia and a travel ban on Colombian officials coming to the United States. Mr Petro responded with matching tariffs and social-media ripostes, including an impulsive, rambling message accusing Mr Trump of being a "slaver" and of seeking to overthrow or kill him.

Cooler heads then prevailed. Around 10.30pm the White House announced that the crisis had been resolved and sanctions suspended after Colombia had "agreed to all of President Trump's terms". That was not quite true. On January 28th deportees began returning—in Colombian military planes, not American ones, and with their hands unshackled.

Mr Petro claims a moral victory. To many Colombians he was reckless, risking his country's prosperity. The United States is its biggest market,

importing oil, coffee and cut flowers. With Valentine's Day approaching, producers risked losing the best seasonal sale of their blooms.

And regionally, he is on his own. Brazil objected to the "degrading" treatment of deportees, but did not turn back planes. Honduras called an emergency summit of Latin American and Caribbean states to discuss migration. Its president, Xiomara Castro, had earlier threatened to expel American troops from the Soto Cano air base in response to mass deportations. But the summit was cancelled on January 29th after no leaders other than Mr Petro confirmed their attendance.

Claudia Sheinbaum, Mexico's president, was explicit that she would not attend. Her country has the region's closest and most complex relationship with the United States, which takes nearly four-fifths of its exports and is home to about 37m people of Mexican origin. More than 2m migrants of many nationalities are caught illegally crossing the common border into the United States every year.

Strangely, Mr Rubio is skipping Mexico; perhaps it is a matter for Mr Trump himself. Instead he will visit smaller countries: El Salvador, Panama, Costa Rica, Guatemala and the Dominican Republic. He will be looking for "low-hanging fruit", says Andrew Selee of the Migration Policy Institute, a think-tank in Washington, starting with an assurance that they will take back their deported nationals with no fuss à la Petro.

In El Salvador and Guatemala he will also seek to restore "safe-third-country" agreements signed in Mr Trump's first term and rescinded in Joe Biden's. These would let the United States divert arriving migrants to apply for asylum in those two countries instead. Mr Rubio also wants Central American countries to push back migrants more resolutely. The numbers crossing the Darién Gap, a tract of jungle between Colombia and Panama, have fallen as Panama has tightened controls.

Panama City will be Mr Rubio's most awkward stop. Panama's president, José Raúl Mulino, is staunchly pro-American, but is under attack from Mr Trump, who says the canal should never have been ceded to Panama, claims that Panama has violated its promise of neutrality and has been overcharging American ships. He also claims that China controls the canal through ck

Hutchison, a conglomerate based in Hong Kong which runs ports at either end of it. “We didn’t give it to China. We gave it to Panama, and we’re taking it back,” said Mr Trump at his inauguration.

Mr Rubio may have to explain what Mr Trump means by “taking it back”. His refusal to rule out force has reawakened the ghosts of the American invasion of Panama in 1989 to oust the country’s strongman, Manuel Noriega. Perhaps, some Panamanian officials suggest, Mr Trump can be appeased if a current audit turns up a pretext to kick CK Hutchison out. Or perhaps the auction system for passage through the canal, which raises the price when water levels are low, can be reviewed. Taiwan could be allowed to open a semi-official office in Panama, which would infuriate China. Panama switched its recognition from Taiwan to China in 2017.

But as countries closer to the United States seek an accommodation, those farther away may hedge their bets by forging closer ties with China. That is not the only danger facing Mr Trump. His return to a policy of tightening political and economic pressure on regional foes such Cuba, Nicaragua and Venezuela may push more migrants towards America’s southern border. His suspension of American foreign aid, pending a 90-day review, could damage co-operation on counter-narcotics.

Roosevelt counselled speaking softly and carrying a big stick. Mr Trump speaks loudly. During the Trump-Petro social-media storm, China’s ambassador in Bogotá also took to X, with a message of his own: China’s relations with Colombia were at their “best moment” in 45 years. ■

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The Americas | Calamity in Catatumbo

Armed groups are terrorising Colombia's border with Venezuela

The government has declared a "state of internal commotion" in response to the worst humanitarian crisis in decades

January 30th 2025



On January 16th violence erupted in Catatumbo on Colombia's border with Venezuela. Colombia's oldest active guerrilla group, the National Liberation Army (ELN), began attacking dissidents of the now-extinct Revolutionary Armed Forces of Colombia (FARC). At least 80 are dead, though locals estimate the true number to be in the hundreds.

Residents report fighters going door-to-door, assassinating community leaders and former FARC members who demobilised under a peace deal in 2016. The scale and brutality of the onslaught and the fact that the ELN

attacked civilians were a surprise, says Antonio Sanguino, a former senator from Catatumbo.

More than 50,000 residents have been displaced, the largest forced movement of people in Colombia since records began in 1997, according to Iris Marín, Colombia's ombudsman for human rights. Almost half have sought refuge in Cúcuta. Many others have escaped into poverty-stricken Venezuela. The army has been sent in to rescue the thousands still trapped in their homes.

The violence underscores the ELN's control of the region. It is a blow to President Gustavo Petro's policy of "total peace". The government had been in talks with FARC dissidents and the ELN. On January 17th Mr Petro suspended peace talks with the ELN and accused the group of committing war crimes. On January 24th the army launched an operation against it.

The fighting has raised tensions with Venezuela, where Nicolás Maduro allows the ELN to operate. His regime profits from the drug trafficking that funds the ELN's warmongering. The group has been able to move reinforcements into Catatumbo, probably through Venezuela.

Mr Petro has declared a "state of internal commotion" in Catatumbo and a neighbouring department for the first time since 2008. The measure, subject to review by Colombia's constitutional court, allows the executive to pass security laws and impose taxes by decree for 90 days. Colombia's government says the violence was not foreseeable, despite the fact that Ms Marín and human-rights groups warned repeatedly about exactly this possibility.

Like much of Colombia, Catatumbo needs both force and money from the state to reduce its dependence on illicit trades. Criminal groups have long fought for control of the region, where some 17% of Colombia's coca leaf is grown. Mr Petro knows this. In 2022 his government agreed to build roads and schools, and pay *campesinos* (smallholder farmers) in Catatumbo to switch from coca to crops such as cacao.

No payments, roads or schools have materialised. "Petro has made a fool of the *campesinos,*" says a community leader from the small town of El Tarra,

who is now sheltering in Cúcuta. ■

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The Americas | Champion decarboniser in the making?

Brazil's ragged finances are holding back its green ambitions

The transformation of its largest private port has lessons for the country's aspirations

January 30th 2025



Visitors to the Port of Açu may struggle to determine its industrial nature. No warehouses or piles of containers block the view of the Atlantic Ocean. Swathes of restored *restinga*, a local broadleaf forest, hug the shoreline, which bustles with loggerhead turtles. A different story is suggested only by the gigantic ships that dot the sea's horizon.

The port, 320km (200 miles) north-east of Rio de Janeiro, is the world's largest support facility for offshore oil extraction. Dreamed up a decade ago by an eccentric Brazilian billionaire as a way to meet Chinese demand for

commodities, Açu is now among the world's largest private ports. It handles more than 30% of Brazil's crude-oil exports and 7% of its iron ore.

But Açu's focus is shifting. In the past three years the port has signed contracts worth some $5bn to lease land for factories that will make wind turbines, as well as facilities for the production of ammonia, sustainable aviation fuel (SAF) and pure metallic iron, the main ingredient for producing low-carbon steel. Investment in green infrastructure at the port now outstrips that for fossil fuels.

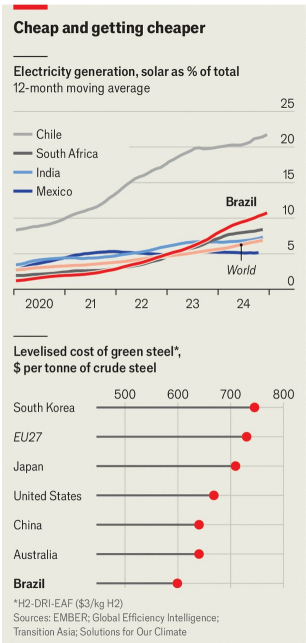
Clean and getting cleaner

The port is a microcosm of Brazil's economic aspirations. Long a major exporter of grains and raw materials, the country now wants to use its abundance of renewable energy to attract firms seeking to reduce their carbon footprint, and to manufacture and export higher-value-added goods. It is a decent plan. Reducing the carbon emissions of the most energy-intensive sectors of the economy—aviation and shipping, or the manufacturing of cement, steel and chemicals—requires huge amounts of cheap, clean energy, as well as abundant biomass.

Few countries have as much of either as Brazil does. More than 85% of its electricity is generated without burning fossil fuels, a share almost three times higher than the global average. Most of this comes from hydropower, but wind and particularly solar are catching up fast. By 2040 the costs of producing solar and wind energy are expected to fall by 46% and 27%, respectively.

This would make Brazil one of the cheapest places in the world to produce green hydrogen, which is created by using renewable energy to split water into its component molecules of hydrogen and oxygen. According to Felipe Diniz of Mirow, a consulting firm in Rio de Janeiro, it would cost about $4.50 per kilogram to make the stuff in Brazil today. He says this could fall to $1.70 within a decade, as wind and solar become cheaper. Brazil's production costs would be in line with places like Saudi Arabia, north Africa and Chile.

Burning hydrogen is one of the few ways that the most energy-intensive sectors can decarbonise. Steel, for example, is made by burning coking coal in a blast furnace to heat and reduce iron oxide into metallic iron, which is then flushed with oxygen to purify it. But this process releases vast emissions of carbon dioxide. That can be avoided by burning hydrogen instead of coal. Brazil is the world's second-largest producer of iron ore, which it exports to countries like China, Japan and South Korea. It wants to process more of it at home. Vale, the world's largest iron-ore miner, is expected to open a clean ore-processing plant at the Port of Açu in 2028.



Steel exports may not be far off. McKinsey, a consultancy, estimates that producing clean metallic iron in Brazil could cost $465 per tonne by 2030, compared with $560 for a similar process in the EU. Global Efficiency Intelligence (GEI), an energy consultancy based in San Francisco, reckons it will be cheaper to make green steel in Brazil than in China, Japan, the United States, South Korea, Australia or the EU, mainly because of the lower cost of green hydrogen (see chart).

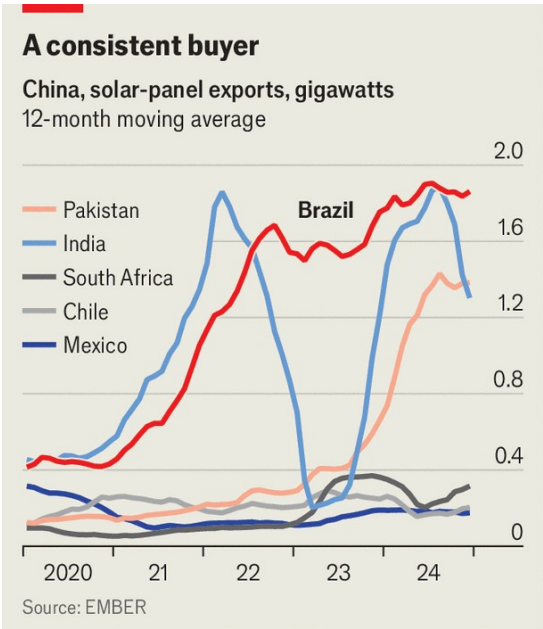
Brazil also wants to make SAF. Its forestry and agribusinesses generate 2bn tonnes of organic waste each year, which is potential feedstock. The EU and the International Civil Aviation Organisation, a standards-setting body, are both nudging airlines to use SAF. From this year, all flights originating in the EU

—around a third of the global total—must contain at least 2% SAF in their fuel mix; this will rise to 20% by 2035 and 70% by 2050.

According to Thiago Sinzato of Rystad Energy, a Norwegian consultancy, global demand for SAF is expected to reach 5m barrels per day by 2050. Brazil could make up 1.3m barrels of that. "It would be easy for Brazil to become the world's biggest SAF producer," he says. Since 2022 Brazil's firms have announced over $4bn in biofuel investments, including in SAF.

Money problems

Its technical foundations for a green-production boom may be sound, but Brazil's economic travails are an obstacle. The high cost of finance is putting off bigger investments in capital-intensive projects. The real was the world's worst-performing major currency last year, losing more than 20% of its value against the dollar.



The Economist

The slump was fuelled by panic about the spending plans of Luiz Inácio Lula da Silva, the left-wing president. Markets believe he is not serious about balancing the books, even as Brazil's budget deficit reaches 10% of GDP and gross debt nears 90% of GDP. An industrial-policy programme announced last year, involving billions of reais, supported that belief. Even as most

central banks cut interest rates, on January 28th Brazil's was raised to 13.25%, among the highest in the world.

The picture may not improve in 2025. The most cherished policies of Donald Trump, America's president, to deport immigrants and impose tariffs, will probably strengthen the dollar. The real will slide further, and investors may look elsewhere. Brazil has great expectations for its role in decarbonising the world. But if it cannot convince investors to keep money in the country, its hopes will come to naught. ■

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Asia

- Who is Lee Jae-myung, South Korea’s possible next president?
- Is Cambodia slipping out of China’s orbit?
- Why Taiwanese youth complain of becoming “housing slaves”
- The Quad finally gets serious on security

Asia | After the attempted coup, then what?

Who is Lee Jae-myung, South Korea's possible next president?

The Economist interviews the divisive progressive leader

January 30th 2025



WHEN SOUTH KOREA'S president, Yoon Suk Yeol, sent troops streaming into the country's National Assembly on December 3rd, Lee Jae-myung turned on his livestream. Viewers watched on a shaky smartphone camera feed as the head of the country's largest opposition force, the Democratic Party (DP), scaled the walls of parliament to help stop the attempt to impose martial law. That Mr Yoon thought he could use force to control modern-day South Korea, a wealthy democracy with a rich civic consciousness, is "just absurd", says Mr Lee, who lost narrowly to Mr Yoon in presidential elections in 2022.

Two months have now passed since that fateful night. South Korea is still in limbo, with both Mr Yoon and his prime minister suspended from office and the government led by its second acting president. Yet as the cases against Mr Yoon move forward—an impeachment trial in the constitutional court is under way and prosecutors indicted him on January 26th on criminal charges of insurrection—the country is increasingly turning its attention to what comes next. Speaking to *The Economist* in a conference room inside the same National Assembly building, Mr Lee is confident, composed and quick to smile. He says the urgent task is to "restore constitutional order" and skirts questions about running again. But if a presidential vote were held today, he would be the favourite, with big implications for South Korea's future direction.

Mr Lee's ascent is far from guaranteed. He faces serious legal problems of his own. He has been charged with a spate of alleged crimes linked to a development project during his time as mayor of Seongnam, his hometown south of Seoul, and to illegal fund transfers to North Korea. In November he was found guilty of election-law violations for lying during the previous presidential campaign; if the conviction is upheld on appeal, he would be barred from running for several years. He denies wrongdoing and his allies remain confident that the appeals process will buy him enough time to stand in new elections. But the allegations have made him a divisive figure. Ahead of parliamentary elections last year, Mr Lee survived an assassination attempt by a knife-wielding extremist.

South Korea remains deeply polarised. In recent weeks public opinion has swung against the DP, which had opened up a wide lead over Mr Yoon's People's Power Party (PPP) in December. Some recent polls even show the PPP neck-and-neck with the DP; Mr Lee narrowly beats potential PPP opponents in hypothetical head-to-head races. Such shifts are a sign that voters, who are frustrated with the ongoing turmoil, once viewed his party as an opposition force but now see it as "the leadership force who needs to take responsibility", Mr Lee reckons.

Recently Mr Lee has been trying to cast himself as a responsible choice to lead the country's recovery. His life story is the stuff of Dickensian dreams. His parents cleaned public toilets. Instead of going to secondary school he worked in factories. He educated himself and entered law school, becoming

a labour activist and human-rights lawyer who advocated for the working classes. As he rose through the political ranks, he developed a reputation as an effective, if slippery, operator. “He is a problem-solver, rather than an ideological agitator,” says Moon Chung-in, an adviser to Moon Jae-in, the DP president from 2017 to 2022. “For him, interests matter more than values.”

That image is central to his pitch to voters. Mr Lee says his party’s guiding value is “pragmatism”. Once known for progressive policies such as a universal basic income, he has tacked to the centre on economics. He speaks of the importance of “restoring growth” and “growing the pie”. In a press conference on January 23rd that looked like a soft campaign launch, he praised the private sector, highlighted the importance of capital markets and called for a results-oriented politics that moves beyond ideologies and factions.

He sends a similar message on foreign policy. South Korea’s left traditionally favours engagement with North Korea, mistrusts Japan (because of its colonial-era abuses) and, though in favour of the alliance with America, seeks balance between it and other powers such as China and Russia. American officials fret that a new DP administration will mean kowtowing to China and an end to the trilateral co-operation between America, South Korea and Japan that flourished under Mr Yoon. Japanese leaders are bracing for a return to tetchy relations. The first unsuccessful impeachment motion brought against Mr Yoon included a section excoriating him for pursuing a “bizarre Japan-centred foreign policy” and for “antagonising” North Korea, Russia and China.

In meetings with foreign diplomats Mr Lee has tried to dispel those presumptions. The foreign-policy section was stripped from the second, ultimately successful impeachment motion. Mr Lee positions South Korea firmly as a “member of the liberal democratic camp”. Since the previous DP administration, the security environment around South Korea has changed, narrowing the potential room for manoeuvre. The public has soured markedly on China, warmed towards Japan and increasingly tuned out North Korean provocations—shifts that Mr Lee, an acute observer of voter moods, has surely noticed. But even a more pragmatic DP leader will still deviate from South Korea’s current course.

Consider Mr Lee's remarks on South Korea's three big interlocking challenges. The most fundamental is relations with North Korea. Previous DP administrations pursued a "sunshine policy" aimed at projecting warmth to foster peace. Last year Kim Jong Un, North Korea's dictator, declared that the two Koreas were no longer one divided country but two enemy states—in effect slathering on a thick layer of sunscreen and donning dark glasses. Mr Lee acknowledges that relations are "hostile". But he contends that the balance of deterrence and dialogue has become skewed. South Korea's own formidable armed forces, its alliance with America and its growing security co-operation with Japan mean that "we are already plenty strong enough militarily to deter North Korea." What is needed now is to "communicate and engage", he argues.

The most sensitive foreign-policy issue is Japan. The walls of the room where Mr Lee sits are lined with portraits of past progressive leaders stretching back to Kim Gu, a famed activist who fought for Korean independence from the Japanese empire. But given present-day geopolitical realities, Mr Lee has "no objections" to deepening relations with Japan and continuing the trilateral co-operation. Japan's defence build-up does not pose a threat to South Korea, as relations are at present "not hostile", he says. "I used to think that Japan was a country full of very strange people who invaded South Korea, committed horrific human-rights violations, and yet never properly apologised for it," he recalls. But after visiting the country during his time as a lawyer, "I was shocked by Japanese people's diligence, sincerity and courtesy" and came to see that the relationship "has ultimately been distorted by politics".

Nonetheless, he criticises Mr Yoon's "excessively submissive attitude" towards the former coloniser. The "emotional conflict" between Japan and South Korea "has not disappeared but was just hidden away". As a party, the DP is still shrill on disputes with Japan. One recent statement calls the Japanese government "truly despicable" for asserting sovereignty over the Dokdo islands, which South Korea controls but Japan claims (and calls Takeshima).

The most difficult issue is calibrating relations with America and China. "Why are we bothering China? We should just say '*xie xie*' (thank you) and '*xie xie*' to Taiwan as well," Mr Lee declared during a campaign stop last

year, to the dismay of many in America. “Why do we care what happens to the Taiwan Strait? Shouldn’t we just take care of ourselves?” He says that the comments simply meant that South Korea “needs to be practical in its diplomacy” and to avoid “worsening relations [with China] to the point that it harms our national interest”. That is unlikely to please China hawks in the new Trump administration. Navigating superpower competition may make defending democracy at home look like the easy part. ■

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Asia | Khmer fugue

Is Cambodia slipping out of China’s orbit?

A new generation of leaders could be more receptive to the West

January 30th 2025



During Donald Trump’s first term as America’s president, Cambodia was a byword in Washington for a Chinese satrapy, or client state. In exchange for at least $1bn in aid each year from 2016 to 2020, American officials suspected the small South-East Asian country of doing a deal to host a Chinese naval base, only the second outside China. They muttered, too, that the country had sold its veto in the Association of South-East Asian Nations (ASEAN) to China, stopping the bloc from taking a stand against Chinese ambitions in the South China Sea.

But all is not well between China and Cambodia these days. China made no new loans to Cambodia last year. It has been especially reluctant to invest in the government’s flagship project, a canal which would connect the Mekong

river to the sea. And the two allies have sparred in recent years over scam centres based in Cambodia. Though linked to Chinese organised-crime syndicates, the scams target Chinese citizens and sometimes traffic them into working in the centres in Cambodia. Each side blames the other for not doing more to crack down.

The falling-out is a test for a new generation of Cambodian leaders. Hun Sen, the wily former revolutionary who ruled Cambodia for nearly four decades, retired from the cabinet alongside his erstwhile comrades-in-arms in 2023. In an unusual transition, he and most of his fellow ministers handed down their portfolios to one of their sons. Unlike their fathers, who came of age during the paranoia and poverty of the Cambodian civil war, the latest generation of Cambodian leaders grew up in peacetime and were mostly educated overseas. Hun Manet, 47, who succeeded his father as prime minister, is at present the only graduate of the American military academy West Point to head a government anywhere in the world. Unlike their predecessors, "you can have a conversation with them", says one Western diplomat in Phnom Penh. He warns that a Western education does not mean that the new guard automatically leans towards the West. But they do not default to their parents' deeply-held suspicions of it, either.

Some in America see in the new leadership and their struggles with China as an opportunity to begin to pull Cambodia out of China's orbit. In its final months, the administration of Joe Biden sent a series of cabinet-level officials to Phnom Penh to test the waters, including the secretary of defence, the director of the Central Intelligence Agency and the administrator of the US Agency for International Development. In December an American warship made a port call in Cambodia for the first time since 2016. Samuel Paparo, the American admiral who, in his current role, would command American forces in any conflict with China, flew in for the ship visit.

Even so, there are reasons to doubt just how far any rapprochement will go. For one, Mr Hun Sen is still around. He remains president of the ruling party and greets foreign dignitaries as president of the Senate. He often makes pronouncements on social media about policies before the government does. A savvy operator, he has used good relations with American allies such as Japan and Australia to balance close ties with China. But he remains wary of

America. In 2017 he accused Uncle Sam of scheming with the leader of the opposition to overthrow the government, later jailing him and banning his party. No evidence was provided, but it sent relations into a deep freeze.

Then there is the continued suspicion over the Chinese presence at the naval base at Ream. Since a draft agreement offering China exclusive access to the base was first leaked to the press in 2019, Chinese engineers have been busy dredging its harbour and upgrading its facilities. In December Mr Hun Sen announced that Japan would be the first nation invited to make an official port call at the base after improvements are complete. But two Chinese corvettes spent most of last year alongside a new pier there. Cambodian officials claim that China plans to donate the vessels to the country, and was merely training Cambodian sailors on them. Western analysts are sceptical of this.



The Economist

And, finally, the most important Chinese investment in the country is one that China has yet to make. In 2023 Mr Hun Sen announced the plan for a $1.7bn canal from the Mekong river to the sea (see map). The canal would allow Cambodia to bypass the Mekong river delta when shipping its products abroad. It would also serve as a historic salve for the loss of the delta to Vietnam during the colonial era. “It’s impossible to overstate the political importance of the canal,” says one Cambodian analyst, who did not

want to be named. Mr Hun Sen is staking his reputation on it, adding to the canal's name the honorific that usually precedes his own: *techo*, which means great or powerful.

China has funded several loss-making infrastructure projects in Cambodia in recent years, including a new airport in Siem Reap, which is operating at just 20% of capacity. But in its straitened economic circumstances, Chinese officials may be concerned about the economics of a waterway with tolls. Barges would probably go on using the Mekong, which remains free and could handle larger vessels. Japanese officials who have taken a look at the business case have demurred. There seem few alternatives to Chinese cash if the canal is to be built, and politically, few alternatives to building the canal. If a deal can be done, relations would be right back on track.

Cambodia's authoritarianism is another problem. Mr Trump may care little for norms of democracy, but Marco Rubio, his secretary of state, took a hard line against Mr Hun Sen's abuses of power during his time as a senator. If Mr Rubio decides to own the Cambodia issue, few others in the administration are likely to be interested enough to disagree with his stance. Indeed, if Mr Rubio decides to take on Cambodia's scam industry, too, it might be one of the very few issues in Asia where Mr Trump's administration and its Chinese counterparts see eye-to-eye. ■

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Asia | Unaffordable island

Why Taiwanese youth complain of becoming “housing slaves”

A new generation is questioning the value of homeownership

January 30th 2025



Ever since Ice Jao, a 30-year-old, got married two years ago, her mother has been pestering her to buy a home. The jewellery seller pays $425 a month to rent a flat about the size of two parking spaces on the outskirts of Taipei, the capital of Taiwan. She shares it with her husband and two cats. Her parents think that “only a house you own can really be a home”, she says. But Ms Jao is reluctant to become a *wu nu*, or “housing slave”, she says. That is slang for young homebuyers who feel trapped by their expensive mortgages.

Taiwan’s youngsters are not exaggerating when they call homeownership a burden. House prices on the island are exorbitant. In Taipei, median house prices are 16 times the median income. That is a higher ratio than New York

(9.8), London (14), or Seoul (13). It is not much better outside the capital. The United Nations considers a housing price-to-income ratio of three to be affordable. But Taiwan's national average is 11. Even its cheapest city, Keelung, has a ratio of 6.5. The average Taiwanese household spent nearly half of their disposable income on mortgage payments in the second quarter of 2024. In Taipei, they spent more than 70%.

Taiwan's government has long promoted homeownership in line with traditional Chinese beliefs that land equals wealth and security, says Chang Chin-oh, a retired academic. "Everyone believes, 'I must buy, or else I'm a loser'," says Chen Taiyuan, an estate agent in Taipei who has run for parliament on a platform of housing-policy reform. As a result, nearly 85% of Taiwanese households live in homes that they own. That has paid off for older generations: average home prices in Taipei have tripled since 2000, according to one index.

Buyers today are unlikely to benefit in the same way. Taiwan's population is shrinking, and foreigners are investing less in Taiwanese property. That means house prices are likely to fall. "There are already too many houses in Taiwan," says Liao Ting-hui, who works for an urban-planning advocacy group. Taiwan has over 9m housing units for only about 8m households. One-fifth of homes are empty, according to the latest census. And nearly a quarter of properties built in the past five years are unoccupied. Wealthy buyers are hoarding empty flats, says Mr Liao.

The government has done little to stop such behaviour. Property owners pay higher taxes if they own four or more units, but the amounts they owe are puny. Taxes are calculated according to government-assessed land and building values that are decoupled from market prices and undervalued (as the methods of calculation have not changed for decades). The owner of a $900,000 house pays less in taxes than the owner of a $20,000 car, according to calculations by one think-tank.

Adjusting the tax system would be unpopular. Instead Taiwan's government has focused on providing rent subsidies and social housing. In 2023 it also expanded a housing-loan programme for first-time buyers. That caused a spike in both prices and sales. Many young Taiwanese jumped into "crazy panic buying", says Mr Liao. The central bank had to tighten credit controls

last year. Since then sales have slowed. Meanwhile, young Taiwanese face an insecure rental market with few protections. Last year an index of rental prices in Taiwan hit an all-time high. ■

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Asia | Banyan

The Quad finally gets serious on security

The Indo-Pacific coalition signals a tougher approach to China

January 30th 2025



An identity crisis has long afflicted the Quad, a coalition that groups America, Australia, India and Japan. It began in 2007 as a security partnership of countries wary of China's rise. But it has largely shied away from explicit military co-operation. Its summits usually exclude defence officials and uniformed officers. It does not officially do military drills (although the four countries exercise together). And recently, it has focused more on areas such as vaccine distribution and disaster relief.

Such pussyfooting is apparently out of fashion now that Donald Trump is back. On January 21st, a day after his inauguration, his secretary of state, Marco Rubio, hosted a Quad foreign ministers' meeting in Washington.

They issued an unusually brief joint statement that was squarely focused on security and, without mentioning China, left little to the imagination.

The quartet reaffirmed its commitment to a "free and open Indo-Pacific where the rule of law, democratic values, sovereignty, and territorial integrity are upheld and defended". It strongly opposed "unilateral actions that seek to change the status quo by force or coercion" and pledged to bolster security across multiple domains. The Quad would meet regularly before its next leaders' summit in India, it said.

Mr Trump and Narendra Modi, India's prime minister, also affirmed their commitment to the Quad in a call on January 27th. Many China hawks were delighted. They saw clear signals that Mr Trump remains committed to the coalition, despite his scepticism of American alliances.

Many involved with the coalition felt that the Quad had recently deferred too much to concerns about provoking China (which denounces it as an "Asian NATO"). America's previous president, Joe Biden, elevated the Quad's status by holding six meetings of its leaders but steered it towards providing "public goods". Members avoided using its original title: the Quadrilateral Security Dialogue.

Still, a punchier Quad will prompt familiar concerns, especially for India. Mr Modi gets on well with Mr Trump and boosted defence ties with America following a deadly clash on the India-China border in 2020. But after reaching a deal on that border dispute in October 2024, Mr Modi wants to rebuild economic ties to China. The two countries just agreed to resume direct air links, for example.

Indian officials also worry that Mr Trump might strike a bargain with China on trade, or even Taiwan. "It is not very clear what intention Trump has in managing that relationship," says Shyam Saran, a former Indian foreign secretary. "If there's a tactical accommodation, obviously it will have its impact on the Quad."

Like many world leaders, Mr Modi is keen to please Mr Trump, not least to avoid tariffs. And India's leader wants to make a success of the Quad summit in Delhi, which will probably happen in September and be Mr

Trump's first visit to India in his second term (Mr Modi may go to Washington in February).

But India remains firmly opposed to anything resembling a formal alliance with America. That could make it hard to upgrade quadrilateral military exercises. Sharing more intelligence with India via the Quad, as suggested by the Heritage Foundation's "Project 2025" blueprint for Mr Trump's second term, could also be complicated by India's close ties to Russia. And though Mr Trump urged Mr Modi on their call to buy more American security equipment, India has to balance that with its limited budget and desire to make more arms domestically.

A more promising area is the Indo-Pacific Partnership for Maritime Domain Awareness, which was launched in 2022 at the second in-person Quad leaders' summit. It contracts private companies to provide Indo-Pacific governments with near-real-time data to help monitor coastal waters and use naval and coastguard resources more effectively, particularly against Chinese incursions. The Quad began by sharing such data in South-East Asia and the Pacific and says it is expanding to the Indian Ocean region via a data centre near Delhi.

Enlisting more partners and adding more data to that programme will help to refocus the Quad on security. Enhancing "Quad Plus" activities involving other countries will help, too. The coalition will have to do much more to fulfil the promise of its January meeting. Achieving that may push India beyond its comfort zone. But it could finally transform the Quad into an effective check on China's ambitions. ■

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China

- China needs its frightened officials to save the economy
- The bad side-effects of China’s campaign to cut drug costs
- America and China are talking. But much gets lost in translation

China | Purge, purge, pardon

China needs its frightened officials to save the economy

After years of being hounded by anti-graft authorities, many are too afraid to act

January 30th 2025



OVER THE past decade, as Chinese governance has become more politicised and a fear of punishment has taken hold, local officials have changed the way they do things. Many are holding more meetings and issuing more documents—but much of this is just show, according to Hanyu Zhao, a scholar who tracks the bureaucracy. The burden of looking busy is often passed down to lower-level cadres, some of whom, at least, are getting creative. In one example highlighted by Ms Zhao, a group of them were required to hold two (unnecessary) meetings each day as part of an anti-poverty campaign. Instead they met once every three days, taking six photos per meeting with different outfits, lighting and seating.

Local officials once helped to drive China's economic growth. In the 2000s they fiercely competed to crank up GDP, scrambling to attract investment to provinces, cities and villages. But when Xi Jinping came to power in 2012, he worried that freewheeling officials were feathering their own nests and creating financial risks. More scrutiny of their behaviour and harsher punishments for their mistakes followed. As a result, many local officials now choose to act only in a superficial manner—or not at all—lest they invite scrutiny from the Communist Party's investigators.

The party, though, urgently needs local officials to regain their enthusiasm and help China out of its economic rut. Growth is flagging amid weak consumption, a property slump and a lack of jobs. The government is trying to stimulate the economy. It approved 4trn yuan ($550bn) of "special bonds" for local officials to use on infrastructure projects in 2024. But they were sluggish both in issuing the bonds and in getting projects started. Some 2.3trn yuan of the funds were still unused as of October, according to the latest data from despairing central authorities.

At the annual session of China's parliament in March, the government is expected to approve an even higher bond quota for local officials to use on a greater range of projects, including industrial parks, hospitals and care facilities for the elderly. It will also expand a "cash for clunkers" scheme, which subsidises households and firms to trade in consumer goods and factory equipment for newer gear. That scheme is funded by the central government but depends on local officials to carry it out, with more funding to be allocated for those who do a good job.

There is much to do, then, and little time to do it. But officials' spirits will be hard to revive. For the past decade the party's anti-corruption arm, the Central Commission for Discipline Inspection (CCDI), has sown fear across the bureaucracy. It has punished more than 6m officials, from high-ranking "tigers" to low-ranking "flies". Local administrations are now wary of doing anything that might lead to accusations of graft. So lately the CCDI has been handing down punishments for laziness, too. Last year it disciplined 94,000 officials for "irresponsibility", "inaction" and "pretending to work", more than twice the number the year before.

The party is also trying a softer approach, which is perhaps overdue. Mr Xi expressed concern about his anti-corruption campaign's effect on morale way back in 2016. In a speech that year he said inspectors must distinguish between well-meaning but unwise conduct and genuine corruption. In particular, he expressed sympathy for unintentional mistakes, errors made from lack of experience and hiccups when experimenting in new areas without clear rules. The policy became known as the "three distinctions". In recent years it has gained more prominence in state media. Last July it was mentioned at a big party meeting that set out economic priorities for the next five years.

To implement the three-distinctions policy, the CCDI sometimes waives punishments if there are mitigating circumstances. For example, officials in the central city of Yichang were placed under investigation for rushing through a high-speed rail project without following the correct procedures. But they were let off with a slap on the wrist because the error helped the city "seize development opportunities", according to a report by the authorities. Other local officials have been forgiven for botching investment projects if they were judged to be for the good of the economy, rather than personal gain.

Let's chat

The party must "combine strict management with warm care…so cadres will be eager to forge ahead," Mr Xi has said. Perhaps with that in mind the CCDI has been holding what it calls "heart-to-heart" talks with cadres. Such conversations are "both a science and an art", according to a guide posted online. It suggests inspectors should build rapport by asking about an official's children and hobbies. If necessary, it says, interrupt them with a "light cough" rather than a word, to avoid causing offence. "I am grateful to the [CCDI] for reminding me through heart-to-heart talks that slacking off is irresponsible," one official in the region of Guangxi told state media last year. "I will correct my mistakes without delay."

Another aspect of the CCDI's new approach has been to stamp out false accusations of corruption. In 2023 a man in the city of Linzhou was sentenced to 18 months in prison for falsely claiming that a village party

boss consorted with criminals and extorted money from farmers. Since the beginning of last year, Zhejiang province, in eastern China, has exonerated 2,802 falsely accused officials.

Inspectors are still struggling to strike the right balance between harshness and mercy, admitted a commentary in a party-run magazine in September. They often err on the side of being strict, it said, because of "cognitive biases". In other words, old habits die hard. The anti-corruption campaign shows no signs of letting up. Last year the CCDI punished a record 889,000 officials, 46% more than the year before. That trend must reverse before there is any chance of morale improving, says Alfred Wu of the National University of Singapore. "If I were a public official, I still wouldn't dare to do much." ■

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China | Drugs and dissent

The bad side-effects of China's campaign to cut drug costs

Poor quality is one. An angry public is another

January 30th 2025



ANAESTHETICS THAT don't put patients to sleep. Laxatives that fail to clear bowels. Blood-pressure medication with little effect. These are some of the problems that doctors have encountered in China's public hospitals. They have been speaking out in recent weeks, questioning the quality of the country's drugs and urging reform of the government's procurement programme. The public has chimed in, too. "Medicine that doesn't work, no matter how cheap, is useless," wrote one user of Weibo, a social-media platform.

The government set up the procurement scheme in 2018 with the goal of lowering costs. Public hospitals had been negotiating individually with drug-

makers; now there would be a central bidding system run by the National Health-Care Security Administration (NHSA). Because it was offering higher-volume contracts, the state insisted on better deals. (Public health-care institutions account for about 70% of drug sales in China.) It was hoped that foreign firms would compete with domestic drug manufacturers, driving down prices. At the same time, the space for kickbacks to doctors and hospitals would narrow.

The plan worked in one important regard. To secure contracts, drug-makers have cut prices by as much as 95%. All but a small fraction of the drugs procured through the programme are generics made by Chinese firms, which have undercut their foreign counterparts. The government says that since 2018 the scheme has saved China's medical-insurance fund about 440bn yuan ($61bn)—much-needed relief for a health-care system that must cope with an ageing population. The NHSA claims that 80% of those savings have been used to buy innovative drugs. Many Chinese credit the programme with making care more affordable.

But the quality of the drugs bought under the programme has long been a concern. In 2021 the Shanghai Health Development Research Centre, a government think-tank, warned that smaller companies, facing pressure on margins, might adopt strategies that affect drug quality. Medical professionals have questioned whether firms cut corners to compete. Recently some doctors dug into the trials of generic drugs. They found that the data looked suspiciously similar to trials of the original versions. A unit of the state drugs regulator blamed "editing errors".

In January, 20 doctors who are part of an official advisory body in Shanghai called for better monitoring of domestic drugs and for patients to be allowed to get an original branded medication, even if it was not on the government's procurement list. Insurance reimbursements could be adjusted based on the drug selected, they wrote in their proposal, but doctors and patients should have a choice. Lu Changlin, a cardiologist at Beijing Chaoyang Hospital, has presented a similar plan in that city. The NHSA, for its part, has vowed to investigate the quality problems and hold firms accountable.

The government has also made clear that there is no regulation banning the purchase or use of imported and branded drugs. At private clinics patients

have a wider choice of medication. But most of the population relies on public hospitals and, therefore, Chinese-made generics. That makes many people nervous. One patient took to social media to air her concerns about anaesthetics and share her fear of an upcoming operation. “I’m so scared of waking up in the middle of it!” ■

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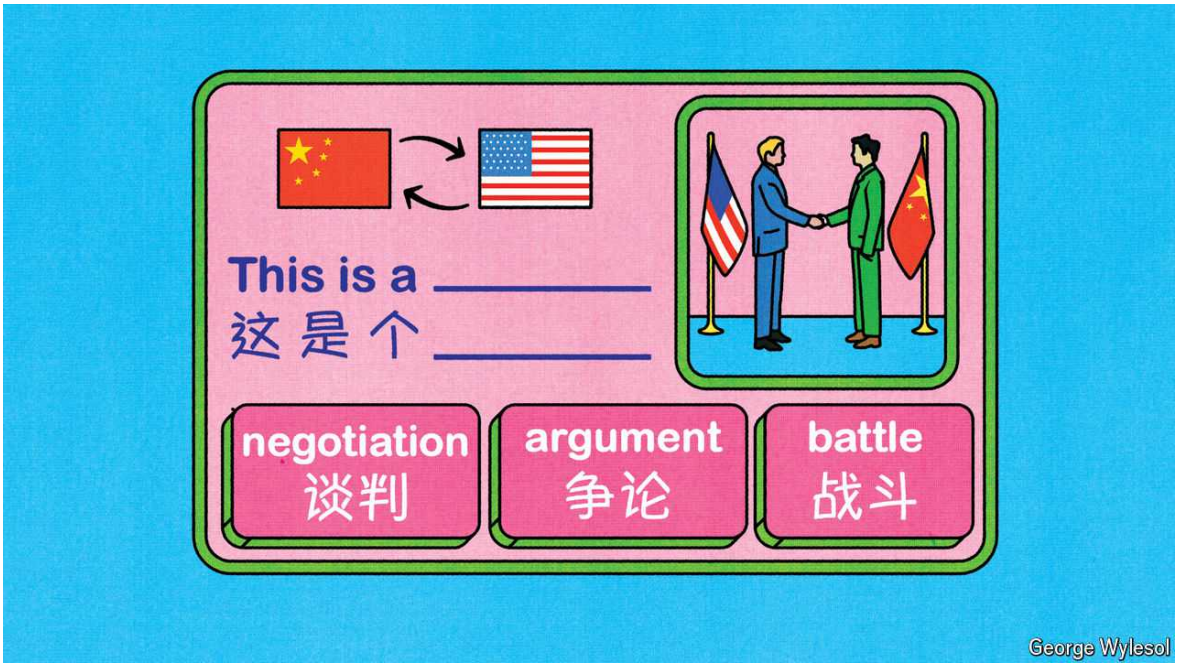
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China | Meaning what, exactly?

America and China are talking. But much gets lost in translation

How linguistic differences complicate relations between the great powers

January 28th 2025



EVEN AS AMERICA'S relationship with China enters a new, less predictable era, Donald Trump and Xi Jinping see the value in talking. On January 17th the leaders had a "very good" phone call, wrote Mr Trump on social media. Chinese diplomats said the two agreed to "keep in regular touch on major issues" and committed to work together for "world peace".

The language used during that exchange was simple enough. But communication between the powers isn't always so straightforward. Words often mean one thing in English and something different in Chinese. Ambiguous phrases can be used to send distinct messages to audiences in each country. Sometimes this leads to misunderstandings. At other times it

smooths diplomacy. Either way, linguistic sleight of hand is becoming more consequential in Sino-American relations.

Take the phone call on January 24th between Wang Yi and Marco Rubio, the top diplomats of China and America. Mr Wang used the phrase *hao zi wei zhi*, according to a summary from his government in Chinese. The idiom might be used by a superior telling their subordinate to behave. But it is vague. China's foreign ministry has in the past translated it as "make the right choice" or "be very prudent about what they say or do", according to the Associated Press, a news agency. The English summary of the account published by Xinhua, China's official news service, does not include the phrase.

Joe Biden liked to call China a "competitor", which seemed less harsh than "opponent", a term he used to describe Russia. But the distinction may have been lost in China. Whereas the English word "competition" comes from the Latin for "strive together", the Chinese equivalent in geopolitical contexts, *jingzheng*, often sounds more zero-sum, meaning to struggle at the expense of one's opponent. Earlier this year Kathleen Hicks, a defence official under Mr Biden, talked about these difficulties. After describing a policy of "deterrence" towards China, she noted that the word is often translated as *weishe*, which literally means to terrorise with force. "So, I want to be clear," added Ms Hicks, "we are not trying to coerce or compel [China]."

Lost in *fanyi*

Other complications arise because Chinese has fewer subordinate clauses than English and lacks articles such as "a" and "the". This matters when Mr Xi vows that China will become "the leading power"—or is that "a leading power"? It depends whom you ask. Chinese state media translates it with the less threatening "a", but many in the West use the definite article.

The Communist Party thinks hard about how it presents things in English. In 1998 it changed the name of its Propaganda Department to the more agreeable Publicity Department—but only in English. The One Belt and One Road Initiative quietly became the Belt and Road Initiative in 2015, making it sound less exclusive (the Chinese name did not change). Mr Xi is usually

called general secretary in Chinese, referring to his most important role as party chief. Chinese diplomats, however, insist that he should be called president in English. This refers to his position as head of state. The presidential title confers less power than that of party chief. But it fits better with the nomenclature commonly used by other government heads.

Translation has been an issue from the start of America's formal relationship with Communist China. When establishing diplomatic ties in 1979, they signed a communiqué which in Chinese says that America "recognises" China's position on Taiwan. In the English version, America merely "acknowledges" it. Such linguistic dexterity is not unusual. A study by Sabine Mokry of Leiden University in the Netherlands found that in almost half of the translated foreign-policy documents that China released from 2013 to 2019 there were differences between the English and Chinese versions that might change how a reader views the country's intentions.

When it comes to Mr Xi's statements, one must often go beyond the literal translation. For example, he calls China's technology sector his *shashou jian*, or assassin's mace. It sounds sinister when translated literally, but really means nothing more menacing than "trump card" or "ace up one's sleeve". Similarly, Mr Xi refers to the United Front Work Department, a body involved in boosting the party's influence abroad, as his *fabao*. This is commonly translated as "magic weapon" by Western analysts. But it could also be understood as talisman, or protective shield.

Scholars from America and China are working to agree on definitions for words that may one day appear in bilateral deals. It's not easy. In 2024 experts from the Brookings Institution, a think-tank in Washington, and Tsinghua University in Beijing published a glossary of terms relating to artificial intelligence. After years of discussion, they agreed on "joint interpretations" for just 25 of more than 100 proposed terms. Another effort, led by Arne Westad of Yale University, seeks to clarify words that describe when each country would consider using a nuclear bomb.

Some flexibility with language may be worth maintaining, though. Mr Wang's fuzzy warning to Mr Rubio allowed the government in Beijing to look strong at home without alienating the Trump administration. If any offence was taken as a result of the exchange, it may have been on the

Chinese side. America's readout of the conversation misidentified Mr Wang's job title, an error that had nothing to do with language differences. ■

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Middle East & Africa

- The fall of Goma heralds more bloodshed in eastern Congo
- Ahmed al-Sharaa declares himself president of Syria
- Iran’s alarming nuclear dash will soon test Donald Trump
- Hamas talks a big game but is in chaos
- Syria’s new rulers say they are keen to integrate foreign fighters

Middle East & Africa | High stakes in the Great Lakes

The fall of Goma heralds more bloodshed in eastern Congo

Rwanda's reckless invasion raises the risk of a wider war

January 30th 2025



"There are no more places for the dead," says Marie Kavira-Nvungi, a nurse at a hospital in Goma, the largest city in the east of the Democratic Republic of Congo. The morgue is full. Wounded patients lie on the floor waiting for treatment. Among them are children injured by shrapnel and explosives. The pharmaceutical depot has been looted, depriving patients of medicines. "The situation is becoming difficult," adds Ms Kavira-Nvungi, with stoical understatement.

The scene is the result of the invasion of Goma on January 27th by M23, an armed group under the control of Rwanda, Congo's neighbour, which abuts the city. Paul Kagame, Rwanda's president, has escalated a crisis whose

origins go back decades. More instability in Congo, which saw two catastrophic wars between 1996 and 2003, is almost certain. As African and Western states are distracted or indifferent, there is little to stop a wider conflict.



Goma is more than 1,500km east of Kinshasa, Congo's capital, but just 100km west of Kigali, the Rwandan one. It is the hub of what Mr Kagame sees as Rwanda's sphere of influence. He claims the Congolese state has failed to get a grip on its war-torn east and co-operates with his country's enemies. Mr Kagame singles out a militia known as the FDLR, which has its roots in the ethnic Hutu groups that tried to exterminate Mr Kagame's Tutsis in the genocide of 1994. Those close to him add that the infrastructure Rwanda has built near the border—including luxury tourist lodges for seeing gorillas—is at risk from any group or Congolese army division with an armed drone.

- Rwanda does a Putin in Congo
- Photo essay: The fall of Goma

Yet what remains of the FDLR is a motley assemblage that presents little threat to Rwanda's army. Rwanda is the main sponsor of instability in the region that Mr Kagame claims Congo is failing to pacify. Its elites harbour dreams

of a “Greater Rwanda”, arguing that its colonial borders do not reflect its history. Congo’s vast mineral wealth is another motive to meddle. M23 controls coltan supply chains. Congolese gold is regularly smuggled out of Rwanda.

When Félix Tshisekedi became president of Congo in 2019, Mr Kagame welcomed his victory in dubious elections. But relations soon soured. In late 2021 M23, a Congolese Tutsi-led group that had been dormant for almost a decade, re-emerged. Despite denials coming out of Kigali, UN experts say that M23 is funded and armed by Rwanda, which has thousands of troops fighting alongside it. The group has steadily gained territory in North Kivu province, of which Goma is the capital, committing murder and gang rape along the way.

The rhetoric on both sides has long been rising. Mr Kagame has implied support for the idea of a greater Rwanda. Mr Tshisekedi has likened Mr Kagame’s territorial ambitions to those of Adolf Hitler, and suggested he wants to change the regime in Kigali. In December diplomatic talks led by Angola and backed by America ended in failure. Rwanda says this is because Congo would not talk to M23. But Mr Kagame may never have been serious about diplomacy.

In Goma M23 has seized full control, after some brief resistance from Congolese special forces and pro-government militias known as Wazalendo. Some Congolese soldiers and militiamen ditched their uniforms before hiding or fleeing. Your correspondent found uniforms that had been thrown over the wall of his hotel. Foreign troops meant to help the Congolese army have melted away. Romanian mercenaries procured by Congo have left by bus for Rwanda. A deployment of southern African forces has been humbled; South Africa says 13 of its troops have died in recent skirmishes. Members of one of the world’s largest UN peacekeeping missions, known as MONUSCO, are either sheltering in their bases or have left the country.

The city has been devastated. Mark Mundalama, a local resident, says he counted 30 corpses on the ground as he left his house to find a safer hideout with his children. “Many people were injured because they were going to look for water and food,” he says. Most of the city is without internet, water

and electricity. Hospitals are full. Many residents have taken to looting what they can find, sometimes from abandoned UN facilities.

Rwanda's incursion has been widely condemned, including in meetings at the UN Security Council on January 26th and 28th. Marco Rubio, America's new secretary of state, has spoken to Mr Tshisekedi and Mr Kagame, calling "for all parties to respect sovereign territorial integrity". Europeans are considering whether to halt aid for projects in Rwanda.

Yet Rwanda calculates that the West will not enforce sanctions that would compel it to reverse course. Nor does any African country have the focus or clout to stop the bloodshed. William Ruto, Kenya's president, asked for talks on January 29th, but Mr Tshisekedi sees him as too close to Rwanda, so declined to take part. Cyril Ramaphosa, South Africa's president, whose troops are dying at the hands of Rwandan-backed forces, is unlikely to be seen by Mr Kagame as a neutral arbiter.

What happens next? M23 seems set to administer Goma, presumably with Rwandan assistance. But Mr Kagame may go further. A Rwandan official suggests that M23 will advance on South Kivu, raising the risk of further conflict between Rwanda and neighbouring Burundi, whose troops have also been fighting against M23. There is a possibility that Mr Kagame wants a reprise of the 1990s, when his army marched all the way to Kinshasa to topple Mobutu Sese Seko, the dictator of what was then Zaire.

That is unlikely. But Mr Tshisekedi seems keen to use an upsurge in jingoism for his own ends; some fear he wants to try to remove a constitutional limit on his staying in office beyond the end of his second term in 2029. His opponents, by contrast, will see his humiliation as an opportunity to get rid of him. They include political groups that are closely allied with M23.

Either way, the fall of Goma is a seismic moment in the modern history of the Great Lakes. Rwanda's actions will continue to be met with disapproval. But Mr Kagame thinks he can get away with it. The past 30 years suggest that he is right. ■

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Middle East & Africa | The next steps

Ahmed al-Sharaa declares himself president of Syria

But he has given no details of what kind of state he wants to build

January 30th 2025



On January 29th cafés across Damascus were packed. Syrians, both recently returned exiles from Europe and Turkey and those who had remained in Syria under Bashar al-Assad, its long-time dictator, gathered to listen to a speech by Ahmed al-Sharaa, the country's de facto ruler since the ousting of Mr Assad. Some wore headscarves. Others sipped beer. All were eager to hear Mr Sharaa's vision for their country.

In the end it was not the promised live address to the nation. Instead it was a short delayed speech, pre-recorded before a crowd of selected militiamen. His words were grandiose, but vague. "We broke the chains and the tortured were freed," he proclaimed. "We removed the dust of humiliation and

disgrace from Syria's shoulders." Mr Sharaa, a former al-Qaeda leader turned would-be statesman, then declared himself as Syria's interim president.

Most of the speech was leaked in advance. Mr Sharaa's appointment and early edicts were drip-fed to state media over the course of the day in a series of confusing statements by a senior military commander in Hayat Tahrir al-Shams, the rebel group Mr Sharaa led against Mr Assad. The commander appointed Mr Sharaa interim president, dissolved Mr Assad's Baath Party, and announced the formation of a legislative council that will govern Syria until a new constitution can be agreed.

But the speech offered little clarity on what comes next for Syria. There was no timetable for a much-announced but repeatedly delayed national convention where the new constitution would be decided. Nor were there any details about the kind of state Mr Sharaa intends to build.

He had spent the day with the leaders of Syria's myriad armed factions, trying to persuade them to disband. Over seven weeks after the fall of Damascus, the fate of these groups is still uncertain. His aides claim that all militias will be dissolved and then absorbed into a new national army.

Some have agreed, but there are still holdouts—including some of the most powerful of Syria's most armed groups. The Syrian Democratic Forces, a Kurdish militia backed by America that dominates the north-east, were conspicuously absent from Mr Sharaa's victory rally. Southern factions remain uneasy about the presence of foreign fighters, while hardline Islamists bristle at his increasingly secular tone.

Mr Sharaa seems most concerned with the fate of Syria's armed factions. In recent weeks his new defence minister has held talks with nearly 150 groups. Some have ended in vague assurances; others in shouting matches and slammed doors. A unified national army still seems a distant possibility, but it could not be more urgent. Sectarian violence is rising in parts of the country. Meanwhile Western officials believe it is only a matter of time before the revival of Islamic State, a jihadist terrorist group that once controlled swathes of Syria, disrupts the country's transition.

Still, Mr Sharaa is making some progress elsewhere. Syrians are starting to return from abroad. Notables from all walks of society are clambering to meet him, and the EU and America have already announced the easing of some sanctions (though they show no signs of budging on key areas such as those on banks and financial institutions). In the coming days he will travel to Saudi Arabia—his first trip abroad since Mr Assad's regime fell, and his first as president. And as *The Economist* went to press, he was preparing to receive the emir of Qatar, the first head of state to visit him in the Syrian capital.

Mr Sharaa's rule rests on fragile foundations. If his presidency is to have clout, he needs a clear plan for how to rebuild Syria. That might be better announced to his own people, not just his fighters. ■

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Middle East & Africa | The Middle East and nuclear weapons

Iran’s alarming nuclear dash will soon test Donald Trump

There is no plausible civilian use for the enhanced uranium Iran is producing

January 28th 2025



“It would really be nice if that could be worked out without having to go that further step,” declared Donald Trump on January 23rd, speaking with the insouciance of a man complaining to a waiter about his meal. In fact Mr Trump was referring to Iran’s nuclear programme. The “further step” was an Israeli strike. And whether it can be “worked out” is perhaps the biggest question in the president’s in-tray.

The past year was painful for Iran. Its president died in a helicopter crash. It was twice hit by Israeli missiles, which wiped out its best air-defence and missile facilities. And three of its allies—Bashar al-Assad’s regime in Syria,

Hizbullah in Lebanon and Hamas in Gaza—have crumbled. Its nuclear programme is a rare area where Iran might claim to retain the initiative.

Late last year Iran was producing around 7kg of uranium enriched to 60%—a stone's throw from weapons-grade—each month, enough to make around two nuclear bombs per year if enriched further. Now it is installing more advanced centrifuges, and feeding some with uranium already enriched to higher levels. "The capacity is increasing by a factor of seven," Rafael Grossi, head of the International Atomic Energy Agency (IAEA), a UN watchdog, told *The Economist*. There is no plausible civilian use for all this.

Iran suspended its formal nuclear weapons programme in 2003, but continued to pursue weapons-related work. The killing of Mohsen Fakhrizadeh, a nuclear physicist, in 2020, almost certainly by Israel, has left a vacuum. No one person co-ordinates weapons-related activity. An Israeli source says that "there are now at least five or six Fakhrizadehs and they're much harder to get at". Some units in Iran's programme are thought to be conducting research without telling policymakers. There are worries that Iran is hoarding undeclared centrifuges to use later.

Many in Israel would like to strike Iran's nuclear sites to stop it getting a bomb. But Ehud Barak, a former Israeli prime minister who once advocated such action, and other former Israeli politicians argue that Iran's programme is now too advanced and deeply buried to take out. Other Israeli officials, buoyed by the success of their strikes last year, insist that they could still do serious damage—if America helps by providing the necessary bunker-busting bombs, as well as intelligence.

Mr Trump is not convinced. "They can't have a nuclear weapon," he insisted recently. "They are religious zealots". But his early moves suggest he is not keen on an immediate scrap. Within hours of taking office, Mr Trump fired Brian Hook, a hawkish official who was Iran envoy in Mr Trump's first term. He then withdrew security protection from Mr Hook and Mike Pompeo, his former secretary of state. Iran had threatened to assassinate both men after Mr Trump's decision to kill Qassem Suleimani, an Iranian general, in 2020.

Many of Mr Trump's appointees oppose American entanglement in the Middle East. Elbridge Colby, the Pentagon's new policy chief, wants the country to focus on Asia. Hawks are also alarmed by chatter that Mr Trump might make Steve Witkoff, a real-estate property investor who serves as Middle East envoy, envoy to Iran too.

Mr Trump's preference is to resume "maximum pressure" on Iran by adding to and enforcing sanctions. But to what end? The president will have to decide how far he wants to roll back Iran's programme, and whether to demand constraints that go beyond those of the nuclear deal which he left, and in essence killed, in 2018. Mr Grossi reckons his IAEA could design a system for "checking on" Iran's various pathways to a bomb, though he warns that the agency is now "pretty much in the dark" on Iran's procurement of components for centrifuges. Mr Trump will also have to decide whether he wants to focus on nuclear issues alone or also cover regional ones, such as Iran's support for armed groups.

For their part, Iran's leaders are in a quandary. The loss of their missile stockpiles, air defences and regional allies means that the nuclear option is more attractive. But that same trio of factors means that they are in a poor position to weather the fallout if they are caught in the process of dashing for a bomb. Israeli spies have demonstrated a remarkable degree of penetration of Iran over the past year.

Mr Grossi, who visited Iran in November, says that he saw in Masoud Pezeshkian, Iran's president, "a desire to engage with us more constructively and comprehensively". Mr Pezeshkian is a weak president with little say on nuclear policy. But even those with real power have reason to cut a deal. Iran's leaders fear Mr Trump's impetuosity. They are also in dire economic straits. "Iran is likely to choose negotiations for now," says Raz Zimmt, an Iran-watcher at Tel Aviv University. Even so, he is unsure whether the gap between Mr Trump and Ayatollah Ali Khamenei, Iran's supreme leader, can be bridged. "They will try and string [Mr Trump] along in negotiations," says an Israeli intelligence official.

A ticking time-bomb

That may work only up to a point. “We are working against a very tight timeline,” acknowledges Mr Grossi. Under the previous deal, Britain, France and Germany—the three remaining Western members of the pact—can vote to reimpose the full panoply of pre-2015 sanctions on Iran, a move they threatened in December. If they do not do so by October, they lose that ability. Iran says it might pull out of the Nuclear Non-Proliferation Treaty in response. There is no current consensus between London, Paris and Berlin. The timetable could also shorten if Israel believes Iran is making a clandestine dash for a bomb. Like Iran, America’s allies are waiting to see how Mr Trump will approach talks. “Iran will hopefully make a deal,” said the president on January 23rd. “And if they don’t make a deal that’s OK too.” ■

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Middle East & Africa | Gaza's future

Hamas talks a big game but is in chaos

Look beyond the latest bravado and brutality and it is bitterly split

January 29th 2025



EVEN before the fighting stopped, Hamas was keen to show it had survived. Uniformed militants emerged from hiding hours after the Islamist group agreed to a ceasefire with Israel. Once the truce began, Hamas was quick to deploy police on the streets and gunmen to guard aid convoys. The release of hundreds of Palestinian prisoners, in exchange for Israeli hostages, has been a fillip for its popularity.

Binyamin Netanyahu, the Israeli prime minister, promised a "total victory" over Hamas. That was never a realistic goal, especially since he also refused to discuss who else might govern Gaza after the war. The day after has now arrived, and with no alternative, the inevitable is happening. Hamas is

rushing to reassert control over the territory it has ruled since 2007. Its leaders are exuberant—at least in public.

In private, they are arguing bitterly. The war has deepened a longtime struggle between the group's political and military leaders and has saddled it with enormous challenges. Gaza is in ruins; reconstruction will need tens of billions of dollars in aid. Israel is unlikely to treat Hamas with the same forbearance as it did before the October 7th massacre. The group has never been in such a fraught situation.

Read our coverage of the war in the Middle East

For years, Hamas was three things at once. It was a militant group with an estimated 30,000 fighters and an arsenal of rockets. It was Gaza's de facto government, in charge of 2.3m people. And it was a force in Palestinian politics, the main opposition to Fatah, the nationalist party that runs the Palestinian Authority (PA). In the aftermath of a ruinous war, it can no longer play all three roles: its leaders must choose one.

The first path would be to focus on the military wing. Hamas would step back from running Gaza and appoint a group of technocrats to manage civil affairs. It would wield power behind the scenes, though, and work to rebuild its forces. Some observers call this the "Hizbullah model", after the Shia militia which has long been Lebanon's strongest power.

The idea appeals to hardliners in Hamas, which was never very good at governance. Before the war around 50% of Gazan students attended schools run by the UN, while aid groups distributed food and cash, and provided basic services. Its military leaders would be happy to stick someone else with the job of rebuilding. Yet much of the world would view such a "technocratic" government as a façade for Hamas's ongoing control. Donors would be reluctant to fund reconstruction.

Nor would Hamas quickly regain its former strength. America's spies believe it has recruited almost as many new fighters as it has lost during the war, but its latest cadres are young and untrained. Most of the group's rockets are gone. Replenishing its arsenal would take years. With Gaza's

economy in ruins, Hamas can no longer rely on the taxes that once provided perhaps one-third of its revenue.

The second option is a return to the status quo ante: instead of fighting Israel, Hamas would focus on consolidating its control of Gaza. It might seek to break its international isolation by offering to forswear violence. Khalil al-Hayya, a member of the political bureau, has said Hamas is open to a five-year truce with Israel.

But Israel would be understandably sceptical of such promises—if the leaders of Hamas's military wing could even be convinced to make them. Truce or not, a Hamas-led government would scare off many prospective donors. Hamas would be left to grapple with the desperation of its own people, many of whom are already furious at its decision to drag Gaza to war. It would try to govern through fear (it has already begun executing alleged "collaborators", a catch-all term for its foes). But it would face constant challenges to its rule.

The third choice is the most pragmatic. Hamas would reconcile with Fatah, which it tossed out of Gaza in a coup in 2007. They would reunite the West Bank and Gaza under a unity government, an idea which has broad support among Palestinians. With the PA in control, Arab and Western donors would be far more willing to invest in rebuilding. There would even be hope for negotiations with Israel (albeit not with the current Israeli government).

Palestinians have heard such promises before. Hamas and Fatah have spent 20 years signing futile reconciliation deals. Mahmoud Abbas, the Palestinian president and Fatah's leader, does not trust Hamas (the feeling is mutual). For a deal to stick, Hamas would have to lay down its arms. That would deprive the group of its raison d'être. Its leaders worry that another militia would emerge and accuse them of going soft—as Hamas once did to Fatah.

Others in the Middle East are also grappling with this dilemma. Hizbullah will have to make similar choices. In post-Assad Syria, Hayat Tahrir al-Sham is trying to make the transition from rebels to rulers. Turkey, the main backer of HTS, may seek to push Hamas down a similar path.

But Hamas's foreign sponsors are divided too. Iran would prefer its militants to remain as such (though it is cross with them for launching a war without prior notice). Qatar would prefer it to focus on politics. Other Gulf states simply want it weakened. Hamas needs someone to rebuild its shattered enclave; whoever does will have a big influence over its future. "We missed the opportunity during the war to build an alternative," says an Israeli official involved in the ceasefire negotiations. "But there is still an opportunity in the talks over reconstruction of Gaza to influence a new structure where Hamas is squeezed out." ■

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Middle East & Africa | Love ‘em or hate ‘em

Syria’s new rulers say they are keen to integrate foreign fighters

Outsiders continue to see them as a threat

January 27th 2025



The mandi chicken, a Yemeni dish, in the Emad Eddin restaurant in Idlib is a favourite among Uyghur jihadists. On a recent afternoon, a group of them eat next to a Chechen fighter. The diners’ faces and accents are so diverse it might be a restaurant in an airport, were it not for the patrons’ fatigues and automatic weapons.

Also eating there is Abu Obeida, a former IT worker from London who came to Syria in 2013. He and the others are known as *muhajiroun*—“emigrants”, foreign fighters who came to Syria during its long civil war. In their home countries many are regarded as a threat to national security. The British

government revoked Abu Obeida's citizenship in 2017, alleging that he had links to al-Qaeda.

Abu Obaida denies being a fighter. He says he came as a humanitarian worker; for the past seven years he has been teaching English. He is challenging the British government's decision in court, but is realistic about his chances of being allowed to return. Nor would he necessarily want to. He married a Syrian woman; they have four children. "I dream of going back to see my family for a short trip," he explains, "but I'd like to stay and become Syrian."

Tens of thousands of foreign fighters were lured to Syria by the radicalism of Islamic State (IS) and its declaration of a caliphate in Iraq and Syria in 2014. Those militants were key to the group's attempts to launch terrorist attacks on Western states. Today, most are dead or in Kurdish prisons in eastern Syria. But others who joined less radical groups, including Hayat Tahrir al-Sham (HTS), the Islamists now in charge of Syria, focused on fighting Mr Assad and building lives there, rather than international terrorism.

Ahmad al-Sharaa, Syria's de facto new leader, has tried to clamp down on groups with transnational aspirations such as Haras al-Deen, the official al-Qaeda affiliate in Syria. Mr Sharaa's attitude is "either you abide by our Syria-centred strategy, or you leave, or you face arrest," explains Thomas Pierret, an expert on Syrian Islamists. "So I think they've already got rid of the most problematic people," he says.

Only a few thousand foreign fighters are still active in Idlib, one Western intelligence official estimates. Mr Sharaa insists that those remaining will not be a worry. He may be right. "There's a track record of them not being involved in any security incidents outside Syria now, especially since the break from al-Qaeda," says Aaron Zelin of the Washington Institute, a think-tank, who has followed HTS closely.

More than that, Mr Sharaa sees Syria's foreign fighters as an integral part of his country's struggle. A Turk and a Jordanian are among his closest confidants. He is also said to be fond of the Turkistan Islamic Party (TIP), a group of Uyghur fighters which aims to set up an Islamic state in Xinjiang

and other parts of Central Asia, and whose members have proved indispensable on Syria's battlefield. "These people are part of our revolution. They [foreign countries] have nothing to worry about. We will give them passports. We will Syrian-ise them," insists an official from HTS.

Mr Sharaa's drive for integration is not unprecedented. Bosnia granted citizenship to hundreds of jihadists who fought for it in the 1990s. "Granting citizenship is not so new; the whole world does it," says Obayda Amer Ghadban, another researcher of Syrian armed groups.

Not everyone is as sanguine. Mr Sharaa's appointment of several foreigners to key positions in the new defence ministry has alarmed some governments, especially in the Gulf. In the end, the reaction of foreign governments to the foreign fighters in the new Syria may decide their fate. Their continued presence may undermine Syria's efforts to end its isolation. China is likely to object to the thousands of Uyghur fighters in Syria, while the Egyptian and Jordanian governments are edgy about their nationals being given official posts. If he is serious about rebuilding Syria, Mr Sharaa may have to choose between his foreign fighters and his new friends abroad. ■

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Europe

- Inside Europe, border checks are creeping back
- A day of drama in the Bundestag
- The EU is worried about sensitive exports to competitors and foes
- Amid talk of a ceasefire, Ukraine’s front line is crumbling
- The French government’s survival is now in Socialist hands
- Meet Europe’s Gaullists, Atlanticists, denialists and Putinists

Europe | Papers please

Inside Europe, border checks are creeping back

Voters and politicians are worried about unauthorised migrants

January 30th 2025



LOBITH, NEAR where the river Rhine enters the Netherlands, has been a border town ever since northern Europe has had borders. Buried nearby lie the remains of a Roman camp that in the first century AD guarded the *limes*, the fortified line protecting the empire from Germanic tribes. In 1672 Louis XIV of France crossed the Rhine here with an invading army, launching the "year of disaster" that ended the Dutch Golden Age. Today the Dutch-German border runs along a quiet street of villas east of town. Barges ply the river; on the dyke-top cycling path, you notice that you have switched countries only when the signs acquire umlauts.

The border's near-invisibility is a product of the 1985 Schengen agreement, which waives passport checks between 29 European countries, 25 of them

members of the EU. Lately, with voters antsy about irregular migration, such carefree circulation makes governments nervous. Friedrich Merz, a conservative who is likely to become Germany's chancellor after next month's election, now says (implausibly) that he will introduce permanent controls on the country's Schengen borders on his first day in office in order to reduce illegal crossings. His proposals have caused uproar in Germany.

But many governments, including Germany's, have invoked a Schengen emergency clause that lets them resume border checks for up to six months at a time. The Netherlands began sporadic inspections at land crossings on December 9th, with much fanfare. Marjolein Faber, the immigration minister in the new hard-right-led Dutch government, said they were meant to stop an "out-of-control" influx of asylum-seekers. (In fact fewer arrived in the country last year than in 2022 or 2023, and far fewer than during the crisis of 2015.)

At Lobith, however, the border checks are nowhere to be seen. The Netherlands has 840 land crossings, but its border police can spare only 50 officers for the new inspections. In the first week they reportedly turned back just ten people. Border police complain they are wasting time needed for more important operations based on concrete intelligence. Opposition parties say Ms Faber's roadblocks are nothing but symbolic politics. The head of Germany's federal police union has called Mr Merz's proposals "not feasible".

Ten countries currently have controls at Schengen's internal borders, but there is usually not much to them. Permanent border gates are not being reintroduced; the checks are mobile and temporary. "They don't come close to what used to exist before Schengen. Countries don't have the staff for that," says Hanne Beirens of the Migration Policy Institute, a think-tank in Brussels. Germany introduced new "emergency" controls in September, after a rejected asylum-seeker murdered three people. Its checkpoint on the A1 highway at the Dutch border has caused frequent traffic jams. But many drivers have simply switched to the smaller N35, where the roadblocks are rare. The police say the new checks are bringing results, though figures are inconclusive; 11,675 people were turned away between the introduction of the new checks and the end of 2024, about the same as in 2023.

In some countries, the announcement of "temporary" checks has become a ritual repeated every six months. France renewed its border controls in October, having previously invoked them over fears of terrorism during the Paris Olympics; indeed, they have been in force in some form since terrorist attacks in Paris in 2015. Austria has had one version or another in place since Europe's migrant crisis that same year. Yet motorists driving from Brussels to Lille, or from Prague to Linz, are very unlikely to see any sign of them.

For the transport industry, the new border measures are nonetheless a reason to worry—especially in the Netherlands, whose economy relies on freight coming through Rotterdam, Europe's biggest port. TLN, the Dutch transport-industry organisation, says that when lorry drivers encounter a German border check, it typically costs them between ten and 30 minutes. The delay is manageable, but can lead to missed connections or push a driver over the legal drive-time limit, forcing them to take a rest. (Lorries in the EU must carry a tachograph, a device that monitors how long the driver has gone without a break.)

There have been few estimates of the damage that would be caused by reintroducing controls wholesale. A 2016 study put the cost of a complete two-year suspension of Schengen at between €25bn and €50bn (then $28bn-55bn), but the current measures are tiny in comparison. Freight companies say the costs of the border controls are not yet worth calculating.

Some officials at the European Commission see these temporary border controls as relatively harmless political gestures by national governments. They signal to voters that national governments are taking irregular migration seriously. But the big risk from the growing hostility towards asylum seekers may be not to the free flow of goods, but to the new Pact on Migration and Asylum, which countries are supposed to start implementing in 2026. The pact involves beefing up the forces guarding the EU's external borders, and sharing the burden of refugees: northern member states are required either to accept some asylum-seekers from southern ones, or to pay fees.

The hope is that tougher enforcement at external borders (such as the Greek-Turkish one) will cut irregular migration numbers so much that member

states will happily once again scrap their own checks at internal borders. But the same political forces that lead governments to stage photo-ops at roadblocks seem likely to also threaten the migration pact. Austria, an avid exploiter of temporary border controls, looks set to get a new hard-right chancellor, Herbert Kickl, who has vowed not to comply with the agreement.

It would be a shame if politicians pandering to voters' concerns with showy national border checks were to end up helping to undermine a more effective European-level solution. But some governments may not be able to resist the pressure. Others are determined to bring border controls back. TLN spent months trying to persuade the Dutch government to forgo them. "We told them, don't do it. It's going to cause economic damage," says Lars Walder, the group's spokesperson. The controls went ahead anyway. ■

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Europe | Merz's migration gamble

A day of drama in the Bundestag

Friedrich Merz, Germany's probable next chancellor, takes a huge bet and triggers uproar

January 29th 2025



RARELY HAS the Bundestag known such drama. On January 29th, to scenes of uproar, a tiny majority of German MPs backed a five-point plan to curb irregular immigration. The non-binding motion was introduced by Friedrich Merz, head of the centre-right Christian Democrats (CDU) and the favourite to take over as chancellor after the election on February 23rd. Among other matters, it proposed permanent controls on Germany's borders and a "de facto entry ban": the rejection of any immigrants lacking papers, including asylum-seekers.

That was controversial enough. The Social Democrats (SPD) and Greens, who rule in a minority coalition, said the proposals violated EU and German law.

What tipped the row into pandemonium was that the motion passed only with backing from the hard-right Alternative for Germany (AfD)—even though the CDU had packed the text with poison pills painting the party as a Putin-loving threat to democracy.

Olaf Scholz, the SPD chancellor, compared Mr Merz to Viktor Orban, Hungary's strongman, and called his decision to accept AfD support "unforgivable". The Greens' Robert Habeck spoke of a "steep path to the abyss". Mr Merz said he "regretted" the fact that the AfD was needed, but blamed the governing parties for refusing to support him. Only one party was satisfied. Alice Weidel, the AfD's co-leader, hailed "a great day for democracy".

The backdrop to the drama was the murder last week in Aschaffenburg, a town in Bavaria, of two people by an Afghan who should have been deported. Similar incidents in recent months have jangled Germans' nerves, after years in which annual asylum claims have exceeded 200,000, overwhelming local authorities.

Following the attack, Mr Merz said he would impose his entry ban on "day one" of his government, adding that coalition partners would have to agree. A flurry of political machinations and bitter debates ensued. After Mr Merz said he would not let AfD support dissuade him, tens of thousands took to the streets in protest.

Nor is this chapter over. On January 31st the Bundestag will vote on a further CDU motion, this one legally binding, to expand police powers and restrict the rights of some migrants to bring family to Germany. It also looks set to pass with AfD votes.

Whether all this constitutes a violation of the anti-AfD "firewall" that binds Germany's mainstream parties is doubtful. Mr Merz did not co-ordinate with the AfD, and retains his commitment to veto coalitions with the party. This week's spectacle was made possible only because the collapse of Germany's coalition in November left a majority of seats in opposition hands.

Yet two questions hang over the man seeking Germany's highest office. The first is on his political judgment. Mr Merz's team insist that the only way to

undermine the AfD is to hang tough on illegal immigration. But most analysts think inflaming the migration debate will help the AfD. It may also put off centrist CDU voters, 73% of whom reject working with the AfD. "This is fatal for the CDU," says Peter Matuschek of Forsa, a pollster. Nor will the votes change policy. Even if it passes the Bundestag the CDU amendment will fail in the Bundesrat, the upper house.

The gambit could also snarl up coalition talks. As *The Economist*'s new election model suggests, Mr Merz will probably have to negotiate with the SPD or Greens (or possibly both). Neither is likely to agree to rewriting Germany's constitutional right to claim asylum. By defining his proposals as non-negotiable, Mr Merz risks having to eat his words even before taking office. That would only confirm many observers' fears that he is too impulsive for the job. "He knows this is a high-risk strategy," says an aide.

The second question is on Mr Merz's ideas. His pledges to restore Germany's position at the heart of Europe are hard to square with a unilateral vow to close its borders. (Austria's chancellor has already cried foul.) The CDU claims EU law allows governments to supersede European rules in "emergency" situations. But, notes Svenja Niederfranke, a migration expert at the German Council on Foreign Relations, European judges have always rejected bids to pull this lever—and in Germany's case, illegal entries have anyway been falling.

Mr Merz is not wrong that most Germans want a tougher approach to illegal immigration. But he now faces charges of proposing bad ideas with no prospect of passing that risk damaging his party while weakening a crucial political taboo. With three weeks to go, Mr Merz's big polling lead has left it his election to lose. Some in his ranks may now be getting nervous. ■

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Europe | Follow the tech

The EU is worried about sensitive exports to competitors and foes

A lot of bureaucracy will ensue

January 30th 2025



NOT SO LONG ago, the countries that restricted outbound foreign direct investment (FDI) were usually relatively poor ones, driven by a desire to keep cash and know-how at home. That is changing. On January 2nd an executive order passed by the outgoing American president, Joe Biden, to restrict investment in China came into effect. And now the European Union is following suit. Two weeks later, the European Commission unveiled plans to review outward FDI in areas deemed critical for the security of the EU.

The commission is focusing on three types of advanced tech: semiconductors, artificial intelligence and quantum computing. EU member states have been told to review transactions that have taken place since

January 2021 in areas where these technologies have formed part of overseas investment. They must submit a progress report in July and a comprehensive risk assessment a year later. The commission claims that the assessment is country-neutral and should encompass all direct investment into any non-EU countries. But governments are allowed to prioritise their activities based on the loosely defined "risk profiles" of certain states. China is likely to feature prominently in the final reports.

Complying with the EU's demands will prove tricky for two reasons. The commission acknowledges that most governments do not systematically gather information on individual transactions in specific countries, much less review them in a way that would flag up potential risks. The fact that governments have 18 months to prepare their final reports is a tacit acknowledgment that this information is not readily available.

The second difficulty is the sheer scope of the review. Governments need to look at the full range of FDI, including mergers and acquisitions, joint ventures, new ("greenfield") investment and reinvestment in existing projects. Venture capital and intellectual-property transactions also feature on the commission's checklist. As if this were not already enough, risk assessments also need to cover indirect investments made through third countries, if there is a possibility that EU technology might end up in the wrong hands.

This will produce an enormous amount of data. Fearful of being accused of underreporting, governments may end up erring on the side of caution and flagging all potentially worrying cases in their final reports. That would leave the thorny task of identifying what actually constitutes a risk to the commission at a later date.

What will the commission do with this data mountain? Restrictions on outward FDI to unfriendly countries look likely when advanced technology forms part of the investment. Sensing the direction of travel, some governments have already taken pre-emptive action. Last September the Netherlands tightened regulations that control the export of products used in semiconductor production to China, affecting Dutch-based ASML (the world's largest supplier of photolithography machines, used to produce microchips). Others may follow.

All of this creates headaches for the EU's would-be investors. Few would dispute that advanced tech should not be rolled out where it may boost the military and intelligence capabilities of countries that pose risks to international security. But although most FDI deals are unexceptional, and some are plainly dangerous, a great many are ambiguous. Tracking what eventually happens to dual-use technologies in foreign countries can be a daunting task. Far from clarifying the nature of outward FDI, the EU's review may end up confusing the picture even further. ■

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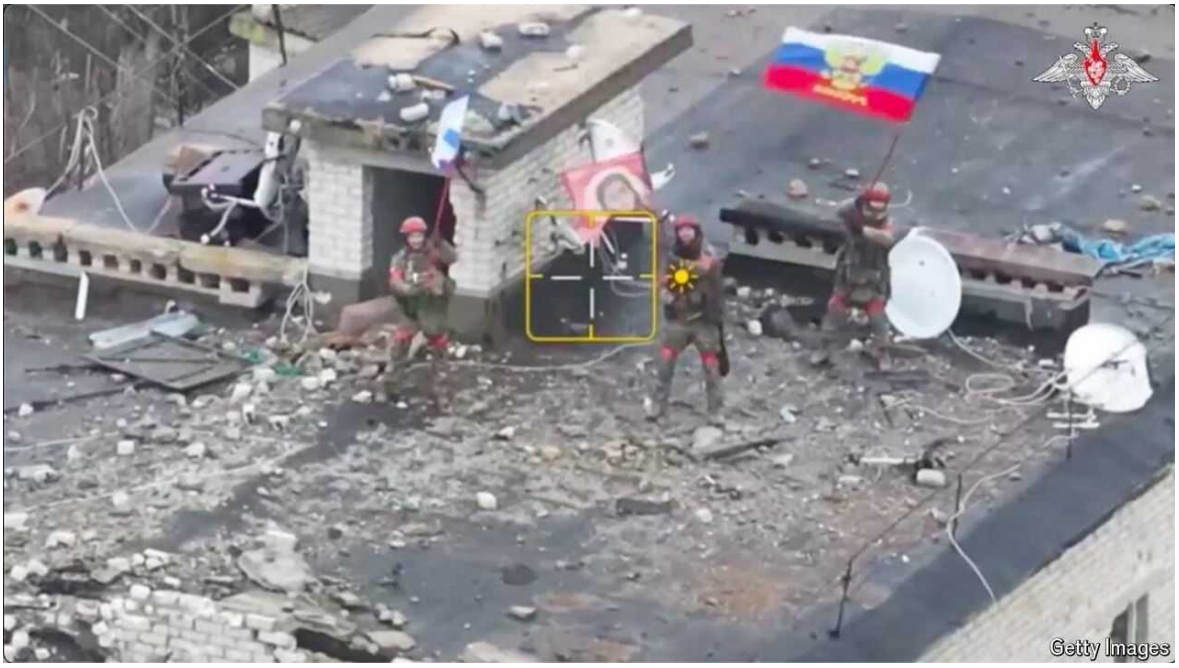
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Europe | Danger in the Donbas

Amid talk of a ceasefire, Ukraine's front line is crumbling

An ominous defeat in the eastern town of Velyka Novosilka

January 27th 2025



THE FINAL battle for the small Donbas town of Velyka Novosilka dragged on for six days, though the outcome was obvious long before that. Things became critical early in the new year, when Russian troops took over villages immediately to its north-east and west, pinching the Ukrainian defenders on three sides. By January 23rd the narrow corridor to what had become a nearly-isolated pocket had become impassable. The order to retreat came as soon as a mist descended. It was a nightmarish task that had to be completed on foot, under drone-filled skies, and across a river. The evidence of triumphant Russian propaganda channels suggests that many failed to make it.

Russia's small victory in Velyka Novosilka (population just 5,000 before the war) followed a familiar pattern: relentless infantry assaults, devastating casualties, collapsing Ukrainian defences, and their eventual retreat. The immediate focus for the units that had been fighting there will now probably shift back to Pokrovsk to the north, a much-bigger logistical hub that Russia has been attacking at various intensities for the past six months. The fighting there has already prompted the Ukrainians to abandon a crucial coking-coal mine—one that previously provided half the needs of the domestic metallurgy industry. Russian forces are also advancing nearby towards the site of useful lithium-ore deposits.

Read more of our recent coverage of the Ukraine war

The Kremlin's plan probably depends on where it can make quick progress. The minimum requirement of its "special military operation" appears still to be occupying the entirety of the Donbas region (comprising the provinces of Luhansk and Donetsk), regaining control of Russia's own Kursk region, which Ukraine has partly occupied, and holding on to the "land bridge" it seized in the early stages of the war connecting Crimea to Russia. In Kursk, Russia has yet to regain the initiative, despite having deployed a force that is supplemented by North Korean fighters and, at 62,000, is perhaps three times larger than the Ukrainian grouping. In the Donbas, meanwhile, driving Ukraine out of the remaining cities, which are well-defended, will not be easy. The open fields immediately west of Pokrovsk, and a psychologically damaging push into Dnipropetrovsk province, may prove more enticing. "They probe for our weak points," says Andriy Cherniak, a military-intelligence officer. "And then they mass force wherever they have tactical success."

The modern battlefield—dominated by drones that spy, stalk and strike—is rapidly changing the nature of the fighting. In Velyka Novosilka, for example, armoured vehicles played a minimal role. "One of our tanks crept out near the front lines," says Captain Ivan Sekach, an officer with Ukraine's 110th brigade defending the town. "Ten drones attacked, setting it alight almost immediately." The fighting instead was done by infantry—small Russian groups of three, four, five, sent forward in waves. Most met a swift and bloody end. But some managed to establish new positions and move the fight closer, forcing the Ukrainians to retreat.



The Russian tactics are not dynamic, but are causing Ukraine no end of bother. Put simply, Russia has the infantry and Ukraine does not. Issues with mobilisation and desertion have hit Ukraine's reserves hard. "We struggle to replace our battlefield losses," says Colonel Pavlo Fedosenko, the commander of a Ukrainian tactical grouping in the Donbas. "They might throw a battalion's worth of soldiers at a position we've manned with four or five soldiers." The brigades that make up the Donbas front line are consistently understaffed, under pressure, and cracking. The front line keeps creeping back. "We no longer have tactics beyond plugging holes," says "Kupol," the *nom de guerre* of a now-retired commander who until September led a brigade fighting in eastern Donbas. "We throw battalions into the chaotic mess and hope we can somehow stop the grind."

The world's focus has shifted to negotiations that have yet to happen; on the contradictory signals from the Trump administration that one day look positive for Ukraine, and the next less so. For those doing the fighting, the agenda is less abstract. As long as the front line keeps moving, Mr Putin appears to have little reason to compromise. The Russians will not run out of weapons any time soon, says Mr Cherniak, the intelligence officer. "They have at least a year, possibly two, to continue fighting as they have been." The military-industrial complex remains a "sacred cow" for the Kremlin, he continues, and will be protected from possible economic headwinds,

inflation, or sanctions. North Korea is meanwhile stepping in to supply items that are in short supply, such as gun barrels and artillery systems. “Russia has shown it can function in a completely closed cycle.”

Three years into its grinding attritional fight, it is still unclear if Russia can turn its many tactical gains into something bigger—enough to press deeper behind Ukraine’s weakening lines and to cause real worry. Mr Cherniak says the evidence so far suggests that this is unlikely. “We see their reserves, their missiles, their armour—and it’s not enough. Not yet.” Captain Sekach thinks luck may also have played a role. In Velyka Novosilka, he says, Russian armoured columns on more than one occasion broke through and got behind Ukrainian defences, but without realising it. Lost and disoriented, they turned back. “The Russian army doesn’t reward smart people, that’s my only explanation,” he says. “But we can’t count on it staying that way.” ■

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Europe | Rebuilding the left

The French government's survival is now in Socialist hands

Moderates attempt to move away from the radicals

January 26th 2025



THREE YEARS ago the French Socialist Party was crushed into irrelevance. The party that supplied two modern presidents—François Mitterrand (1981-95) and François Hollande (2012-17)—and nine prime ministers became as invisible in parliament as in public debate. Its presidential candidate in 2022, Anne Hidalgo, secured less than 2% of the vote. Its contingent in the National Assembly was swallowed up into a left-wing alliance dominated by the hard left's firebrand leader, Jean-Luc Mélenchon. He engineered the downfall of the previous minority government, under Michel Barnier, in December.

Now, for the first time in years, the party has been propelled to the centre of political attention. Mr Barnier's successor, the centrist François Bayrou, is trying to get a much-delayed budget for 2025 through parliament—and to survive in his job. Without the Socialists' votes, the hard left and hard right together do not have the numbers to bring Mr Bayrou down. A no-confidence vote in the government could take place in early February.

The first hint that the Socialists may be freeing themselves from Mr Mélenchon's grip came on January 16th. In December all four parties in the alliance voted to topple Mr Barnier. A month later, only three of them—Unsubmissive France (LFI), the Greens and the Communists—voted to eject his successor. To Mr Mélenchon's consternation, 58 out of 66 Socialist deputies, including their leader, Olivier Faure, refused. They abstained after Mr Bayrou agreed to trim some proposed spending cuts in the budget and to reopen talks on the retirement age. The Socialist Party has "quit the spiral of radicality, which it never believed in", argued Zaki Laïdi, a political scientist, and Daniel Cohn-Bendit, a former Green politician, in *Le Monde*. Now it is "back in the political game".

With a fresh spring in his step, Mr Faure has since been seeking further concessions. The party threatened to go into reverse, and vote against the government, if it did not get them. Part of this may be bluff. But part of it also reflects splits within the party about how far to distance itself from the follies of the hard left, and make the Socialists electable again.

Behind these latest manoeuvres also lies a wily old-timer: Mr Hollande (pictured). A mere backbench deputy since he returned to national politics in 2024, the 70-year-old has a long history of rivalry, and accommodation, with Mr Bayrou. In 2012 the centrist backed Mr Hollande for the presidency; the Socialist may now be returning the favour. "The Socialists have taken a major decision," he told a newspaper, by rejecting "the posture of LFI, whose only objective is to block institutional life and provoke a presidential election." Mr Hollande, say friends, has his eye on running for the presidency in 2027, when the incumbent, Emmanuel Macron, is barred from a third consecutive bid.

The Socialists are teetering on the edge. Younger radicals, fed up with the Hollande generation, want to topple the government. Mr Faure's leadership

is fragile and his job is on the line at an upcoming party congress; he cannot afford to upset too many of them. Chloé Morin, a political scientist, argues that it would be a mistake to expect an emancipation from the alliance. It is rather, she says, a "duel for influence" between the Socialists and LFI, and between Mr Hollande and Mr Mélenchon.

Moderate Socialists have long struggled to impose pragmatic politics on a party perpetually drawn to anti-capitalist thinking. Faced with Marine Le Pen's hard right, a united left remains a potent electoral force. The party is now weighing its quest for electoral respectability at the centre against tactical calculations that threaten to pull it back to the extremes. ■

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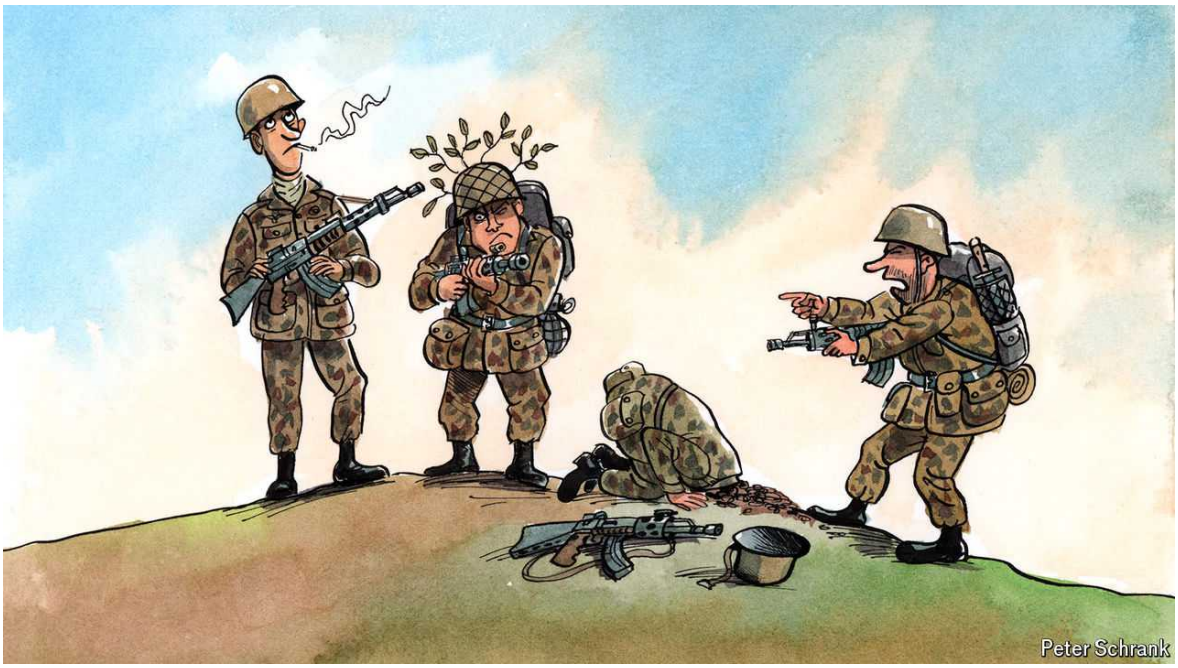
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Europe | Charlemagne

Meet Europe's Gaullists, Atlanticists, denialists and Putinists

As Donald Trump returns, so do Europe's old schisms over how to defend itself

January 30th 2025



Can a country still call itself an ally of America if America is threatening to annex part of its territory? Such a question might once have seemed ripe for a Gitane-puffing *philosophe* to ponder in a Saint-Germain-des-Prés café circa 1968. It has gained fresh relevance in recent weeks as Donald Trump has made repeated threats to seize Greenland, currently an autonomous region of Denmark. At first Europeans convinced themselves that the returning American president's designs on the island were merely part of his patter, something that could be ignored as safely as his suggestion in 2020 that injecting bleach might cure covid. (It doesn't.) Now nobody is sure. After a reportedly fiery phone call with Mr Trump, Mette Frederiksen, the

prime minister of Denmark, has criss-crossed Europe this week to shore up support in Paris, Berlin and Brussels. The French foreign minister volunteered to send troops to Greenland, just in case. Channelling his inner Jean-Paul Sartre, a European diplomat quipped: "With allies like Donald Trump, who needs enemies?"

The prospect of war between America and an ally in Europe still seems mercifully distant. But the return of Mr Trump has stirred the debate over how Europe should defend itself. A rethinking of the continent's "security architecture", as NATO types put it, has been near the top of the agenda ever since Russia launched its full-scale invasion of Ukraine three years ago. Yet a ramp-up in military spending across the continent has thus far not been matched by a grand new vision of keeping Europe safe. On February 3rd European Union leaders will meet in Brussels both to take stock of the situation and to pitch fresh ideas. (Sir Keir Starmer, Britain's prime minister, will join part of the meeting, as will NATO's secretary-general, Mark Rutte.) Under the spotlight, all sides will emphasise they stand united. Behind closed doors the divisions that plagued the bloc during Mr Trump's first term will come back to the fore. To understand Europe's future direction, meet its Gaullists, Atlanticists, denialists and Putinists.

The Gaullists, as the name suggests, are the intellectual descendants of the prickly French leader who resented America's tutelage of Europe and went so far as to pull France out of NATO's military arm in 1966. Charles de Gaulle's successor as French president, Emmanuel Macron, has no wish to leave the military alliance—but argued during Mr Trump's first term that NATO was experiencing "brain death". Europe thus needs to find a way to achieve "strategic autonomy", the ability to act on its own, if its interests diverge from its big transatlantic ally. Whoever sits in the White House, America is pivoting to other priorities, notably Asia. Europe at the very least must hedge its bets. To best ensure autonomy, European defence budgets should be increased—and, preferably, spent on European kit, insist the Gaullists. Old pipe dreams of an EU army occasionally get an airing, too.

The Atlanticists think Europe going it alone is mad. Poland is the standard-bearer of the NATO-first club, which takes in much of northern and central Europe. Preserving the relationship with America is their top priority. This engagement can essentially be bought with defence contracts. As the Polish

foreign minister, Radoslaw Sikorski, recently put it: "Europe's deal with the US up to now might be crudely characterised as follows: 'You help defend us, we buy your weapons.'" Mr Trump's transactional instincts do nothing to undermine that arrangement. On the contrary, bigger defence budgets would result in bigger orders of F-35 jets and the like. Even if dealing with a volatile American president is less than ideal, Atlanticists admit, it is still preferable to relying on militarily impotent European allies. If Russia is intent on further military action in Europe by the end of the decade, as some spooks posit, NATO has to be improved rather than replaced. Buying European defence kit is a laudable idea in the long term, but if done too hastily would mean relying on French and German defence contractors whose products will be delivered only after Russian troops have marched into the Baltics. Focusing too much on EU schemes will make co-operating with Britain harder, too.

Both the Gaullists and the Atlanticists agree that more defence spending will help—either to keep America sweet, or towards achieving European autonomy. Mr Trump wants Europe to go from a spending target of 2% of GDP to 5%; NATO leaders meeting in June are expected to settle on a long-term objective of 3.5%. That summit promises to be an awkward moment for Europe's third camp, the denialists, whose defence strategy amounts to planting their heads in the sand, ostrich-style. How else to explain that two of the EU's four biggest member states, Italy and Spain, spend under 1.5% of GDP on defence?

As infuriating as denialism can be to Gaullists and Atlanticists, it is still better than the final camp. An arc of Putinist leaders stand ready to foil EU schemes that rile Russia, whose strongman president the likes of Viktor Orban in Hungary and Robert Fico in Slovakia seem to want to emulate. (They think of themselves as Trumpian: same difference, some might say.) Though small, their camp is growing and any of them can derail EU measures that require unanimity, such as imposing sanctions or aiding Ukraine.

How many divisions does Europe have?

All countries contain bits of the four factions in their political establishment. (Germany, set to get a new chancellor following elections on February 23rd, is hard to place in any camp for now.) Even if Europeans were to agree on

an overarching defence plan, the thorny question of how to pay for it would then need to be resolved. Some cash-strapped countries could afford to spend more on defence only if funding came through borrowing the money jointly at EU level, a non-starter for fiscal hawks. That would open up another can of divisions for future summits to ponder. ■

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Britain

- Backing Heathrow expansion suggests Labour is serious about boosting growth
- Britain’s oldest newspaper is a treasure trove of trivia
- Why Britain has fallen behind on road safety
- Is British justice too secretive?
- Many Britons are waiting 12 hours at A&E
- What the rise of bubble tea says about British high streets
- The rise of the Net-Zero Dad

Britain | Take-off

Backing Heathrow expansion suggests Labour is serious about boosting growth

It is the surest sign yet that the government is up for the fight

January 29th 2025



Few THINGS symbolise Britain's lackadaisical attitude towards economic growth better than the collection of fields, ditches and semi-detached homes just north of Heathrow Airport. Building over them to give London's main aviation hub a third runway first became government policy in 2003. After that, the project was approved, cancelled, reapproved and then put on hold again. The issue has divided Britain's main parties, animated a generation of environmentalists and radicalised the NIMBYs of west London.

Heathrow, meanwhile, has lost its status as the busiest airport outside America to Dubai, which had a third as many passengers when the scheme was first proposed. The failure to expand London's biggest airport has been,

above all, a political one. Yet opponents have been emboldened by Britain's burdensome planning rules. In a speech on January 29th Rachel Reeves, the chancellor, took aim at both problems. Declaring that "growth will not come without a fight", she said that the government would back airport expansion and offered more clues about plans to unshackle housebuilding. The Heathrow decision is the surest sign yet of the government prioritising growth, even if getting anything built will still test its steel.

The case for the third runway has often not been well understood. Heathrow is the largest gateway to London and Britain's main international hub, connecting passengers on long-haul journeys without direct routes. The fastest route between Oslo and Ningbo, or Edinburgh and Cincinnati, often runs through Heathrow. That itself is valuable business; Britain has the geographical fortune to sit conveniently between North America, Asia and the rest of Europe. Smoother and cheaper connections between Britain and the rest of the world would also spur business and tourism at home.

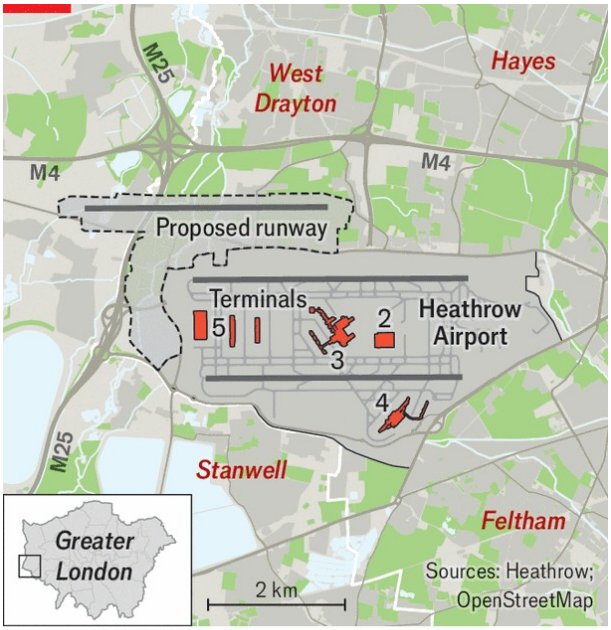


The Economist

Hub airports have peculiar economics. They display increasing returns to scale: each flight makes every other flight more valuable by widening the range of possible connections. And competition has heated up. While take-offs and landings at Heathrow have been flat for decades, European rivals like Amsterdam's six-runway Schiphol Airport have caught up (see chart).

So have airports in Turkey and the Gulf. Planes got bigger in that time, so Heathrow now processes a quarter more passengers than in the 2000s. But that trend is stopping. Tim Leunig, an economist, points out that many routes are shifting to smaller aircraft, meaning Heathrow may need to expand to avoid shrinking.

Along with investors and tour groups, planes also bring air pollution, carbon emissions and noise. Hence the protracted fight. The project was first nixed in 2010 by David Cameron's coalition in a bid to beef up its green credentials. As recently as 2018, when Theresa May's government put the third runway to a vote, nearly half the Labour MPs voted "no", including Sir Keir Starmer, now the prime minister, and Ed Miliband, the energy secretary. Successive London mayors have also opposed the project. Boris Johnson once pledged to lie down in front of bulldozers to stop it. Today, Sir Sadiq Khan is the most senior Labour politician still hostile.



The Economist

The arguments against expansion are especially weak now. Take noise pollution. For a major airport, Heathrow is unusually close to built-up areas. The parts of west London that jets noisily fly over include well-heeled suburbs whose residents are adept at kicking up a fuss. But those areas owe some of that prosperity to economic spillovers from Heathrow. If London were rebuilt from scratch, it would make much more sense to put its main

airport to the north of the city, notes Becrom Basu of L.E.K. Consulting. That way, planes landing and taking off on the east-west axis of London's prevailing winds would fly over a much less populated zone.

But Heathrow isn't going anywhere. Thankfully, new jets are helping. The noisiest models, like Boeing's 747, are on the way out. Heathrow has also tested getting planes to approach the airport at a steeper angle, cutting time near the ground. More runway capacity would give Heathrow better options to limit overnight noise, the most disruptive sort. Air pollution is a similar story. Newer engines are cleaner. Nearly 40% of Heathrow's air pollution comes from ground vehicles. Many will be electric before long.

For Labour, the sharpest objections are climate-related. Certainly, more flights would mean higher emissions, at least in the short- to medium-term. But politicians have to decide where it makes sense to cut emissions fastest. UK Day One, a think-tank, argues that because Britain lacks carbon-intensive heavy industry, it is well-placed to allocate more emissions to aviation. Moreover, the actual impact on global emissions will probably be lower than commonly assumed. Much of Heathrow's competition is with hubs like Dubai or Doha, which have a far more relaxed approach to climate commitments. By opening up more direct long-haul routes, fewer passengers will need to take stopping flights with fuel-burning diversions. Aviation should be cleaner in the 2040s, when the full benefits of the project get realised.

These arguments have persuaded many Labour MPs, including the prime minister. That reflects a shift in the party. The government has always said that growth is its number-one mission. But the focus on it has risen dramatically since Britain's latest bout of bond-market turmoil. A third runway at Heathrow will still take a decade or more to get built; there will be legal challenges and thorny questions about financing. Broader planning reforms will face opposition in Parliament, including from Labour benches. Ministers have signalled that they are up for the fight. Now they must roll their sleeves up. ■

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Britain | Published by Authority

Britain’s oldest newspaper is a treasure trove of trivia

Why historians love the London Gazette

January 30th 2025



On August 6th 1776 the *London Gazette* did what it had done for over 110 years. It named freshly bankrupted merchants. It advertised imported linens and ostrich feathers, and listed the average price of corn for each of England’s counties. And when it added that the American colonies had declared independence, it reported the news as if it were a failed business or a lost dog.

The *Gazette* is Britain’s oldest surviving newspaper, and the official journal of government. Established in 1665, with courtiers, government ministers and diplomats as its early journalists, it became the government’s mouthpiece, a tool to impose order amid the turmoil of the Restoration. In an

age when rumour spread fast, what was official was sacred, recorded with the same presses that printed the Bible. “Published by Authority”, its masthead declared.

One thread running through the *Gazette*’s history has been its role in documenting liquidations and insolvencies. The fear of being “gazetted” still exists today, as it did in the 17th century. Another role is reporting military promotions and honours for public life.

As a daily read, the *Gazette* is hardly thrilling. It is not supposed to be. It has had no editor since 2012. Calling it a newspaper is a stretch. It is really a public ledger—a database of bulletins which are required to be published there by law. It survives because it is the mechanism by which things become official.

Yet its longevity and meticulous record-keeping make it fascinating. Flipping through its archives is like rummaging through an attic in search of the occasional treasure. Such as the £50 offered in 1829 as a reward for the “evil-disposed person or persons unknown” who “feloniously and maliciously” set fire to the wooden pier in the Welsh village of Llanddulas. Or the 1752 edition which proclaimed a law making illegal “the horrid crime of murder”. Natasha Glaisyer, a historian, points out that it is in these dry records that the texture of history emerges: the little honours, the debts and the lost pocket-watches.

The *Gazette* has survived plague, fire, war, revolution and misinformation. Its current publisher, the Stationery Office, is the privatised publishing arm of His Majesty’s Stationery Office. Although its news-gathering functions have long gone, its value as a historical resource fulfils the ideals of journalism. There is value in keeping a reliable record. Trivia can help capture the truth: something mattered enough to write it down. ■

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Britain | An unacceptable toll

Why Britain has fallen behind on road safety

More than 1,600 people still die each year in road collisions

January 27th 2025



TRAVERSING THE Pennines along the Snake Pass between Manchester and Sheffield makes for a dramatic alpine-like drive. It can be a dangerous one, too, especially when the fog rolls in (as it did when *The Economist* drove the route recently). Owing to its sharp bends and high elevation, the road is an accident black spot. This section of the A57 connecting England's third- and sixth-largest cities is more dangerous, judged by the number of collisions, than almost any other stretch of tarmac in the country.



The Economist

Britain once led the world in road safety. Between 1960 and 2000 the number of people who died in road collisions fell by half. The decline in deaths per mile travelled was even more dramatic (see chart). By 2010 Britain's roads were, along with Sweden's, the safest in the world. Progress has since stalled. Whereas Sweden implemented "Vision Zero"—a goal of reducing deaths to nil—in 2011 Britain's Conservative-led government ditched its road-safety target altogether. Britain's roads remain safe compared with those in most other countries. But road deaths are now a third higher per mile travelled than in the Scandinavian country that invented the three-point seatbelt.

In 2023, 1,624 people died on Britain's roads and another 26,000 suffered serious, often life-changing injuries. Road collisions cost the country about £40bn ($50bn, or 1.5% of GDP) each year, which includes an estimate of the value of lost life-years. They are the second-most-common cause of death among men in their 20s after suicide. The Labour government will soon publish a strategy that may attempt to emulate Sweden's approach. That would require repairing roads, reducing speed limits and tackling bad driving. The question, says Suzy Charman of the Road Safety Foundation, a charity, is "how much death and serious injury is society willing to tolerate?"

Repairs would be a good starting-point because roads are in a dire state. Blighted by potholes, landslips and bad signage, the Snake Pass may be especially dicey. But a parliamentary-committee report published on January 17th labelled the entire road network a "national embarrassment". In December the government announced £1.6bn of funding to fill potholes and the like. It will soon be swallowed up. The Asphalt Industry Alliance, a body for bitumen buffs, says £16bn is needed for the backlog of repairs on Britain's roads.

Although roads are far safer than they were a generation ago, plenty of black spots remain. Since 2018 the government has given councils £186m to improve 99 stretches of road. The scheme aims to reduce the number of people who are killed and seriously injured by 2,600 over 20 years. Some think the goal isn't ambitious enough, though. The Road Safety Foundation calculates that spending £2.5bn could prevent a further 17,000 deaths or serious injuries over a 20-year period.

As well as improving roads, policymakers could reduce speed limits. The national speed limit of 60mph (97kph) on single-carriageway roads is too high considering how lethal head-on collisions are, according to Ross Moorlock from Brake, a road-safety charity. Rural single-carriageway roads where the speed limit is 60mph, which carry a small fraction of total traffic, account for one-third of deaths. The Scottish government is consulting on whether to cut its national speed limit to 50mph.

That is likely to be unpopular. About half of Wales was opposed when its government reduced the speed limit in built-up areas from 30mph to 20mph in 2023. Despite being implemented chaotically, the scheme has worked, reducing deaths and serious injuries in those areas by some 15%. But it has been so controversial that it may be weakened. "Unfortunately, it seems that people tend to value their own speedy journey over someone else's life," says Dr Helen Wells of Keele University.

Placing more restrictions on young drivers could also help. Although they account for 7% of licence-holders, a fifth of all serious road collisions involve at least one driver aged between 17 and 24. The RAC Foundation, a lobby group, proposes that drivers under 20 should not be able to carry passengers younger than 25 for six months after they pass their test, unless

an older adult is also present. It calculates that the restriction, if observed, would save 44 lives a year. Politicians are wary, however, fearing populist complaints about a “war on motorists”.

Safety campaigners also worry that modern cars have too many distractions, such as touch screens. Research shows that hands-free phone calls (which are legal) impair motorists’ performance just as much as holding a mobile phone (which is not). Britain pioneered research into in-car safety standards, such as automated emergency braking and lane assistance. But its exit from the EU distracted governments from adopting them.

Such examples of drift abound. In 2008 Chris Taylor’s 18-year-old daughter, Rebecca, died when her car burst into flames after a collision with another vehicle on a Northamptonshire country lane. It took 12 months before Mr Taylor, who now campaigns for better road safety, fully understood the cause of her death. In 2022 the government promised to create a “road-safety investigation branch” to match those for air, rail and maritime transport, but the plan was dropped a year ago. After a decade of stalled efforts, the route to safer roads should be clear. ■

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Britain | Lessons from Southport

Is British justice too secretive?

Controversy rages over what happened both before and after a horrendous mass stabbing

January 30th 2025



On July 29th a 17-year-old boy, born in Cardiff, entered a dance studio where children were gathered for a Taylor Swift-themed workshop. He grabbed the nearest girl and began stabbing her. He continued to stab as many people as he could until the police arrested him about 15 minutes later. Three girls were killed. Many others were severely injured.

That much was apparent in the immediate aftermath of one of the worst mass stabbings in British history. The police did not divulge the name, ethnicity or motive of the suspect they arrested (though they said they did not think the attack was terror-related). Online misinformation spread rapidly, claiming in turn that the suspect was, among other things, a Muslim,

a small-boat asylum-seeker or a terrorist. By the next evening, a mob had attacked dozens outside a local mosque. In the days that followed, anti-immigrant and anti-Muslim riots spread nationwide.

The Southport murders have become a lightning rod for a debate on how transparent authorities ought to be when dealing with crimes that cause national outrage. Critics argue that the police were too slow to name and identify Axel Rudakubana, a black citizen with Rwandan parents, who pleaded guilty in January to all counts related to the murders. The shadow home secretary, Chris Philp, said the "information vacuum" probably fuelled the riots.

The crimes were themselves something of a perfect storm. That Mr Rudakubana was nine days short of adulthood at the time inhibited the police from saying much about him before a judge gave approval. No clear motive for his crimes has emerged, beyond the desire for senseless violence, making it hard for the public to understand why the attack had happened.

Subsequent releases of information were jarring. Extra, terror-related charges announced months later—including that Mr Rudakubana possessed an al-Qaeda training manual—added to speculation about a cover-up (Mr Philp has called for the planned public inquiry to clear up what the government knew and when). News outlets could not publish photos of the accused beyond court sketches and childhood snaps until justice had concluded. The mugshot then released, depicting a glaring, unkempt man, was a shocking comparison.

Defenders of British justice pride themselves on its discretion. Keeping the media quiet on the alleged facts of a case after a suspect has been charged ensures a fair trial for the accused. Not disclosing many details about their background, particularly if they are a child, protects the innocent from the court of public opinion before the jury reaches a verdict.

Nor is it clear that more information about Mr Rudakubana would have prevented the riots. On the day of the attack the police announced that the teenager they had arrested was Welsh-born. That did not stop thugs from trying to set fire to a hotel housing asylum-seekers. Riots continued even

after more titbits about Mr Rudakubana, such as his name and ethnicity, were revealed.

But discretion must be balanced with the need to inform the public in cases that provoke widespread outrage. The instinct to keep quiet solely out of fear of a public backlash is a wrong one. That does happen, even if it is not yet clear whether this indeed occurred in the aftermath of the Southport atrocity. In another recent verdict, it was initially ruled that the names of family-court judges who had dealt with the care of Sara Sharif, a young girl killed by her father, should remain secret due to a "real risk" of harm from a "virtual lynch mob". The Court of Appeal overturned the ruling in January.

Much about the riots of last summer suggests a deeper mistrust in slices of British society than solely over the handling of the Southport murders. And the state did fail to protect the public. Mr Rudakubana's fascination with violence was known to at least half a dozen public bodies, including the police and Prevent, a counter-terrorism agency. Whether the state stayed too quiet afterwards is one question; a bigger problem is that it failed to act beforehand. ■

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Britain | The new normal

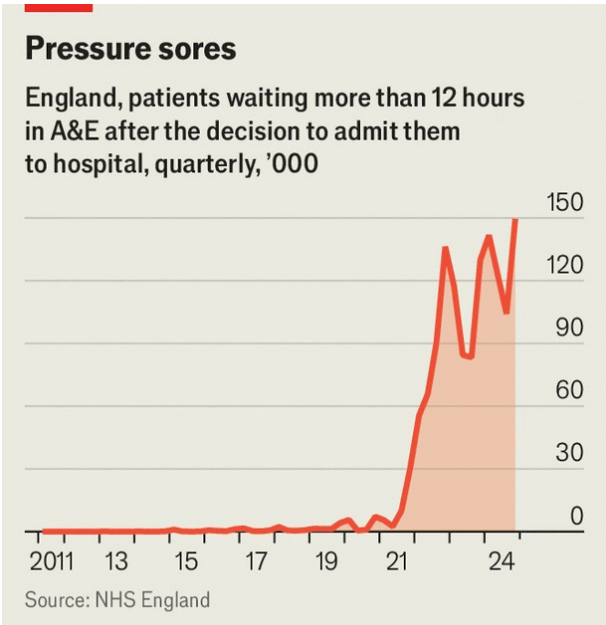
Many Britons are waiting 12 hours at A&E

The crisis in emergency care has deep roots

January 30th 2025



A WISE DOCTOR once said that accident and emergency (A&E) departments were the "shop window" of the National Health Service (NHS). It was the experience of A&E, argued Sir George Alberti, who advised the previous Labour government in the 2000s, that shaped people's views of the service. The current view through the glass is a dark one. In December 2024 only 55% of patients attending a major A&E in England were seen within four hours—an eon away from the 95% target routinely met in Sir George's time. A survey last year by the Royal College of Nursing, a union, found that two-thirds of their members had treated patients in inappropriate settings, including corridors, waiting rooms and even car parks.



The Economist

As standards have tumbled, 12-hour waits have become common (see chart), with dangerous consequences. In January the Office for National Statistics found that those waiting in A&E for more than 12 hours were twice as likely to die within 30 days as those who waited only two hours, even when controlling for other factors such as self-reported health. These figures support findings by the Royal College of Emergency Medicine (RCEM), which estimated in 2023 that long waits in A&E were likely to be responsible for around 14,000 extra deaths a year.

The causes of this crisis are many. One factor highlighted by Lord Ara Darzi, another doctor-cum-adviser, in his recent review of the NHS, is the sustained underfunding of primary and community care. Relative to its population Britain has 16% fewer fully qualified GPS than other rich countries. That pushes people towards A&E. So too does a lack of mental-health care in the community: those suffering from mental illness are twice as likely as other people to wait for more than 12 hours in emergency departments.

Increasing demand alone cannot account for the chaos. In 2024 the number of patients attending A&E rose by 7%, but the number who waited for over 12 hours rose by 25%. That suggests that patients are not moving through the hospital quickly enough. One in eight beds could be freed up if patients

were moved on to places of more appropriate care more efficiently. Shoddy discharge planning, poor co-ordination and a lack of capacity in social care prevents that from happening. A shortage of hospital beds has also made it harder to absorb pressure in the wake of the covid-19 pandemic. High occupancy rates, once only a feature of winters, are now normal.

The NHS has ideas for how to relieve some of the pressure on A&E waiting rooms, as a recently leaked plan revealed. Ministers hope that more emergency callers can be given advice on the phone, rather than a visit by paramedics; "rapid triage" at the front door of hospitals could also help to divert admissions where possible. These are good ideas, even if they have been suggested many times before. But fixing A&E will ultimately depend on tackling far more ingrained problems.

The government's judgment is that it is best to focus attention and resources on cutting hospital waiting lists for non-emergency procedures. "Deciding to focus on the elective-care target tacitly deprioritises everything else," says Professor Adrian Boyle, the head of the RCEM. That may reflect the public's top concerns, given that one in nine people in England are waiting for routine hospital treatment. But without serious change, that NHS shop window will continue to look rather grim. ■

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Britain | Students and retail

What the rise of bubble tea says about British high streets

A sugar rush from foreign students

January 28th 2025



Qun and richard ferreira opened a bubble-tea shop in Middlesbrough, in north-east England, in 2022. “To my knowledge, it was the first one in Teesside,” says Mr Ferreira. Since then at least five other bubble-tea outfits have opened in the Tees valley, with mixed success. But the Ferreiras nabbed the best site: round the corner from Teesside University, on Linthorpe Road.

Bubble tea is a kind of drink, generally sweet and peculiarly textured. It was invented in Taiwan in the late 20th century and has spread to the rest of the world. In Britain, bubble tea is also a strong social and economic indicator. Just as a *polski sklep* hints at the presence of eastern European migrants, a

bubble-tea shop indicates international students. It points to a particular kind of high-street economy, which was thriving until recently.

Ten years ago Middlesbrough had few international students. Then the British government liberalised visa rules. It allowed foreign students to work in the country for two years after graduation and lowered the salary threshold for work permits. Teesside University, which charges less for postgraduate courses than more prestigious institutions, spruced up its campus and was off to the races.

Between the academic years ending in 2017 and 2023, the number of international students enrolled in Teesside University shot up from 950 to 8,330. Although British students outnumber them two to one, the foreign students are a large presence on campus. About half of the British undergraduates enrolled at Teesside University come from less than 15 miles (24km) away; many live at home and commute to classes. In contrast, the international students tend to sleep, shop and eat nearby.

Some long-established businesses on Linthorpe Road, which runs down the western edge of the university campus, have pivoted to serve them. Janet Housam of Housams, a housewares shop, has watched the street change from what she calls “huge retail”—carpets, furniture and so forth—to cafés and international grocers. She thinks that more than half her customers are students. Asked on a cold day what they buy, she points to a tower of boxes containing small space-heaters.

Other firms have specialised in students, especially foreign ones, from the outset. Mr Su’s, a Chinese noodle restaurant, has four branches in Britain. Two are located on the ground floors of private student-housing blocks in Manchester and Leeds; the third is next to the University of Leeds. The fourth is on Linthorpe Road.

Then there are the bubble-tea outfits, which cater to Asian students and anybody else who has developed a taste for the stuff. Their number appears to have grown rapidly, especially in university towns. Bubble-tea shops crowd around the University of Bristol like bees on buddleia. Several universities have bubble-tea shops in the heart of their campuses, in student-union buildings.

In wealthy, touristy cities, the bubble-tea economy can be hard to discern because so much else is going on. The streets of central London would contain exotic shops and cafés even if there were no foreign students. But Middlesbrough is neither wealthy nor touristy. In the city centre a succession of big-name shops have folded in the past few years: Debenhams, House of Fraser, Marks & Spencer. Between 2017 and 2023 the rateable value of retail properties in Middlesbrough dropped by 18.5%, compared with a drop of 10% in England and Wales. The student-driven economy of Linthorpe Road stands out because it is thriving.

It is not faring quite as well as it did, though. Local business owners complain about the addition of cycle lanes in 2022, arguing that they remove parking spaces and are used only by takeaway riders. Local politicians agree: both the mayor of Middlesbrough and the mayor of Tees Valley have promised to eradicate the lanes. More worrying for the businesses on Linthorpe Road, the number of international students is falling.

After liberalising the visa regime in 2020 and 2021, the British government clamped down. It banned most foreign students from bringing dependants, mulled abolishing graduate visas and raised the salary threshold for work visas—the best option for a foreign student who wants to stay in Britain longer than two years. Some 490,000 people applied for student visas for Britain in 2022; last year, 408,000 did. Teesside University is one of many institutions that has seen a drop.

Bubble bursting?

“Teesside University has been the victim of overzealous government policy,” says Chris Cooke, the mayor of Middlesbrough. The bubble-tea economy has been affected, too. Nasser Din, a prominent local property developer, says that investors’ confidence has taken a knock. But it has hardly been flattened. Your correspondent watched as workmen installed a new dessert café in one of Mr Din’s buildings, which used to be a clothes shop.

The changes on Linthorpe Road point to a dilemma for the chancellor, Rachel Reeves, and the Labour government. Ms Reeves has said repeatedly

that economic growth is her overriding concern. But Labour also promises to cut immigration, which is more easily done by clamping down on foreign students than any other way. One of those instincts will eventually prevail. To see which one does, keep an eye on the bubble-tea shops. ■

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Britain | Bagehot

The rise of the Net-Zero Dad

Middle-aged men care less about the problem. But they love the solution

January 29th 2025



How do you know if someone is vegan? They will tell you, runs the old joke. How do you know if someone owns a heat pump? They will invite you into their home to admire the performance of a 14kW Midea R32 stuffed under the stairs behind some tasteful louvre shutters.

The "Visit A Heat Pump" scheme run by Nesta, an innovation charity, is a curio of Britain's net-zero transition. Each weekend hundreds of volunteers welcome visitors into their homes to discuss how to book a council-mandated sound survey, the merits and demerits of a flow temperature of 55°C versus 45°C, and the joys of a triple-panel radiator. For someone in south London, the hosts on offer are David, Paul, Edward, Nick, Naresh, Mario, Stephen, Jerry, Bernie, Nicholas, Phil, Priyesh, Roy, Paul and Steph

(who is also, incidentally, a man). The trend is obvious: the Net-Zero Dads are on the march.

Attitudes to climate change shift with sex. In general, men care less about climate change than women do. Reform UK, Nigel Farage's climate-sceptic party, is disproportionately male. This worries climate wonks, who therefore cook up schemes designed to win men round. Call it "blokewashing": when climate activists try to make their aims look manly. The result is advertisements in which Jimmy Bullard, a former footballer with a high level of bloke-per-inch, is paid to issue warnings that extreme-weather events could ruin the football season.

Climate wonks should worry less. Although middle-aged men might care a bit less about the problem, they are often much keener on the solution. When it comes to adopting green measures, whether it be installing a heat pump, driving an electric vehicle or running the tumble dryer at 4am, it is middle-aged men who lead the way. The supposed villains of the climate transition are the heroes. The hour of the Net-Zero Dad has come.

Heat pumps are only the most prominent example. Middle-aged men with kids are among the keenest on installing a heat pump, according to More In Common, a pollster. Britain is behind in its plan to replace gas boilers with heat pumps, which run on (in theory soon-to-be almost entirely green) electricity. It hopes to have 600,000 installed each year by 2028. In 2024 it managed a sixth of that figure. Early evangelists—the Nicks, Phils and Pauls willing to spend their weekends showing strangers their airing cupboards—are vital to spread the gospel.

At this stage in the adoption cycle, there is much still to be debated. A thriving heat-pump community exists, with message boards filled with men comparing their "coefficient of performance" (COP), the ratio of how much energy a heat pump takes in and spits out. It is a jargon-filled world, with criticism for those who hubristically pursue a higher coefficient even if it is not the most cost-efficient thing to do. (Not even heat pumps can escape the fragility of the male ego.) Octopus Energy, now Britain's biggest electricity supplier, has an invite-only private forum in which thousands swap technical ideas. Naturally, it is quite male.

Shifting to a new model of supplying energy requires experiments, which need guinea pigs. Net-Zero Dads offer themselves. During "saving sessions", when customers are paid to use less energy, Steves, Peters and Stuarts post pictures of themselves sitting in the dark, or watching "Hollyoaks" on an iPad by candlelight. Octopus's agile tariff allows customers to pay the wholesale price, which updates every half hour. The reward: slightly lower energy costs. The risk: a big bill if a tumble-dryer session collides with peak pricing. But what is life without a little risk? "I'm surfing the electricity price," says one Net-Zero Dad, thrilled.

Some technologies are beyond proof of concept, thanks to Net-Zero Dads. Electric vehicles, for instance, now make up a fifth of new-car sales. Twice as many men as women drive them, perhaps because they accelerate so exhilaratingly fast. Middle-aged men with children under 18 are particularly keen, points out More In Common. The Tesla Model Y was the most popular model in Britain in 2024. For all that it looks like a bog-standard SUV-cross, it can do 0 to 60mph in 3.5 seconds—as speedy as an Aston Martin Vantage. A mid-life-crisis-mobile is necessary to save the planet.

Preparing for the climate transition can be only an older person's game. The young might have more motivation. The old have the means. An electric car is not cheap. Only those who own their home are able to put solar panels on the roof, a giant heat pump on the patio or a charging point in the garage. Renters are reliant on their landlords going green. You need a chunk of money saved up to afford a heat pump, even with generous subsidies of £7,500 ($9,300) per installation. The green transition relies heavily on the bank of mum and Net-Zero Dad.

"They'll pay me to tell my children to turn off the lights?"

Net-zero scepticism is forever the next front in British politics. A shift towards it did little for Rishi Sunak, who steered the Conservatives to a historically bad election result. The remaining doubters have sorted themselves neatly into the Reform UK fold. When politicians discuss these doubters, they invariably picture a bloke of a certain age. Yet for every middle-aged man gleefully highlighting another *Dunkelflaute*, a German

word for when there is no sun or wind for weeks, and the folly of net zero, there is a Net-Zero Dad proudly showing strangers a whirring heat pump.

And so in south London, phones are whipped out as the 14kW Midea R32 is fired up. An onlooker holds his up for the magic moment: a background of two young children is swept away and replaced with a decibel-meter app (you don't already have one?) to measure the noise. At 43 decibels, or the murmur of a quiet library, and much less than the flight going overhead, it is enough to allay any final concern. Another Net-Zero Dad is born. ■

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International

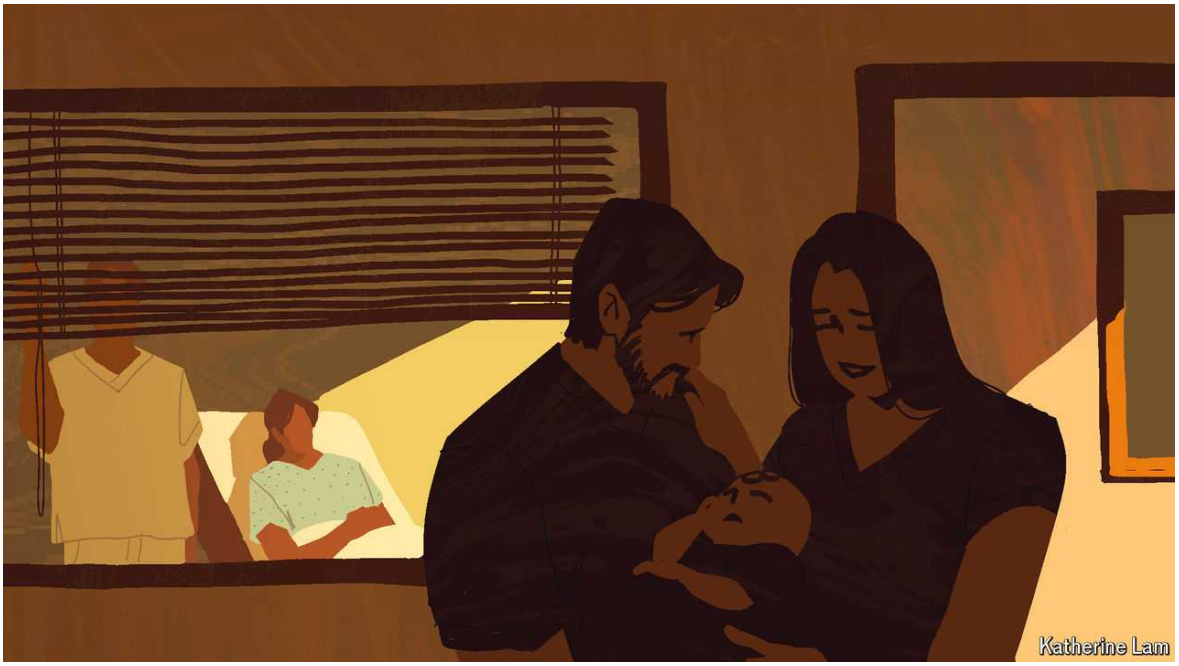
- As adoptions collapse, demand for international surrogacy is soaring
- A big, beautiful Trump deal with China?

International | Baby-making boom

As adoptions collapse, demand for international surrogacy is soaring

Yet it is facing a growing backlash from religious conservatives and some feminists

January 30th 2025



WHEN SHAKIR MOHAMED and his male partner wanted to start a family in London, they looked to adopt a child. But faced with a laborious process and long waiting times, they instead turned to surrogacy. Last year their son Nico was born to a woman in America who agreed to carry their child for a fee, and who still stays in touch with them.

Acts of kindness, such as hers, ought to be celebrated; in their own small way they each increase the sum of joy in the world by incubating children for families that, for various reasons, can't do so themselves. Worldwide,

that joy adds up to a small city's worth of new families created through 30,000 surrogate births a year.

Yet instead of being universally celebrated, surrogacy faces a growing backlash from religious conservatives, who see it as a violation of the natural order, and from some feminists, who worry that it exploits women, especially when they are paid to be surrogate mothers. In October Italy, which has banned surrogacy since 2004, imposed perhaps the world's most uncompromising restrictions by declaring it a "universal crime". This wording "puts surrogacy on a par with genocide and crimes against humanity", noted Dafni Lima of Durham University's law school. The law makes it an offence for Italians to have surrogate babies abroad, even in countries where it is legal to do so, that is punishable by up to two years in jail and a fine of up to €1m ($1.04m). In December the Supreme Court in Spain, which also bans surrogacy, ruled against the practice abroad, arguing it "violates the moral integrity of the pregnant woman and the child".

The result of this backlash is a complicated muddle of national laws that puts prospective parents in peril of prosecution and babies of being left parentless and stateless. These restrictions are also pushing surrogacy underground, or to unregulated countries, and into the hands of criminals and human traffickers, where it is far more likely that surrogate mothers will be exploited and abused.

Though surrogacy dates back at least to biblical times—the book of Genesis tells the story of Abraham impregnating his wife's servant, Hagar, to bear a child for the couple—it was only in the mid-1980s that IVF allowed "gestational" surrogacy, whereby a woman could carry a child who was not related to her. Before then, childless couples who wanted families would generally have had no alternative but to apply to adopt. Yet demand has long outstripped supply. According to one study published in 2006, there were around 1m parents in America who wanted to adopt a child, yet only 51,000 children were placed with agencies for adoption each year.



The Economist

The answer, for many, was to look abroad. In 2004 international adoptions peaked at 45,000, mainly from poor or war-torn countries. Yet a series of scandals involving child-trafficking, kidnapping and baby-farming prompted tighter regulation and/or outright bans, such as one imposed by China last year. The result has been a collapse in cross-border adoptions—in 2022 there were just 3,700 worldwide—stranding hundreds of thousands of children in orphanages (see chart). It is a decline that will not be reversed, says Peter Selman, a professor at Newcastle University and an authority in this area.

Domestic adoptions have fallen over recent decades in a number of rich countries, partly because of the introduction of needlessly stringent rules on the suitability of parents. In parts of Britain, for example, local authorities insist that each child must have their own bedroom. Moreover, the amount of time children spend in care before being placed with a family has gone from months to years, leaving many traumatised and institutionalised. Mr Mohamed and his partner worried whether they were equipped to provide the support such children would need.

Baby be mine

As rich-world adoption has plummeted, demand for surrogacy has grown. It has also been fuelled by rising infertility, an increase in the acceptability of

singles and gay couples choosing to have children, and the spread of information on the internet.

In Britain the number of surrogate births recognised by courts increased almost four-fold over a decade, to 449 in 2022 from 117 in 2011. Surrogacy is also increasingly global. In America, where some states allow women to be paid to carry a child (known as commercial surrogacy), almost a third of such pregnancies are for foreign parents. Many are from countries such as China or France, which ban all forms of surrogacy. Others are from countries like Britain, which allow only "altruistic" surrogacy, whereby mothers may be paid no more than their reasonable extra expenses. Like Nico's, around half of surrogate births recognised in Britain in recent years took place abroad.

There are no reliable worldwide statistics. Sam Everingham, who founded Growing Families, a non-profit organisation in Australia that helps people navigate international surrogacy, estimates around 30,000 babies a year are born from international surrogacy. Other estimates are higher. Global Market Insights, a data firm, reckons this market was worth more than $14bn in 2022 and forecasts its value will rise to $129bn in 2032.

This rapid growth is bringing to the fore legal and moral quandaries that are similar to those that plagued, and then largely destroyed, international adoption: the potential for abuse when high demand in rich countries finds supply in poorer, unregulated one; whether it is ethical to pay for children; and how surrogacy, commercial or altruistic, affects women's autonomy over their own bodies and the identity and well-being of the children they bear.

Some, such as Giorgia Meloni, Italy's prime minister, are implacably opposed to the very idea of a woman carrying a baby for someone else under any circumstances. "Human life is priceless and is not a commodity," she tweeted after Italy declared surrogacy a universal crime.

Critics also argue that it harms surrogate mothers and their children. One study found that surrogates are more likely to experience pregnancy complications than mothers who use IVF or conceive naturally. They are also more likely to give birth prematurely. "We can't step on the rights of

children and women...for the desires of some couples to have children," says Olivia Maurel, who was born in America through surrogacy, but now campaigns against it.

Yet the wider body of research, including a systematic review of 47 studies in 12 countries, does not support the claim that acting as a surrogate has a negative effect on women, according to a paper published in 2024 in the BMJ, a British medical research journal. Instead, the evidence suggests that most surrogate mothers in countries such as America, where it is well regulated, found the experience rewarding. Moreover, blanket bans tend to push surrogacy to places where there is no regulation, and thus greater potential for abuse. "Hoping it goes away isn't going to happen," says Natalie Gamble, a British lawyer.

A related argument is over whether it is unethical or exploitative to pay surrogates. A number of countries besides Britain allow only altruistic surrogacy. These include Canada, Denmark and New Zealand. Such arrangements challenge the notion that all surrogates are poor uneducated women exploited for money, says Sarah Jones, the CEO of Surrogacy UK, a non-profit outfit. Ms Jones ought to know: she has been a surrogate five times. But few women are as altruistic as she is, which is one reason why half of Britain's surrogate babies are born abroad.

America, Mexico, Colombia and Georgia are among the countries that have booming commercial-surrogacy industries. In America, where the rules are set by each state, this is a highly professional business with protection for mothers and the intended parents. California, a liberal surrogacy-friendly state, uses orders that establish the intended parents as legal parents before the birth. This makes it a popular destination, but also an expensive one, with costs of up to $200,000. This is increasing demand for cheaper—and often unregulated—destinations such as Mexico and Colombia, with costs of around $90,000 and $65,000 respectively.

Race to the bottom

Yet this can lead to a downward spiral into more unregulated and underground markets. "When a 'new' destination becomes popular, it can

often be overtaken by demand, leading to longer waiting times and pushing costs upwards—meaning it then becomes likely that *another* new destination will emerge," notes Kirsty Horsey, a law professor at the University of Kent.

Alejandra Vera, a lawyer and director of an NGO that works to protect women's rights in Cúcuta, Colombia, says surrogates are sometimes vulnerable women who are trafficked across the border from Venezuela. There surrogacy costs around $65,000, but only a fraction of this is ever paid to the surrogate herself. The rest goes to agencies, lawyers and middlemen. Contracts can force the woman to give up her right to end the pregnancy. Maternity clinics give out flyers advertising the service at their doors. "They know they can get desperate women there," she says.

No regulation, poor young populations, and fertility clinics galore mean that African countries like Nigeria, Uganda and Kenya are also becoming popular hubs. Olaronke Thaddeus, the founder of Meet Surrogate Mothers, a clinic in Lagos, Nigeria, says when she opened in 2013 she had one couple visit that entire year. Now she welcomes 200-300 potential parents a year, most of whom come from America, Britain, Canada and continental Europe. She declines to say how much she charges or how much she pays surrogate mothers, insisting that her service is "priceless". The clinic maintains strict confidentiality so the intended parents never meet the surrogate mother—even at the birth.

Some argue that the only way to prevent abuses is through an international treaty, along the lines of the Hague Convention of 1993, which regulated international adoptions. Making surrogacy universally legal, safe and paid could maximise the joy it brings and minimise the risk of it causing harm. That seems fanciful. Years of work on a convention by an intergovernmental group has stalled: countries are still far too divided over whether surrogacy should be legalised or outlawed to even begin to sensibly regulate it. ■

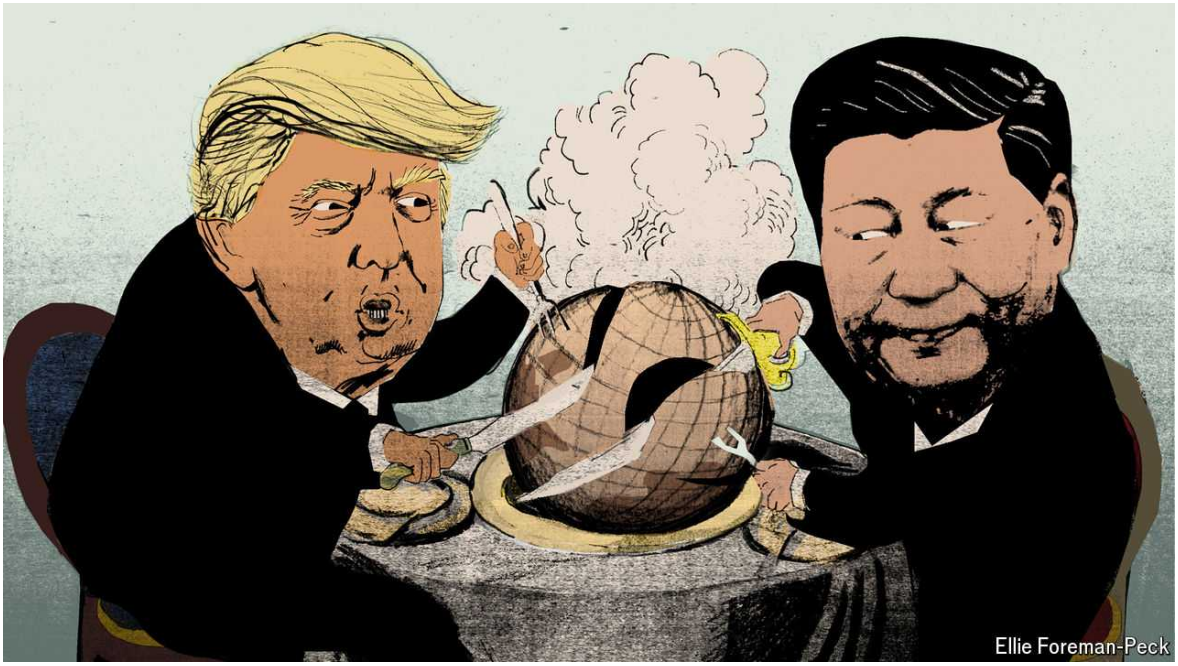
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International | The Telegram

A big, beautiful Trump deal with China?

Washington hawks puzzle over calls for China to help in Ukraine, and hints of a possible TikTok reprieve

January 28th 2025



IT SOUNDS ODD, but hints keep piling up that President Donald Trump is tempted by a big, beautiful deal with China's Xi Jinping. That runs counter to campaign-trail vows to hit China with crippling tariffs. A great-power bargain that Mr Xi could accept—perhaps bundling economic trade-offs with a divvying-up of the world into spheres of influence—would surely outrage hawkish Trump aides, from the national security adviser, Mike Waltz, to the secretary of state, Marco Rubio. Congress would be appalled and allies in Europe and Asia aghast. And yet Mr Trump keeps signalling that he is in dealmaking mode. He has invited China to help with peacemaking in Ukraine, says he would rather not impose swingeing

Chinese tariffs and questioned whether TikTok, a Chinese-owned app, really harms American national security.

Well-connected officials and scholars in America, China and Europe are thinking hard about "G2" talks and how far they could get. Converging world views make a deal conceivable, for Mr Trump's might-makes-right outlook resembles Mr Xi's. Diverging national interests are the obstacle. There is, for instance, a winner-takes-all edge to some important technological contests, from the race to dominate artificial intelligence to competitions over space warfare. That places severe limits on co-operation.

In Washington, conventional conservatives draw comfort from the first Trump presidency. They admit that, in private, Mr Trump made startling statements about China. The memoirs of former aides describe Mr Trump scorning the democratic island of Taiwan as a small and troublesome place, just off the coast of mighty China. There are accounts of Mr Trump telling Mr Xi he was right to lock up Muslim Uyghurs in the western region of Xinjiang. But in the end, conservatives counter, Mr Trump approved tough China policies, selling weapons to Taiwan, calling repression of Uyghurs a genocide and curbing technology exports.

Today a conventional spin can be put on Mr Trump's approach to Ukraine. China has leverage over President Vladimir Putin as a vital energy buyer and supplier of components for Russian armsmakers. Maybe Mr Trump just wants China to stop exporting weapons parts and tell Mr Putin to stop fighting. Alas, soothing spin must reckon with something jarring: Mr Trump's echoing of Chinese talking points about the war. In early January he said he could "understand" why Russia feels threatened by potential NATO membership for Ukraine. Days after his inauguration he told Fox News that Ukraine's president, Volodymyr Zelensky, should have sued for peace and not fought back after being invaded by "much more powerful" Russia. Mr Trump called the conflict a costly mistake, allowed to drag on because America "started pouring equipment" into the war. That is the line peddled in world capitals by Chinese envoys for three years, almost verbatim.

Chinese experts welcome a chance for dealmaking. Currently, Russia is heavily reliant on China, says Yang Cheng, a professor at Shanghai International Studies University and former Chinese diplomat in Moscow.

But the gains from that dependence are outweighed by harm to China's ties with America and Europe, where China is wrongly seen as being in lockstep with Russia, he argues. A role in Ukraine peace talks would be a "proving-ground" for China's diplomacy, and bolster its ambitions to be recognised as a "provider of public goods for global governance".

China's price for help could be a new joint communiqué in which America unequivocally "opposes" Taiwanese independence, shifting from its stance of "not supporting" the island's claim to statehood, suggests Xiang Lanxin, a Shanghai-based veteran of high-level, semi-official talks between America and China. An American "No" to independence would advance China's core interests, he says, transforming politics inside the island and pouring cold water on Western governments that have taken up Taiwan's cause as a test of democratic solidarity. In return, China might divert exports from America to other markets and avoid mounting challenges to the dollar's global dominance. As for Mr Trump's swaggering ambitions in his near-abroad, neither Panama nor Greenland are "vital" Chinese interests, while his upsetting of allies is "great" for China, says Professor Xiang.

As a senior colonel in the People's Liberation Army (PLA), Zhou Bo oversaw Chinese peacekeeping missions. If invited by the warring parties, China "stands ready" to send thousands of PLA monitors to Ukraine, perhaps with Indian and Brazilian counterparts, he says. That would avoid the presence of peacekeepers from NATO countries, which Russia would surely oppose. It would also be a "win" for China, showing the world that it stands on "the moral high ground", suggests the retired officer, now at Tsinghua University's Centre for International Security and Strategy.

Nobody knows where this will go

Westerners are now squabbling among themselves. Germany's chancellor, Olaf Scholz, is said to see advantages in China sending peacekeepers to help monitor a Ukraine armistice, perhaps in blue UN helmets. Yet when a German grandee publicly raised the idea at the World Economic Forum in Davos, he was excoriated for "pathetic" European buck-passing by a flinty Stanford academic.

Might China hawks constrain Mr Trump? Their clout depends on whether Mr Trump moves to unleash them or not, says Christopher Johnson, a former CIA China analyst and presidential briefer. Pragmatic Mr Trump keeps charge while he senses a deal he can sell as a win. When talks bog down, he hands them to underlings. That explains get-tough policies from his first administration.

In truth, the big obstacle to dealmaking may be China's long-term distrust of America, and the rigidity of policymaking under Mr Xi. That is an odd source of hope for Washington's China hawks and alarmed Western allies. These are strange times.■

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Business

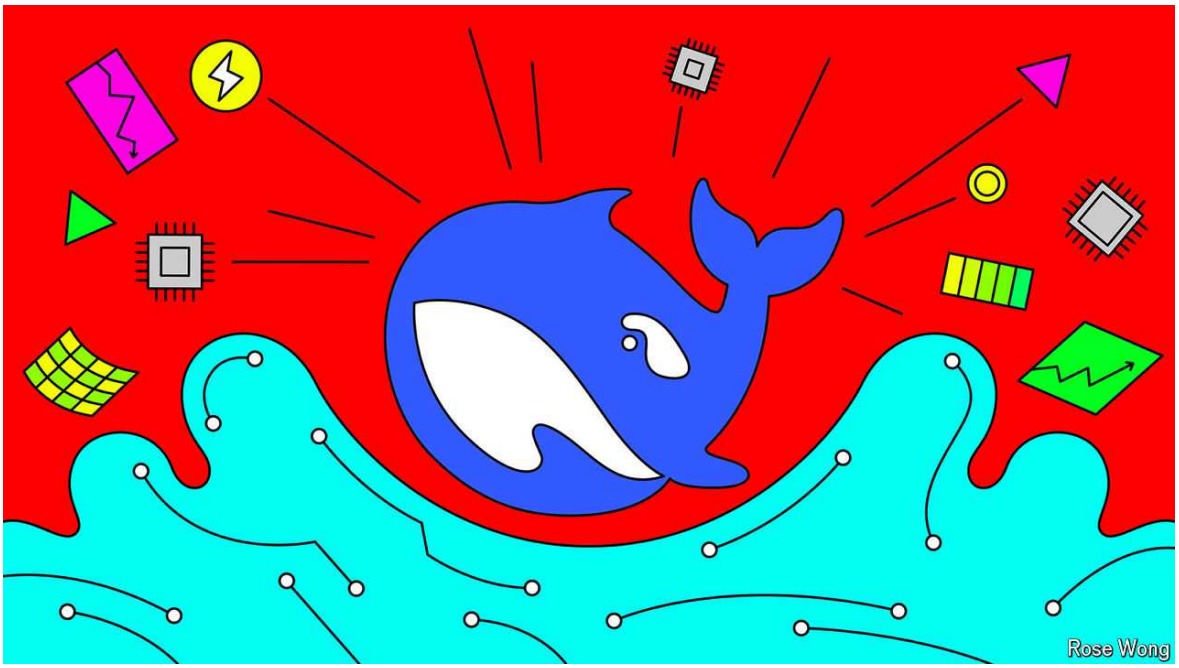
- DeepSeek sends a shockwave through markets
- DeepSeek poses a challenge to Beijing as much as to Silicon Valley
- No one gains from American tariffs on cars from Mexico and Canada
- Football clubs are making more money than ever. Players not so much
- From cribs to carriers, high-end baby products are in vogue
- The allure of the company town
- What Elon Musk should learn from Larry Ellison

Business | Bubble trouble

DeepSeek sends a shockwave through markets

A cheap Chinese language model has investors in Silicon Valley asking questions

January 27th 2025



It did not take much for the euphoria over artificial intelligence (AI) to turn into alarm. On January 27th stockmarkets in America and Europe convulsed. The share price of Nvidia, America's AI-chip champion, fell by 17%, erasing $600bn of market value, the biggest one-day loss in the history of America's stockmarket. Other businesses in the AI supply chain, from data-centre landlords to makers of networking gear, suffered a similar fate.

The cause of investors' panic was DeepSeek, an obscure Chinese hedge fund turned AI startup that has blown analysts away with its latest large language model, R1, released on January 20th. Consumers have flocked to DeepSeek's chatbot, which last weekend became the most downloaded app on iPhones.

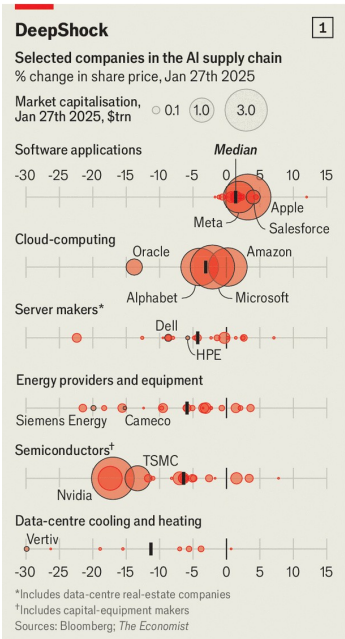
Innovative techniques have allowed the firm to train AI models that perform about as well as the most sophisticated Western ones with only a fraction of the computing power—and therefore a fraction of the cost.

- The real meaning of the DeepSeek drama
- Chinese AI is catching up, posing a dilemma for Donald Trump
- Why Chinese AI has stunned the world

In the following days, calm returned to markets. Share prices halted their descent, and in some cases partially regained their losses. Yet the episode is set to leave a lasting impression on investors, who have been forced to rethink who will profit most from AI, and consider what would happen were the bubble to burst.

The sprawling AI supply chain consists of hundreds of firms. Some of them, such as Nvidia, produce the hardware that sits inside data centres. Others rent out that gear as cloud-service providers (Amazon, Microsoft and Google). Model-makers (OpenAI and Anthropic) train AI systems in the cloud, and software firms (Salesforce and SAP) build applications on top of those models to sell to customers.

The clearest losers from DeepSeek's breakthroughs are suppliers of AI hardware. If training models requires less computing power, then fewer chips and related equipment will be sold. Nvidia, which before the carnage on January 27th was the world's most valuable firm, looks particularly exposed. Its most advanced chips, which are widely used in developing cutting-edge AI models, are said to generate gross margins in excess of 90%. If demand for them falls, the company's monopoly-like margins will be squeezed.



The Economist

Nvidia's rivals, such as AMD, will also feel the pressure, though their valuations have not been as frothy. Share prices of AI-chip firms suffered a median decline of 6% on January 27th (see chart 1). The value of TSMC, a Taiwanese firm that makes most of the world's cutting-edge semiconductors, tumbled by 13%.

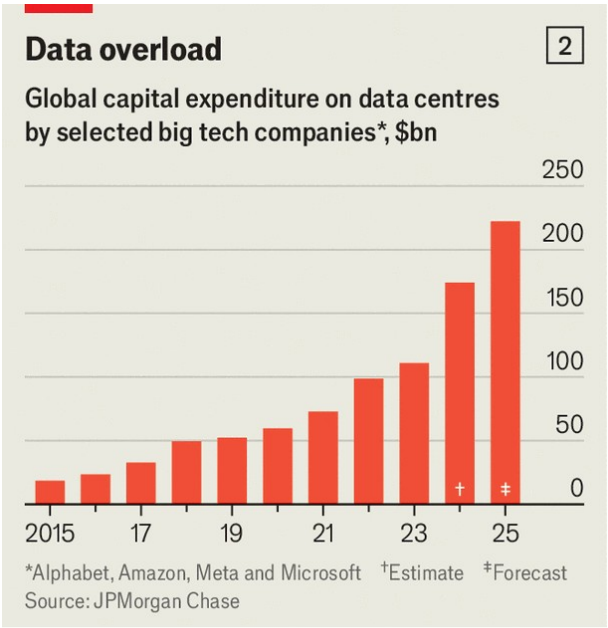
Other suppliers of AI hardware are also being reassessed by investors. HPE and Dell, two American electronics firms that make server racks that sit inside data centres, saw their share prices sink by 6% and 9%, respectively, on January 27th. Chips need to talk to each other to train leading-edge models, which is why the value of Arista, a maker of networking gear, plunged by more than a fifth during the rout. Vertiv and Modine Manufacturing, two firms that make cooling equipment to stop AI chips from overheating, both lost over a quarter of their value.

Energy firms, too, have been caught up in the bloodbath. Many investors had assumed that training cutting-edge AI models would require ever greater amounts of electricity. But DeepSeek has thrown this into doubt. The share prices of Siemens Energy, a maker of electrical equipment, and Cameco, a producer of uranium used for nuclear power, fell by 20% and 15%, respectively, during the rout.

Another group of losers are the model-makers, such as the privately held OpenAI and Anthropic, whose businesses risk being undercut. They have been burning through cash, and could find it harder to raise capital now that DeepSeek has shown it is possible to do more with less.

Yet cheaper AI models will also create winners. Firms that build software applications on top of them, such as Salesforce and SAP, will benefit from falling costs. Many of these companies saw their share prices jump this week as others plunged. Apple, maker of the iPhone, may be another winner. It has not invested as heavily in AI infrastructure or model-making. Cheaper AI may also lead to a wave of new consumer apps, which could help perk up sluggish sales of its iPhones.

What all this means for the cloud giants is harder to predict. Alphabet, Amazon and Microsoft operate across the AI supply chain. Their software applications, such as Microsoft's Copilot, may become more profitable as cheap models become more prevalent. But they have also invested in model-making, both directly (Alphabet has a large in-house team) and indirectly (through their stakes in startups such as OpenAI and Anthropic).



The Economist

They have poured vast sums into AI infrastructure, too. Last year the combined spending on data centres by the cloud trio and Meta (which has

also been developing AI models) reached about $180bn, an increase of 57% on 2023 (see chart 2). Although shareholders might welcome a reprieve from further capital spending, they may now be wondering what will become of the investments made to date.

The cloud giants have also been venturing into chip design, in an effort to reduce their reliance on Nvidia. Mario Morales of IDC, a research firm, notes that their semiconductor-engineering teams are each now roughly as big as that of a large chipmaker. Investors seem to think that these ambitions will be cut back. During the rout the share prices of Broadcom and Marvell, two firms that help the cloud giants design their own chips, fell by 17% and 19%, respectively. That contrasts with the share prices of the cloud giants, which fell slightly (in the case of Alphabet and Microsoft) or not at all (for Amazon).

Plenty in the industry remain bullish. SoftBank, a spendthrift Japanese investor, is reportedly in talks to plough $15bn-25bn into OpenAI. On January 29th Mark Zuckerberg, Meta's boss, said his firm would invest "hundreds of billions" of dollars in AI over the long term.

One reason is that so-called reasoning models, including OpenAI's o3 and DeepSeek's own R1, are deploying much more computing power at the inference stage, where the model responds to questions, to generate better answers. That could help offset decreases in the use of computing power for training.

Another source of optimism relates to demand. On January 29th Microsoft said that the growth of its AI cloud revenue— 157%, year on year, for the quarter—was constrained by supply, not demand. Some have argued that as AI models become cheaper to train, usage will rise further.

Yet other hurdles remain to adoption. America's Census Bureau surveys firms about their use of AI. Of those that have no plans to use it in the next six month, only 4% cite cost as the reason. The vast majority think that AI simply does not apply to their business.

If DeepSeek's innovations lower the cost of AI by orders of magnitude, companies may well discover new applications for the technology.

Reasoning models will help, too, by improving the performance of AI models. Any effect on demand, however, will take time to materialise. And as the market turbulence demonstrates, investors are getting jittery. Their patience may not last for ever. ■

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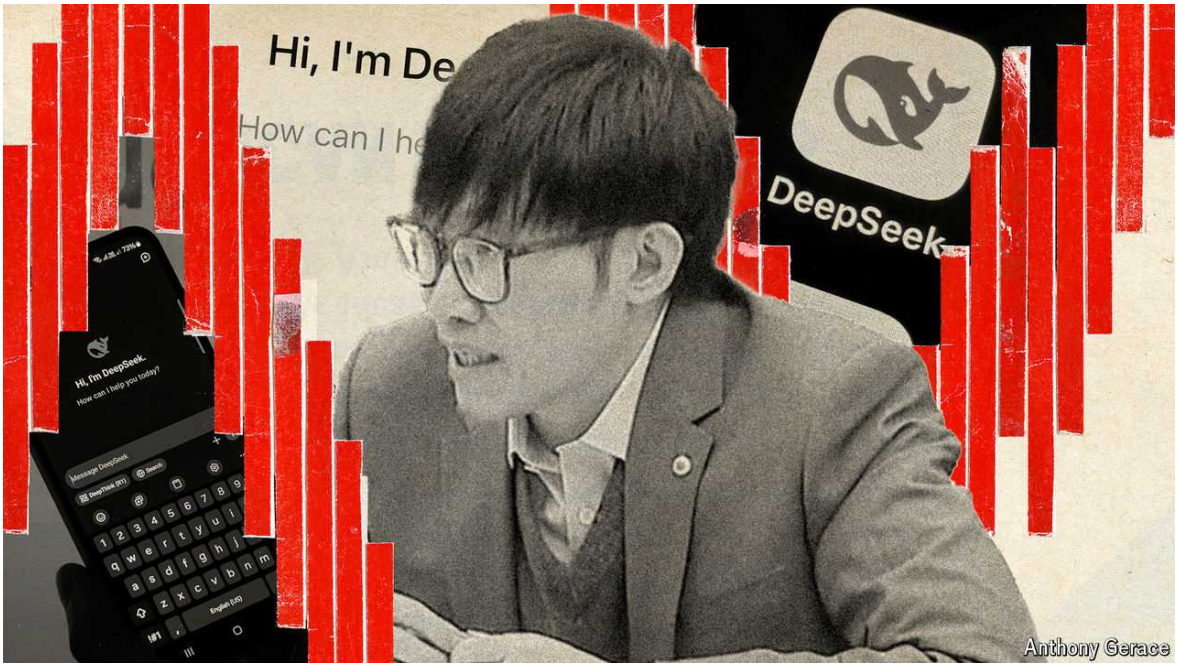
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Business | Flying high

DeepSeek poses a challenge to Beijing as much as to Silicon Valley

The story of Liang Wenfeng, the model-maker's mysterious founder

January 29th 2025



With the release of its latest artificial-intelligence (AI) model, DeepSeek, an obscure Chinese firm, has laid waste to several years of American policy meant to hold back Chinese innovation—and, in the process, blown a hole in the valuations of companies from Nvidia, America's AI-chip champion, to Siemens Energy, a manufacturer of electrical equipment used in data centres. In demonstrating its ability to innovate around American export restrictions, DeepSeek has raised doubts as to whether access to piles of cutting-edge semiconductors and related equipment is as important as previously thought when it comes to training AI models.

The man at the centre of it all is Liang Wenfeng, DeepSeek's 40-year-old founder. It is unclear how much he has relished the global market turmoil he has unleashed. A high-school classmate who recently spoke to local media said Mr Liang was hiding out in his home town for the lunar new year, which started on January 29th. Playfully mocked on Chinese social media for his skinny, pale appearance, Mr Liang remains a mystery to most people. Those who have had professional dealings with DeepSeek say he is obsessed with human-like artificial general intelligence (AGI) and the impact it could have on the world. In his pursuit of it, DeepSeek's founder is up-ending ideas about technological progress both in the West and China.

Public information on Mr Liang is scant. Born into a family of teachers in an impoverished village near the southern city of Zhanjiang in 1985, he was a gifted student. A former instructor claimed he mastered university-level maths in middle school. In 2002 he gained entry into an electronic-information degree at Zhejiang University, a prestigious school in the eastern city of Hangzhou. A master's degree at the same university, under a well-known machine-vision scientist, exposed him to the field of AI.

At the time, Hangzhou was a bustling hub for internet technology and home to rising companies such as Alibaba, an e-merchant. Mr Liang and several classmates remained in the city and began experimenting with quantitative investing models, which do not rely on company fundamentals but on crunching reams of data. In 2013 Mr Liang and three classmates launched an investment group called Yakebi in an attempt to monetise the trading models they had built.

Two years later Mr Liang co-founded High-Flyer, a quantitative hedge fund that grew rapidly alongside dozens of similar firms during a period of deregulation and market volatility in China. In 2021 it claimed to be managing as much as 100bn yuan ($14bn), though it appears to have rapidly shrunk in size in the latter half of that year. Quant funds have routinely tussled with Chinese regulators, who view them as profiting from market routs. Industry insiders say High-Flyer made a name for itself as one of the most aggressive quant funds, regularly drawing the ire of securities regulators.

DeepSeek's origins lie in an effort to improve High-Flyer's algorithms. In 2019 the firm invested 200m yuan to set up a separate unit to develop its own deep-learning platform, called "Fire-Flyer 1". The fund poured 1bn yuan into the effort in 2021 in order to launch a second iteration armed with 10,000 of Nvidia's A100 graphics-processing units. This made High-Flyer an outlier: at the time just four other firms in China held such large arsenals of powerful chips, all of which were tech giants such as Alibaba. DeepSeek was made a standalone company in 2023.

It delivered its first jolt to the market in May last year, when it released an ultra-cheap chatbot based on its V2 model. That kicked off a price war in China's AI industry, forcing the country's biggest tech firms—Alibaba, Baidu, ByteDance and Tencent—to lower their own prices.

By Mr Liang's own telling, this was not a ploy to capture more users. In July he said costs had fallen as DeepSeek explored new model structures, something that set it apart from others. Although rival Chinese AI firms have been conducting their own research into models, their disadvantage in computing power, owing to American export restrictions, has led them to focus more on creating clever applications that use the technology. Many Chinese AI companies have used Llama, the family of large language models developed by Meta, an American social-media firm, as a basis for their applications.

Deep thoughts

For Mr Liang, developing models using less computing power is an essential step in pursuit of his longer-term objective. "Our goal is AGI, which requires us to explore new model structures to achieve superior capabilities within limited resources," he has told local media.

DeepSeek's new R1 model, which has shocked the West, suggests it is making progress. The company says it cost less than $6m to train, a tiny fraction of comparable models from firms such as OpenAI, maker of ChatGPT. Sam Altman, OpenAI's boss, has called R1 "impressive" (though he has also promised to produce "much better models", adding that it is "legit invigorating to have a new competitor").

DeepSeek certainly has its doubters. Early testing seems to confirm that R1 is as powerful as its maker says it is. But some have questioned whether the firm has underplayed the number of high-end chips it used to develop the model, even if others argue its claims are plausible. There is also speculation that DeepSeek has trained its models by studying the results of American ones, a process known as "distillation". OpenAI has said it has evidence that points to DeepSeek distilling its models, in violation of its terms of service.

Even if DeepSeek's efficiency gains are not as impressive as thought, they still pose a challenge to thinking both in Silicon Valley and Beijing. Chinese state media has been quick to champion DeepSeek as a national asset in the country's fight for AI supremacy. Mr Liang was invited to meet with Li Qiang, China's premier, on January 20th, alongside a handful of other entrepreneurs.

Yet as Zhang Zhiwei of Pinpoint Asset Management, an investment firm, points out, DeepSeek's achievements did not emerge from one of China's myriad government-backed research institutes or state-controlled companies. Mr Liang seems to control most of the shares in DeepSeek, and has steered clear of China's state-dominated venture-capital industry.

Mr Liang views China's role over the past 30 years as that of a technological "follower", building on foundations developed in the West. The gap between America and China is between "originality and imitation", he said in an interview with local media in July. Nvidia's success, he argues, has not relied solely on its own performance, but also on technological collaboration among Western companies. China's efforts to imitate Western computing power have fallen short, in his view, because it lacks this type of collaboration, despite a capital-intensive state-led effort to create one. DeepSeek may not be a wake-up call only for Silicon Valley, but also for China's leaders in Beijing. ■

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Business | Driving off a cliff

No one gains from American tariffs on cars from Mexico and Canada

Donald Trump's levy will hit his country's carmakers hardest

January 30th 2025



The flurry of executive orders issued by Donald Trump on his first day back as president showed the high priority he places on making America's borders less porous. His efforts to "repel the disastrous invasion of our country" by migrants and drugs from Mexico and Canada may soon include stemming the passage of cars. A promise to impose sweeping tariffs on "day one", including a 25% levy on goods from the two countries unless they do more to stop the flows of people and illegal drugs, was pushed back, but only to February 1st. Whether tariffs are imposed then or at a later date, the consequences for the car industry would be immense.

Carmaking across North America is as complex and interconnected as the components of a combustion engine. The industry has spread across the region on the back of free-trade deals, first with Canada in 1965, then with the inclusion of Mexico in the North American Free-Trade Agreement in 1994. (NAFTA was replaced by the United States-Mexico-Canada Agreement, USMCA, in 2020.) As the industry became ever more global and competitive, American firms, seeking cheaper manufacturing, looked south. Last year 3.6m cars, around half of America's car imports by value, arrived from its two neighbours, some 2.5m of them from Mexico.

Making those cars, which accounted for 22% of sales by volume in America and 16% by value, has given rise to complex supply chains that straddle both frontiers, built up over decades. In 2024 automotive exports from Mexico and Canada to their neighbour were worth around $200bn, with as much as half of that being components for vehicles assembled in America. The upshot is that Mr Trump's proposed tariffs would have a "massive impact" on the car industry, according to S&P Global Mobility, a data provider. Daniel Roeska of Bernstein, a broker, describes the effect even more succinctly: a "disaster".

Detroit's big three would bear the greatest burdens. Around two-fifths of the cars sold in America by Stellantis (whose largest shareholder, Exor, is a part-owner of *The Economist*'s parent company) come from Mexico and Canada, according to Bernstein. For General Motors (GM), the share is nearly a third. Ford is more insulated. Only a quarter of its sales cross America's borders, and these are largely smaller, cheaper vehicles such as the Bronco Sport and Maverick. GM and Stellantis, by contrast, import their lucrative Silverado and Ram pickup trucks, respectively, into America.

The impact would be so severe that a 25% tariff would wipe out Detroit's profits if its three car firms took no action to raise prices or alter production, estimates Barclays, a bank. It would inflict a blow on other carmakers, too. Tesla, Elon Musk's electric-car company, makes its cars in America but brings in up to a quarter of components from Mexico. European and Asian carmakers rely on Mexico to varying degrees as well. Volkswagen is the most exposed. Mexican production makes up over two-fifths of its American sales.

Foreign carmakers have also been threatened by Mr Trump with separate tariffs on imports from elsewhere. These would cause additional pain. America is the main destination for automotive exports from Europe, accounting for a fifth by value, some €56bn ($60bn), in 2023, according to Oxford Economics, a consultancy. Tariffs on these exports would hit Germany's three big carmakers hard. In total, exports to America account for nearly 10% of the sales of BMW and Mercedes-Benz, and 15% for VW. Bernstein reckons that a 20% tariff would cost VW €3.3bn if it did not pass it on in higher prices.

Consumers would undoubtedly share the suffering. The likely outcome is that the price of the average car in America would rise by $3,000, says Wolfe Research, a consultancy. Higher prices would hit overall sales just as the industry faces other potential upheavals. Mr Trump has signalled his intention to ease emission regulations and eliminate sales subsidies on electric vehicles (EVs). Slowing the transition to battery power would add more complications for carmakers, particularly Ford and GM, which have invested heavily in EV production both at home and across America's borders.

The tariffs would put carmakers in a quandary. It is highly unlikely that the duties, if implemented, would stay for ever, says Bernstein's Mr Roeska. But it is not clear how long they would last. The mere threat to Colombia of tariffs and other sanctions in a dispute over returning migrants on January 26th, for instance, was enough to cause the South American country to back down in just hours.

Bordering on the ridiculous

If tariffs lasted only for a few weeks, until Mr Trump wrung concessions on migration and drugs that he could present as a victory, they would still be highly disruptive. If they persisted, it might be possible to relocate some production to America. But reconfiguring factories and supply chains takes time, and would raise costs permanently. One theory is that there is another motivation for the threats: that they act as a bargaining chip to bring forward a renegotiation of the USMCA, currently up for review in 2026, on terms far more favourable to America, with a view to advancing Mr Trump's goal of bringing manufacturing back home. He has argued that tariffs are the only

way to save America’s auto industry. But they could also cause a car crash. ■

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Business | Real money

Football clubs are making more money than ever. Players not so much

For both teams and their top stars, it helps to have a brand

January 30th 2025



It is an excellent time to be an armchair football fan. Never have there been more matches to choose from. On January 29th the UEFA Champions League, a tournament for Europe's best clubs, aired 18 matches all at once.

It is an even better time to be a football club. The 20 highest earners brought in a record €11bn ($12bn) in combined revenues in the 2023-24 season, according to Deloitte, a professional-services firm. Top-of-the-table Real Madrid became the first club to rake in €1bn, up by over a quarter from the season before.

Success on the field still matters hugely to a team's income. Merely qualifying for the Champions League is lucrative (and this season's new format, guaranteeing more games, makes it more so). Real were helped to their record haul by winning both Spain's La Liga and the Champions League last year.

Yet for teams' accountants at least, winning is less important than it was. Famous clubs endure as brands even when they perform badly. Manchester United have remained in Deloitte's top five earners despite years of disappointing performance. Clubs have become more adept at making money outside football. Many have fitted their stadiums with retractable pitches to host sports from boxing to American football without harming their grass. Taylor Swift toured stadiums from Liverpool's Anfield to Real's Santiago Bernabeu.

But spare a thought, if no tears, for the game's top players. Although their contracts are not public, reports suggest their pay may not be keeping pace with clubs' revenues. Kylian Mbappé, Real's highest-paid player, is said to earn around €45m a season, a tidy sum, but only about as much as Cristiano Ronaldo reportedly made at Real a decade ago. Erling Haaland of Manchester City, who in 2022-23 scored a record 36 goals in the English Premier League, recently signed a contract until 2034 worth an estimated £26m ($32m) a year. That's less than Gareth Bale is thought to have made at Tottenham four seasons ago.

As David Butler, a sports economist at University College Cork, notes, both stars are still young: Mr Mbappé is 26, Mr Haaland only 24. Mr Ronaldo and Lionel Messi, his great rival at Barcelona, were paid less at that age. And these days, long past their prime, they earn piles more. Mr Ronaldo is reportedly paid around $75m a year by his Saudi club for his services on the field; Mr Messi is earning handsomely in America.

Their rivalry helped create personal brands that have lasted into their playing dotage. Today's stars may not be so lucky. Still, their pay is far more than in days gone by. Gary Lineker, an English great of the 1980s, recently recalled his first contract. It paid £100 a week. ■

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Business | Baby boom

From cribs to carriers, high-end baby products are in vogue

Demographic and technological changes are making infancy more expensive

January 30th 2025



Among the whizzy gadgets unveiled in January at the Consumer Electronics Show in Las Vegas was the Elvie Rise, an automated baby bouncer that transforms seamlessly into a bassinet. The device, which costs $800, sold out even before it was formally released. Parents who missed out can instead opt for a SNOO, a rival bassinet that rocks its occupant back to sleep through the night while dispensing white noise—and which costs around $1,700.

Clever cribs are just one example of the growing number of high-end baby goods on which parents are splurging. Fashionistas are strapping offspring to their chests with carriers from Artipoppe, a Dutch brand, that cost $420. Its

owner, Bugaboo, makes snazzy prams that can be collapsed with one hand. Undesirable infant smells can now be masked by Dior's alcohol-free baby perfume, which it launched in 2023.

What explains this expanding array? One factor is demography. In the rich world people are having children later in life, when they have more money to spend. First-time mothers in America are now 27.4 years old on average, up from nearly 25 in 2000. People are also having fewer sprogs, so have more money to spend on each. These days the average American woman is predicted to have 1.7 children over the course of her lifetime, down from a fertility rate of 2.1 in 2000.

In the growing share of households where mum and dad both work, time is tight and products that make parenting even a little bit easier can be a godsend. That helps explain the boom in baby tech in particular. The startup behind the Elvie Rise also offers a range of wearable breast pumps that are controlled by a smartphone. Then there is the Nucu pad, a baby monitor developed with backing from the makers of the Oura ring, a wearable device for adults. It allows parents to record their heartbeat and play it to their baby in the crib, mimicking the feeling of being held.

New parents are looking not just for goods, but services, too. On Babylist, a gift registry for soon-to-be parents, the "help and favours" category, which includes babysitting and deliveries of home-cooked meals, has been one of the fastest-growing. Lisa Meakin, a London-based night nurse and sleep trainer, who charges between £280 and £350 ($347-434) per night, depending on the task, is rarely short of work. Ms Meakin puts that down to the fact that new parents today are less likely to live near family, who might otherwise lend a hand. "People don't have that support network anymore," she says.

Another factor pushing up demand is the internet. Parenting has always been anxiety-inducing, but the rise of social media has mums and dads more worried than ever—both about keeping up with their peers and doing well by their infant. According to a survey by Mumsnet, an online forum, half of parents with children under the age of three follow parenting bloggers or social-media influencers. Annabel Karmel, an author of books on nutrition for babies and children, argues that the plethora of information available

online isn't always helpful. "You have got all these influencers and they all give you different advice," she says. And thanks to targeted digital advertising, women are being pitched pricey baby gear almost as soon as they discover they are pregnant.

Of course, not every parent can afford to splurge, and some resist the urge to do so. Babylist lets new parents indicate that they are "open to secondhand" items; used baby clothes are, after all, softer. On Mumsnet, one mum-to-be recently shared the list of gadgets and garments she had bought ahead of the birth and bemoaned the cost. "New parents are a marketing department's dream," one mother responded. Another piped up, consolingly: "You won't use half of it." ■

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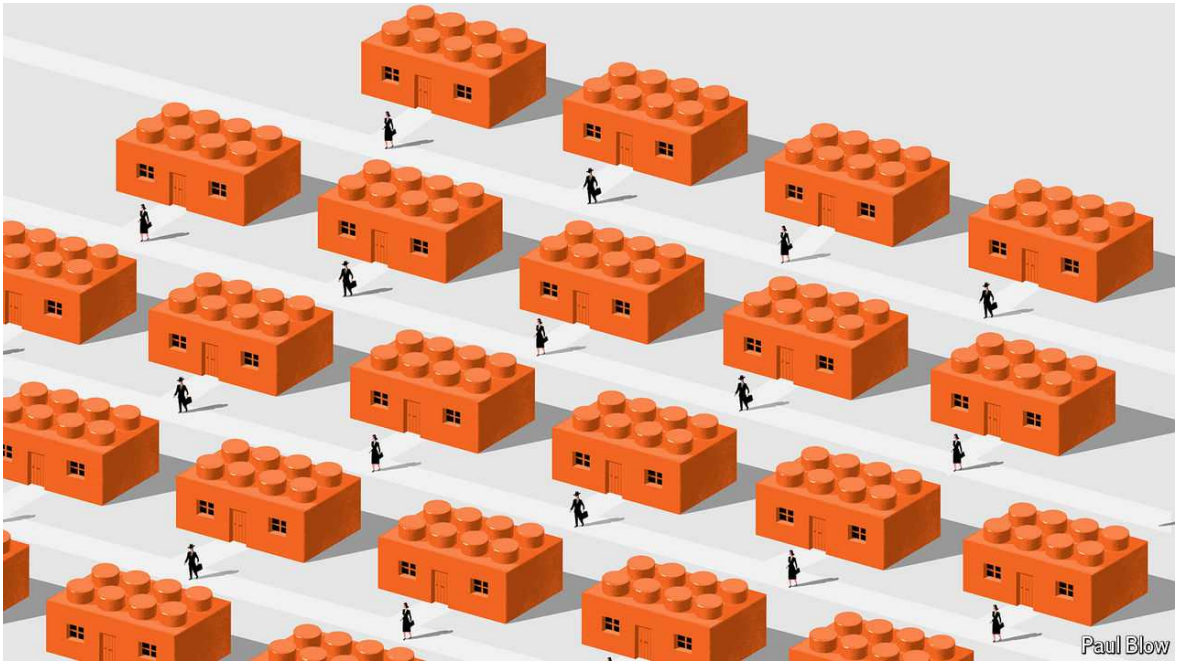
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Business | Bartleby

The allure of the company town

Lego, Corning and the survival of an old idea

January 30th 2025



Billund is a small town in Denmark with a population that stands at a little over 7,000 people. It is also the birthplace and headquarters of the world's largest toy company. If you live in Billund, there is a decent chance you or one of your family works for Lego. If you visit for work, you are probably going to Lego's offices (passing a sign near the entrance that instructs "Play on the grass"). If you go there as a tourist, you are almost certainly going to a Lego-themed attraction. The noun you hear most often is "brick".

Corning is a small town in upstate New York, with a population of around 10,000 people. There, the noun you hear most often is "glass". The town bestowed its name on one of the world's leading glass companies, which moved there in 1868 and still has its headquarters in Corning. The "Little

Joe" tower, where glass was once stretched into long, thin tubes to be cut into thermometers, is the town's most obvious landmark. If you visit for work, you are probably there to see a Corning employee. If you are going for fun, you are doubtless headed for the Corning Museum of Glass.

Company towns conjure up a bygone era: the textile hub of Lowell in Massachusetts, built by the Boston Manufacturing Company in the 19th century, or the faded coal town of Gary in West Virginia, named for the then chairman of US Steel, the company that built it. They are out of whack with prevailing economic wisdom. Cities are where "agglomeration" spurs innovation: a larger population means that more people come together to swap ideas. A bigger labour pool makes it easier for managers to hire people. For employees, too, there are obvious risks in living in a place that is dependent on a single firm.

But as the examples of Billund and Corning show, company towns are not just relics of the industrial past. Hershey, in Pennsylvania, is still the home of the chocolate firm that created it. In Germany Wolfsburg is dominated by Volkswagen. Bentonville, the town in Arkansas where Sam Walton opened his first store, is synonymous with Walmart. Elon Musk is reportedly building a town in Texas to house employees of his various firms.

And even if theory suggests that company towns have downsides, they also have some advantages. Firms can easily draw on their heritage to instil a sense of culture among workers: Lego's corporate museum in Billund is located in the old family home of the company's founder. Employees in company towns have fewer alternatives. Low rates of attrition do not just lessen the costs and disruption that stem from replacing people. They also lead to deeper institutional memories and stronger relationships: retired Corning scientists act as mentors to current ones, for example. Confidentiality is also easier to maintain in comparatively remote places. Bill Gates's decision to base Microsoft in Seattle rather than Silicon Valley was partly because it was easier to keep secrets there.

Company towns seem to favour a more insular type of innovation as a result. A paper published in 2009 by Ajay Agrawal of the University of Toronto and his co-authors looked at North America's most inventive locations. By examining citations of prior patents, the researchers found that large firms in

company towns drew disproportionately on their own previous work to make breakthroughs. New patents were in turn more likely to be cited by other inventors within the same firm than were patents filed in more diverse locations.

Being the boss of a big firm in a small town is likely to change the way that decisions are made. If the consequences of corporate decisions affect your neighbours, friends and family members, the incentives to make more considered choices are sharper. There is proxy evidence for this in research into the decision-making of hometown CEOs, who are likely to have a greater attachment to the place where their company is located and more concern for their local reputation. Studies show that hometown bosses are less likely to cut research-and-development budgets in response to short-term pressures or to take corporate risks in the form of, say, greater leverage. Whether that sounds like long-termism or timidity depends partly on your point of view.

Company towns can seem strange—cultish, even—to outsiders. God only knows what it is like to live in Billund if you don't like Lego or Corning if you're not a fan of glass. But their persistence is not just an accident of history. They have qualities that are worth reflecting on. ■

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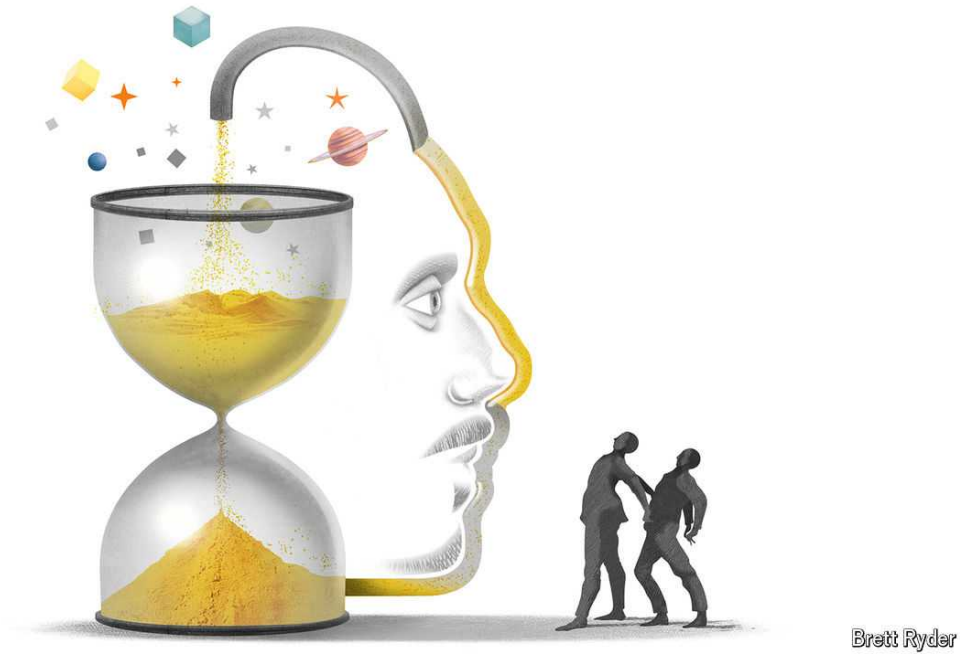
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Business | Schumpeter

What Elon Musk should learn from Larry Ellison

The founder of Oracle has demonstrated remarkable staying power

January 30th 2025



DEATH DOESN'T make sense to Larry Ellison. Especially if it is premature like that of his doting adoptive mother, of kidney cancer when he was 20 years old. Even mere ageing is an irritant to the co-founder of Oracle. The 80-year-old tech billionaire simply has no time for it. He is too busy calling the shots at the business-software giant he started in 1977 and jostling for a spot in Silicon Valley's race into the future, powered by daily workouts, fish, green tea and a fridgeful of self-belief.

The past few weeks have been full of ups and downs for Mr Ellison. On January 21st he stood next to Sam Altman, an artificial-intelligence wunderkind, and Masayoshi Son, a hyperactive Japanese tech investor, as President Donald Trump unveiled the "Stargate" project to keep America

First in AI by building vast data centres to house cutting-edge models, such as those of OpenAI, Mr Altman's $157bn startup. The cloud infrastructure would be provided not by Microsoft, hitherto OpenAI's exclusive cloud partner, but by Oracle. The market value of Mr Ellison's firm surged by nearly $40bn, to $522bn. His personal fortune, derived primarily from his 41% stake in Oracle, exceeded $210bn.

Then came the stumble, when a whizzy Chinese firm called DeepSeek shook investors' belief in the need for Stargate-sized number-crunching—and in Oracle's valuation. Even so, Mr Ellison remains the world's fifth-richest man, and Oracle the third-biggest software firm. He has a thing or two to teach fellow tech titans, in particular his friend Elon Musk, about staying power. And it isn't all about diet and exercise.

Messrs Ellison and Musk have plenty in common besides fabulous wealth and what appears to be genuine mutual affection. They have shared commercial interests. Between 2018 and 2022 Mr Ellison sat on the board of Tesla, Mr Musk's electric-car company, and at one point owned a 1.5% stake. He also chipped in $1bn when Mr Musk was buying Twitter, which he has since rechristened X. On January 28th Oracle announced a partnership with SpaceX, Mr Musk's rocketry firm, to offer business software via SpaceX's Starlink satellites.

Both men are technologists with an eye for the next big thing. In the 1970s Mr Ellison spotted the commercial potential of "relational" databases, which allow users to easily cross-reference digital information, before anyone else; in the 2000s Mr Musk proved similarly farsighted about electric cars (with Tesla) and reusable rockets (with SpaceX). Both counted Uncle Sam as an early customer: the CIA for Mr Ellison and NASA for Mr Musk. In recent years both grew frustrated with lefty California and moved their firms' headquarters to business-friendlier states.

Although Oracle and Tesla are listed, each is run like a private business, even if it sometimes upsets Wall Street in the short run. Each came to dominate its market. By 2012 Oracle was selling 43% of all database-management software by value, reckons Gartner, a research firm. A decade later Teslas accounted for one in five of all battery-powered cars bought worldwide.

A joke about Oracle's founder is that the difference between him and God is that the Almighty doesn't think he is Larry Ellison. Mr Musk relishes comparisons to Tony Stark, aka Iron Man, a Marvel superhero—more apt for someone who prefers comic books to the Bible but no less presumptuous. Neither likes delegating. Although Mr Ellison has handed over the CEO reins to an able lieutenant, Safra Catz, the closest he has to a true succession plan is funding anti-ageing research. Mr Musk is a micromanager to the bone. And neither is gracious about rivals, though Mr Ellison's squabbles with Bill Gates in the 2000s, when Oracle and Microsoft vied for enterprise-software supremacy, now look gentlemanly compared with Mr Musk's expletive-filled rants on X against anyone who disagrees with him on anything.

This points to the first big difference between the two, one which Mr Musk should note if he wishes to keep going strong in the 2050s, when he is Mr Ellison's age. The younger mogul is easily distracted. He has spread himself thin between cars, rockets, X (as owner and power user), a tunnels business and a computer-brain-interface firm, plus a side hustle of streamlining the federal bureaucracy on behalf of Mr Trump. Mr Ellison, by contrast, displays a singleminded devotion to Oracle.

Leisure doesn't suit Larry

This has come at the cost of his relationships—a handful of marriages ended in divorce—and philanthropic endeavours, one of which was run for a time by a writer at *The Economist*. But it has worked for Oracle, which despite recent wobbles is worth nearly three times as much as in the late 2010s, when Mr Ellison returned to arrest its slide into irrelevance in the cloud era.

Though Oracle's share of its core database market is down to 17%, behind Microsoft and Amazon, its cloud revenues are growing by over 30% a year, much faster than at its bigger rivals. The firm is in the running to buy TikTok's American business, which its servers already host, if the app's overlords in Beijing bless a sale rather than face a Congress-mandated ban.

The second lesson is about discretion. Mr Ellison's brash corporate persona conceals an intensely private man whose non-business views are almost as

invisible as his company's ubiquitous software. His longtime support for Republicans, including Mr Trump, has not made him sworn enemies among Democrats—wise for someone whose firm has lots of public-sector clients. It is easy to imagine a Democratic administration taking issue with Mr Musk, likewise a big government contractor with SpaceX. His journey from blue to MAGA red is littered with smouldering bridges beyond repair. But for others, like the 39-year-old Mr Altman, there is still time to learn. ■

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Finance & economics

- Donald Trump’s economic warfare has a new front
- Will America’s crypto frenzy end in disaster?
- Don’t let Donald Trump see our Big Mac index
- Georgia Meloni has grand banking ambitions
- Can Germany’s economy stage an unexpected recovery?
- Why your portfolio is less diversified than you might think
- Tech tycoons have got the economics of AI wrong

Finance & economics | Beyond tariffs

Donald Trump’s economic warfare has a new front

The president has threatened to blow up the global tax system. Will allies be able to stop him?

January 30th 2025

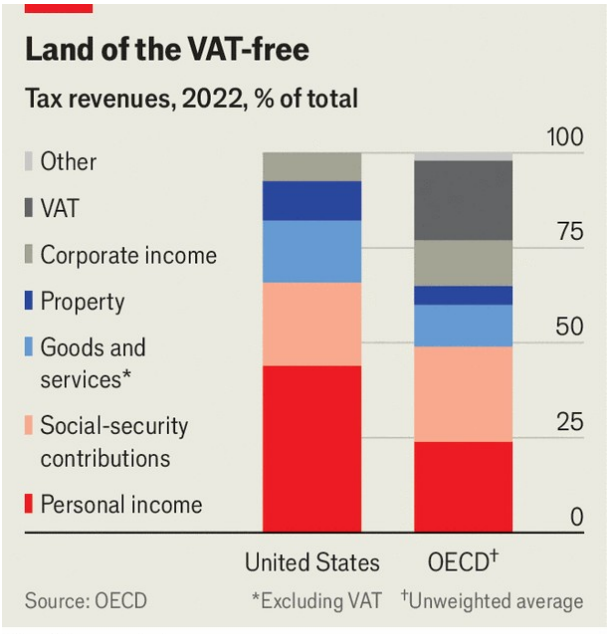


“ESPECIALLY INSANE.” “Drastic.” “Noisy and provocative.” These are just a few of the words used by tax experts—normally an even-keeled bunch—to describe Donald Trump’s threat to hit foreigners with punitive tax rates depending on the policies implemented by their governments. It is a sign of how the potential global economic damage from Mr Trump’s return to the White House goes beyond trade and tariffs. Indeed, tax disputes may end up being even more contentious.

At issue is the question of how countries treat foreign companies. The international tax system has long suffered from two related problems: firms go to great lengths to book profits in low-tax jurisdictions, and governments

thus have strong incentives to compete with each other in cutting levies so as to attract investment. Hoping to forestall a race to the bottom, 136 countries reached a compromise in 2021 to overhaul tax rules—the outcome of talks held under the auspices of the OECD, a group of mainly rich countries. The crucial element was that governments would impose a minimum tax rate of 15% on the profits of multinational companies.

Now the Trump administration is threatening to blow up the agreement. Unlike America's withdrawal from the World Health Organisation and the Paris climate agreement, the OECD framework is not a formal treaty that America can leave. Rather, it is a common approach that depends on governments each passing legislation to impose top-up taxes on companies that pay less than the 15% minimum. This means that, if some countries choose to tax a multinational firm at a lower rate, others can claim the difference. It has been clear for some time that America would struggle to pass such legislation owing to opposition from Republicans, who think the deal encroaches on Congress's powers. But Joe Biden's administration encouraged other countries to enact their own laws, knowing the logic of the OECD deal was that it would ultimately compel officials throughout the world, including in America, to come into line. If not, foreign authorities would have a claim on revenues from their "undertaxed" firms.



The Economist

Mr Trump hopes to break this logic by promising brutal retaliation. Any country that imposes a top-up tax on an American company would, in his administration's view, be guilty of extraterritorial overreach. In executive orders issued on January 20th, the day of Mr Trump's inauguration, it said that it could respond by doubling taxes on citizens and firms from any offending countries. These orders displayed his advisers' talent for unearthing obscure statutes that serve their goals: the law that allows the doubling of taxes on foreigners has been in place for nine decades without being used. Even if Mr Trump's objection to the OECD deal was expected, his threat's ferocity surprised observers.

Where does that leave the global minimum tax? Some experts reckon it will end up in tatters. In America corporate tax accounts for 7% of the government's tax revenues, well below an average of 12% in other OECD countries. And that may fall further if Mr Trump gets his way and cuts the corporate-tax rate again, as in his first term. Adam Michel of the Cato Institute, a libertarian think-tank, thinks this would be a decent result. He calls international competition on tax "a broadly good force", which has led to fewer distortionary taxes and more business investment.

The fear is that any vacuum which results from the gutting of the global minimum baseline will be filled not by benign competition but by rancour and retribution. About 40 countries, including Britain, Germany and Japan, have already adopted top-up tax laws. If they enforce these, and Mr Trump is true to his word, messy conflicts will arise. Mr Trump's order about doubling tax rates is an extreme threat, and so may not seem all that credible. But Republicans in the House of Representatives have introduced legislation to create an option for milder retaliation that would still be serious (tax rates on the American incomes of rich investors and firms from targeted countries would increase by five percentage points each year for up to four years). Moreover, unlike tariffs, which largely affect goods exporters, higher taxes could well hit a much broader array of foreigners, from bankers to lawyers.

Other countries would not sit idly by if America were to slap higher taxes on their citizens. As it stands, dozens have introduced taxes on digital services that American officials decry as unfairly punishing their tech giants. Although many governments had put these on hold pending implementation

of the full OECD pact, if Mr Trump follows through on his punitive taxes they would probably have few qualms about charging ahead. Add Mr Trump's threatened tariffs to the mix, and it becomes still more combustible.

Itai Grinberg, America's lead negotiator in the OECD talks under Mr Biden, reckons that big American firms may come to regret encouraging the Trump administration to demolish the global framework. "If you're a business that has double-digit revenue growth year after year, an increase of a couple of points in your effective tax rate at the margin just doesn't matter that much," he says. What matters more is an international environment conducive to continued growth, and that is jeopardised by escalating fights over taxation.

One irony is that the American corporate-tax regime is not radically different from the standards set in the international deal. In fact, it was Mr Trump's reforms in 2017 that helped inspire the OECD framework by introducing an American version of a global minimum tax, set at 10.5% of global profits. In substance, there are differences: the American minimum applies to pooled profits, whereas the OECD one applies to each individual country. But such are the sort of details that can be worked out in talks. "This is clearly setting us up for protracted negotiations," says Pat Brown of PwC, an accounting giant.

If America and others want to find a solution, there are ways forward. Countries that had paused their digital-services taxes could continue to hold off, pending talks. The global-minimum tax deal includes a "safe-harbour" provision, which delays the top-up tax until 2027 in places with a minimum domestic corporate income tax of 20%—a threshold that, for now, includes America. The safe harbour could be extended. At the same time, America's own global minimum rate is set to rise in 2026 from 10.5% to a little over 13%, closing the gap between America and the rest. Stanley Langbein of the University of Miami notes a potential upside in the links between trade and tax disputes: if the Trump administration believes that it has scored a victory on one side of the ledger, it may be happier to concede on the other.

The trouble with these compromises is that they are generally based on negotiators wanting to sit together and work towards an agreement. Given Mr Trump's hardline approach on global taxes, such goodwill seems implausible for the time being. "The rest of the world at the political level will not be eager to show that the bullying worked," says one diplomat.

During Mr Trump's first term, company bosses and investors alike learned about the danger of tit-for-tat tariffs as American levies were met with retaliation by other countries. In Mr Trump's second term they had better brace for tit-for-tat taxes. ■

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Finance & economics | The merge

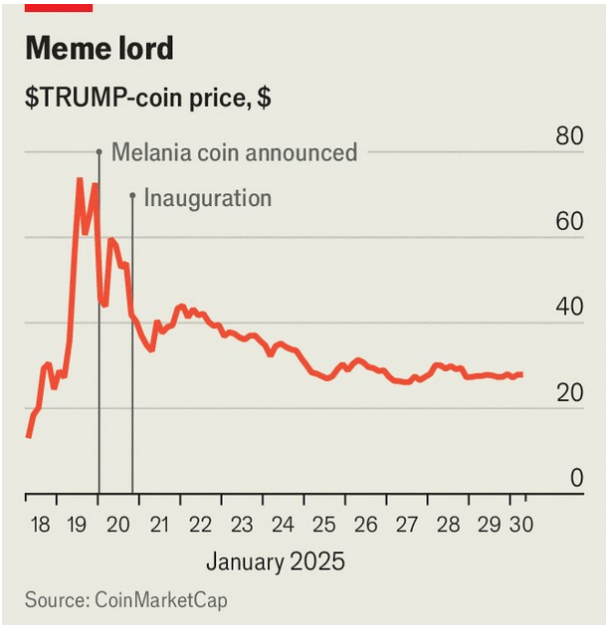
Will America's crypto frenzy end in disaster?

Donald Trump's team is about to bring digital finance into the mainstream

January 26th 2025



"Get your $TRUMP NOW," came the message from America's president-elect three days before his inauguration. The commander-in-chief's meme cryptocurrency, the aggregate value of which has so far peaked at almost $15bn, is far from the only sign of the administration's ardour for digital assets. One new government department (DOGE) has been christened after another meme coin. It is now quicker to list people close to the president who do not have significant financial interests in crypto than those who do. For anyone not paying attention, an executive order on January 23rd made things clear: digital assets, it announced, would play "a crucial role in innovation and economic development in the United States, as well as our Nation's international leadership".



The Economist

What does this spectacular merger of hype cycle and national governance mean for American finance? The Biden administration had worked hard to prevent the crypto industry from infiltrating Wall Street. Tight rules made it prohibitively expensive for banks to hold digital assets on behalf of clients, and stopped them from pioneering their own crypto products, such as stablecoins (tokens pegged to the dollar or other assets). The Federal Deposit Insurance Corporation (FDIC), a watchdog, obstructed dozens of such projects on the basis that it did not know how digital assets ought to be treated in regulatory filings. Now, on many issues, banks and the crypto industry are pushing in the same direction, and face little resistance. Expect, as a consequence, new and enormously profitable forms of risk-taking to emerge. In time, there will also be furious debates when digital upstarts, who have the full favour of the White House, come to clash with veterans of American banking.

The cryptofication of mainstream finance is already under way. On January 21st Travis Hill, interim chair of the FDIC, declared that he wanted regulation of crypto to be more transparent, and that all law-abiding customers should have access to bank accounts. Crypto advocates are hopeful the new administration will bring an end to "debanking" (when someone is denied or loses access to banking services owing to legal concerns). The industry has been particularly vulnerable to this because of fears about money-

laundering. Then on January 23rd the Securities and Exchange Commission, America's main markets regulator, altered its guidance so that financial institutions no longer have to account, on their own balance-sheets, for crypto assets held on behalf of customers.



These changes will affect just about every institution on Wall Street. Brian Moynihan, chief executive of Bank of America, has said banks will embrace cryptocurrencies, such as stablecoins, that can facilitate transactions. Many are experimenting with crypto tokens that convey ownership of shares in money-market funds. They are also set to begin building up their trading and custody of crypto assets as soon as they can be certain about the details of the new regulatory regime.

To enable this focus on digital assets, some institutions will probably purchase crypto firms. Dylan Walsh of Oliver Wyman, a consultancy, thinks that there could also be an acquisition spree in the opposite direction, with digital-asset companies buying mainstream outfits. A few crypto firms could even attempt to purchase institutions with banking licences, allowing them to take deposits and offer loans. The result would be much more overlap between the crypto industry and traditional finance. It would then be difficult for any future Democratic president to change course on crypto.

“As a practical matter it’s much harder for regulators to un-ring the bell,” notes Julie Andersen Hill of the University of Wyoming.

Reasons for FUD

Traditional finance and the crypto industry are not aligned on every issue, however. The biggest point of contention concerns the Federal Reserve’s payment rails. Around 9,000 firms hold master accounts with the central bank. Such accounts enable their owners to make payments without use of an intermediary, reducing the expense and complexity of transactions. Custodia Bank, a crypto-focused outfit that holds a depository licence in Wyoming, applied for a master account in 2020, only to be rejected. Kraken Financial, another crypto firm, made its own application four years ago. It is still awaiting a decision from the Fed.

Traditional banks are happy with this state of affairs. The Bank Policy Institute and American Bankers Association, two lobby groups, have supported the Fed’s right to block access to master accounts. They have stressed the need to guard against credit, cyber-security and reputational risk, especially relating to money-laundering and terrorist financing. Banks also gripe that they face higher regulatory standards than other fintech firms. In contrast, Caitlin Long, chief executive of Custodia, has complained that mainstream lenders are gatekeeping access to the country’s financial rails. The argument is likely to run and run. Although Mr Trump may select appointees to the Fed’s board in part on their attitude to widening access to the central bank’s payment infrastructure, only two positions will be up for grabs in the next four years, since the Fed’s seven governors serve staggered 14-year terms.

Many will be glad of such obstacles to the administration’s agenda. Michael Barr, departing head of financial supervision at the Fed, has warned about the dangers of the cryptofication of finance. The industry has a dubious reputation for a reason: Sam Bankman-Fried, founder of FTX, one of the world’s biggest crypto exchanges, was last year sentenced to 25 years in prison for fraud. Changpeng Zhao, founder of a rival exchange, has spent four months locked up for money-laundering. These are the sort of failures regulators want to keep from mainstream finance.

There are also fears about the sheer volatility of crypto. Steven Kelly of Yale University says that he is worried about the consequence of "ties between what happens in crypto prices and what happens to banks". If bank deposits are vulnerable to movements in the crypto market, institutions will become more vulnerable to runs. That, Mr Kelly notes, is what happened at Silvergate and Signature, two crypto-focused banks which collapsed in 2023. Both were broken by a tumble in cryptocurrency prices that began in late 2021 and then reverberations from FTX's collapse.

Almost anywhere you look—from the popularity of gambling and novel forms of retail investing to soaring crypto prices and the electorate's choice of president—America is embracing risk. For financiers the spread of digital assets provides some new and large moneymaking opportunities. For the American consumer it may even provide valuable innovations. But the Trump administration is eager to find out just how much risk Americans will bear. And if the merger between Wall Street and the blockchain is managed poorly, the costs could be extreme. ■

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Finance & economics | Bun fight

Don’t let Donald Trump see our Big Mac index

America’s tariff-loving president could learn the wrong lessons from international burger prices

January 29th 2025



President Donald Trump likes fast food almost as much as he loves tariffs. During a government shutdown in his first term, he laid on a banquet of burgers and “many, many French fries” for a visiting American-football team. During the 2016 campaign, according to one aide, he would often order two fish burgers and two Big Macs (although he removed the buns).

He is also passionate about trade policy. “Tariff”, he has said, is the most beautiful word in the dictionary. It appeared five times in a recent memo describing his “America First” approach to trade. The memo ordered his treasury secretary to identify international currency misalignments that prolong trade gaps or give America’s trading partners an unfair edge.

Is there a way to unite the president's passions? Yes, we're afraid there is. Since 1986 *The Economist* has been using Big Mac prices around the world as a quick guide to exchange-rate misalignments.

Our index draws on the principle of "purchasing-power parity": a currency's value should reflect how much stuff it can buy. If it takes $10 to buy something in America and 40 yuan to buy exactly the same thing in China, then America's currency has four times the purchasing power of China's. The exchange rate between the two should thus be 4 yuan to the dollar.

One snag in applying this theory is finding exactly the same things to purchase in both countries. McDonald's solves that problem by serving a highly standardised Big Mac all over the world. "You know what you're getting," as Mr Trump once pointed out.

The latest edition of our Big Mac index suggests that many currencies around the world are undervalued against the dollar. It takes $5.79 to buy a Big Mac in its country of origin. You only need $3.52, converted into yuan, to purchase the same burger in China. If Mr Trump were to host a sports team in Beijing rather than Washington, his burger banquet would be almost 40% cheaper. In Mexico, it would be more than 20% cheaper and in Canada 6%. The exception is the euro area. Its currency is now almost 3% overvalued against the dollar.



The Economist

Many countries, as Mr Trump's memo points out, have big trade surpluses with America (see chart). These surpluses often reflect a country's place in the global supply chain rather than any unfair competitive edge. A country that assembles electronics, for example, might have a large surplus with America but a big deficit with the countries from which it imports expensive components. Nonetheless, glaring surpluses could attract Mr Trump's ire and arouse his love of tariffs.

Are currencies prolonging the problem? Most of these surplus countries have become more competitive, rather than less, over the past year, according to our index. This is mostly because their currencies have weakened against the dollar in the foreign-exchange market. In several cases it is also because Big Mac prices have risen less than they have in America. In South Korea, for example, prices have remained unchanged, even as they have increased by ten cents in America.

But if Mr Trump responds by imposing tariffs, he could make America even less competitive, by raising prices and limiting demand for foreign currency. Mr Trump has a passion for both tariffs and fast food. One love could make the other dearer. ■

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Finance & economics | Melonibanca

Georgia Meloni has grand banking ambitions

Will Italy's nationalist prime minister manage to concentrate financial power?

January 30th 2025



There are various ways to look at the unexpected €13.3bn ($13.9bn) bid that Monte dei Paschi di Siena (MPS) made for Mediobanca on January 24th. At first glance, it testifies to a remarkable recovery by MPS, the world's oldest bank, which was bailed out by the Italian state in 2017 at a cost of €5.4bn. And if MPS's attempted purchase of Italy's pivotal investment bank is accepted, the deal would lead to welcome consolidation in Italy's fragmented banking industry. But there is also another way to look at the bid. In a country where politics and money overlap to an unusual degree, it is perhaps the most useful. Consider what the deal would mean for Giorgia Meloni, Italy's prime minister.

In short, it might extend the influence of her right-wing coalition over not one but two of Italy's most important financial institutions. MPS's offer is the government's second attempt to create a rival to the "big two" of Italian banking: Intesa Sanpaolo and UniCredit. In November ministers prepared the ground for a union between MPS and Banco BPM, another commercial lender, which was derailed when UniCredit made its own offer for Banco BPM.

To comply with EU rules, the Italian state has shed most of its interest in MPS since the bail-out. Yet it remains the biggest shareholder with almost 12% of the total equity. Moreover, part of what it offloaded has been bought by two investors who have repeatedly been on its side in boardroom battles: Francesco Milleri, who manages Delfin, an investment fund for the family of Leonardo Del Vecchio, a late eyewear magnate; and Francesco Gaetano Caltagirone, an octogenarian building and media tycoon who is seen as close to Ms Meloni, a fellow Roman. Both also have stakes in Mediobanca, with Delfin the bank's largest shareholder. Neither Mr Caltagirone nor Mr Milleri is a fan of Alberto Nagel, the bank's boss.

Analysts at Barclays, a British bank, estimate that, if the bid succeeds, the treasury and the government's allies would own more than 26% of the new entity—quite enough for control. But will it succeed? Investors in Mediobanca are being offered 23 new shares in MPS for every ten they hold in the target bank. Even before a slide in MPS's share price following disclosure of its bid, that represented a frugal premium of 5%. Mediobanca calculates that by January 27th it had become a 3% discount.

In a defiant note, the target bank's directors rejected the offer as "strongly destructive of value". MPS argues that absorbing Mediobanca would release €700m a year of savings, representing what Luigi Lovaglio, MPS's chief executive, describes as "an incredible strategic opportunity". Analysts are unconvinced. They worry that any gains could be offset by the culture clash which would arise from merging an investment bank with a retail lender.

Some have also asked whether the true aim of the operation is influence over Generali, Italy's biggest insurer, in which Mediobanca is the largest investor. There, too, Delfin and Mr Caltagirone already have sizeable stakes and are once again united in criticism of the management. The government is another critic: it has objected to Generali's plan to join forces with Natixis, a

French investment-management firm, fearing it could lead to Italian savings being allocated by foreign financiers.

A takeover of Mediobanca by MPS would, therefore, extend a skein of crossholdings that is starting to look like one that formerly concentrated power in a tiny circle of Milan-based powerbrokers. It was undone by Mario Monti in 2012. Mr Monti, who lasted just two years as prime minister, believed in free markets. In contrast, Ms Meloni is the leader of a nationalist party with protectionist instincts. ■

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Finance & economics | Putting Michel to work

Can Germany's economy stage an unexpected recovery?

The situation is dire, but there are glimmers of hope

January 30th 2025

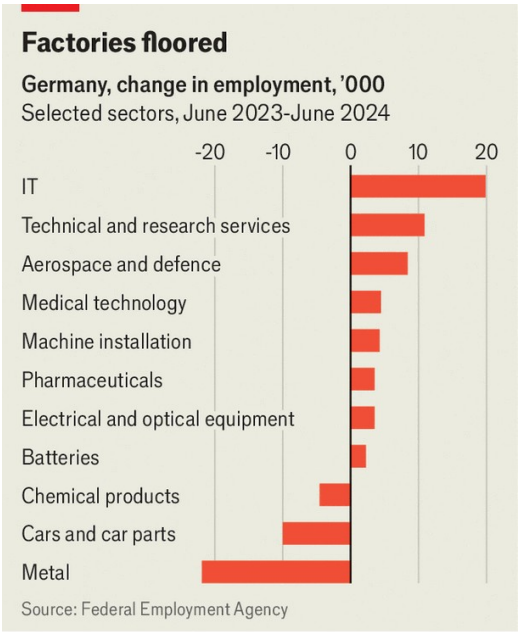


Michel the German, a national personification such as America's Uncle Sam or Britain's John Bull, is a sleepy fellow with a nightcap. He is a bit conservative and not all that keen on disruption. Michel is, in other words, a suitable representative for the modern German economy, which has grown by a meagre 0.1% over the past five years and is, according to forecasts, now entering yet another year of stagnation. When voters head to the polls on February 23rd, the miserable state of the economy will be at the front of many minds.

Germany has been in a similar situation before. "In the early 2000s, the complaints were similar...We missed that underneath the surface many

things were changing," says Jens Ulbrich, chief economist at the Bundesbank, Germany's central bank. Back then, just as today, China had entered new markets, unsettling European industry, and technological advances had to be incorporated into manufacturing. Now the challenges are even more daunting. America, once the protector of a rules-based global economy, threatens to up-end it. And China, formerly an enthusiastic purchaser of German equipment, mostly makes its own. But could there once again be signs of change underneath the surface?

Begin with the subject about which Germans are most morose: their sputtering car industry. The sector lost some 10,000 jobs in the year to June, as firms struggled to transition from petrol-powered to electric vehicles amid growing Chinese competition. Now the industry's best hope lies in a combination of restructuring and investment from abroad: Tesla, Elon Musk's electric-vehicle firm, has opened a factory 50km (30 miles) outside Berlin, with plans to expand; Chinese competitors are reportedly considering purchasing Volkswagen factories if they close down.



The Economist

This is more damage limitation than barnstorming recovery. Creative destruction will have to play a part, too. In the 1970s, when Germany's world-beating camera-makers were destroyed by Japanese rivals, surviving firms refocused on other types of optical equipment. Today they make up a

growing sector, which added 2,000 jobs in the year to June, supplying the semiconductor and space industries. Some companies in the automotive supply chain may now be able to focus on, say, Germany's growing aerospace-and-defence sector, which is benefiting as European countries beef up their armed forces, or medical technology, where Germany has long had strengths. Both industries are adding jobs (see chart).

The green transition could be another source of growth. Charging infrastructure, hydrogen electrolysers, industrial electrification, smart power grids—Germany has advantages in all, according to a study by Boston Consulting Group and the German Economic Institute. Even in artificial intelligence, where the country has so far lagged behind, it could play a bigger role as firms incorporate the tech into their processes, says Christian Rammer of the Leibniz Centre for European Economic Research. Germany's *Mittelstand*, made up of mid-sized companies with niche expertise, is renowned for its relations with clients and knowledge of their data and needs, which helped during the internet revolution. Manufacturing and machine-building firms are likely to add more services to their portfolios, to assist customers with the new tech. Such industry-linked services added 35,000 jobs in the year to June. The sector should continue to grow.

Vorsprung durch Technik

Moreover, new companies seem to be emerging to meet the global economy's changing needs. Last year more than 2,700 startups were established in Germany, some 11% more than in 2023. In a recent survey, young small and middling firms, particularly in research-intensive manufacturing and digital services, expected revenues to grow. Investors are showing guarded optimism as well. From 2015 to 2019 venture capitalists invested less than $5bn (or roughly 0.14% of GDP) a year in Germany. Since then, that has risen to an annual average of $11bn (or 0.2% of GDP).

A reorientation of the German economy along these lines, led by new, innovative firms, would mean some wrenching shifts. Industrial areas are likely to lose out, particularly ones home to businesses that have struggled to reduce emissions. Tirschenreuth in Bavaria, which is host to paper producers, and Upper Sauerland near Dortmund, host to the timber industry,

will face difficulties. Meanwhile urban areas, where talent and ideas tend to gather, should benefit. Jens Südekum of Düsseldorf University notes that when large firms create new tech units they tend to do so near cities in order to attract elite engineers. That helps explain why Tesla opened its factory outside Berlin.

Although such a reorientation would cause political discomfort, it would not necessarily exacerbate existing divides. Saxony, in Germany's poorer east, is likely to prosper, for instance. In part owing to the East German government's industrial policy in the 1980s, which sought to build semiconductor expertise so as to reduce dependence on the capitalist West, the region has become Europe's largest maker of microelectronics, with over 80,000 locals employed by the industry. In August construction began on a new semiconductor fab in Dresden, part of a project led by TSMC, a cutting-edge Taiwanese chipmaker, which represents the largest investment in Saxony since 1990. At the same time, Germany's windy north-east is benefiting from rising demand for renewable energy. Indeed, analysis by Steffen Müller of IWH, a research institute, finds that Germany's east is now losing fewer jobs to business insolvencies than the rich south.

Creative destruction is rarely comfortable, but it is required in Germany. A state that is more trusting of markets, as well as the new industries they create, and less keen to dole out subsidies for the old, would help the process along. Ministers would also be wise to lift spending, so as to provide a boost to demand. Perhaps the election will deliver a government willing to rouse Michel from his slumber. ■

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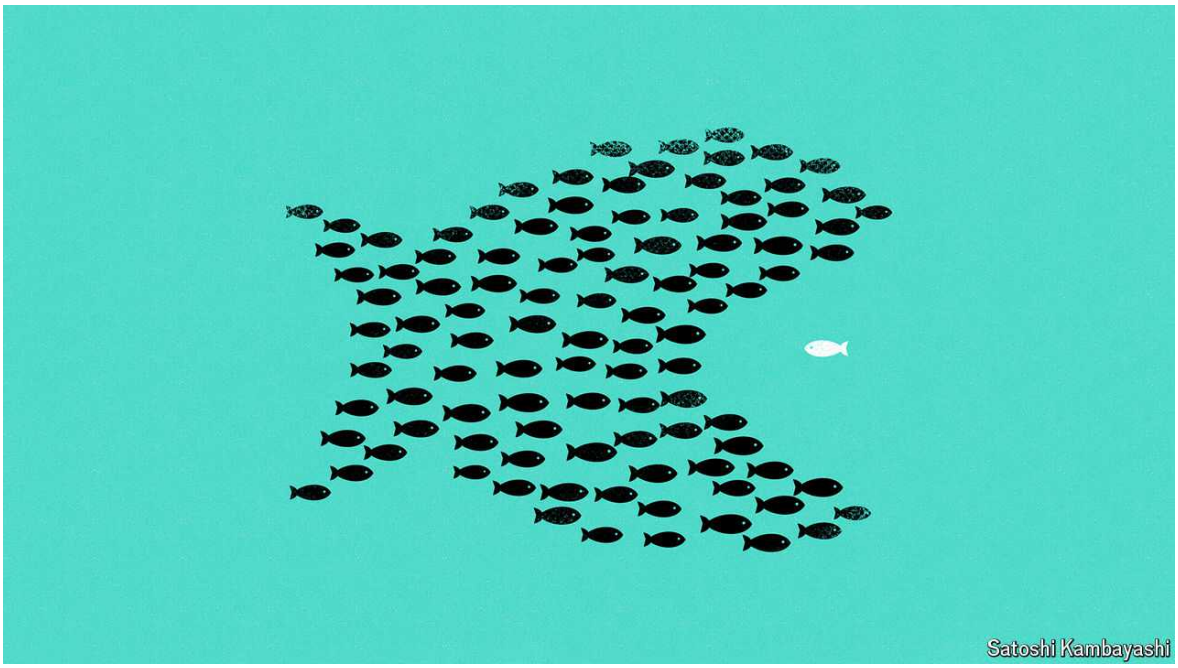
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Finance & economics | Buttonwood

Why your portfolio is less diversified than you might think

The most important idea in modern finance has become maddeningly hard to implement

January 30th 2025



What is the best piece of investment advice you could fit into a single, short sentence? “Buy stocks” wins points for brevity and high returns. “Buy American stocks”, if given at almost any point over the past few decades, would have done even better. “Don’t waste money on stockpickers’ fees” deserves an honourable mention. Here is a less punchy suggestion: “A diversified portfolio can have the same returns as a concentrated one, with less risk.”

Diversification is such an important idea in modern finance that it is easy to forget its age. The economist it is most associated with is Harry Markowitz,

who won a Nobel prize for setting out its maths in the 1950s. But the practice, if not the theory, was popular long before that. During the first heyday of financial globalisation, in the early 20th century, European investors could hardly get enough of foreign assets. A survey by Charles Conant, a journalist, published in 1908 estimated that between a quarter and a half of the average British portfolio was invested abroad. In French and German portfolios, overseas allocations were around a third and a half, respectively. Such cosmopolitanism was then shattered by war, hyperinflation, capital controls and the Depression.

More than a century on, and despite present-day worries of financial fragmentation, holding a varied portfolio is easier than ever. Foreign assets can be bought at the tap of a trading app, while cheap index funds give investors instant exposure to thousands of stocks in dozens of countries. The idea of diversifying across asset classes as well as geographies—via the classic 60/40 portfolio of stocks and bonds, for instance—is firmly in the mainstream. More exotic choices such as commodities and cryptocurrencies have become more accessible to retail investors, too, and private assets may eventually follow suit.

Unfortunately there is a catch, and it is a big one. Building a portfolio that looks diversified has become a cinch. Building one that is actually diversified, in the sense that its components offset each other's risk, has become much harder.

Diversification gets its magic from the fact that the prices of different assets do not all move together. The market values of a gold mine in Kazakhstan and a recruitment firm in San Francisco, for instance, will fluctuate for very different reasons even if they both have similar returns. Hold shares in both and there is a chance that a sharp drop in one will be cushioned by a rise in the other. Hold lots of uncorrelated assets and you get this effect writ large: a portfolio with a return that is the average of its constituents' but with a lower volatility. The less correlated the assets' returns, the greater the magic.

Yet just as it has become easier to invest in a wide array of assets, the correlations between them have shot up. These are measured on a scale from -1 to 1. A pair of prices that always move in opposite directions—in other words, a diversifier's dream—scores -1. Prices that move in lockstep,

offering no diversification benefit, score 1. In the 1970s, before the re-globalisation of finance gathered pace, the average correlation between pairs of share indices for developed markets was 0.37. By 2021 it was 0.75. For pairs of emerging-market indices the average correlation rose from 0.05 to 0.49. As the barriers separating them have come down, markets that once moved almost independently now increasingly ebb and flow together.

It seems, therefore, that geographical diversification has followed a trajectory which is wearily familiar to financial historians. When few investors could manage the trick, it was a stellar idea. Once it was popular and available to the mass market, its dynamics were distorted and the benefits started to fade. A similar fate befell the Buffettian strategy of buying undervalued "cigar-butt" stocks, after automated screening made them easy to identify and hence vanishingly rare. In the case of diversification, once investors started spreading their capital across stockmarkets, they all began to resemble each other.

What stings even more is that diversification across asset classes has become more difficult, too. Between 2000 and 2021 stocks and bonds listed in America complemented each other excellently, with an average correlation of -0.29. Since 2022, when both crashed together, that has risen to around 0.7. There is still some benefit to spreading your portfolio across different regions and asset classes. But given the gains have shrunk so much, it is no wonder investors are chasing after ever more esoteric products. ■

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Finance & economics | Free exchange

Tech tycoons have got the economics of AI wrong

Following DeepSeek's breakthrough, the Jevons paradox provides less comfort than they imagine

January 30th 2025



Even as ECONOMIC growth was just taking off, some economists were already pessimistic. Coal, wrote William Stanley Jevons in 1865, is "the mainspring of modern material civilisation". Yet it was finite and would soon run out. Although more could be found by digging deeper, it would be increasingly expensive to extract and these higher costs would reduce the competitiveness of Britain's manufacturers. After all, in other countries the black fuel was still in sight of daylight. Efficiency gains—using less coal to produce the same amount of stuff—would not save the country. Indeed, cleverer use of limited resources would simply provide an incentive to burn even more coal, which would, paradoxically, lead to an even faster use of British reserves. There was no escape, the Victorian economist believed.

Coal would be exhausted and the country was likely to "contract to her former littleness".

The Jevons paradox—the idea that efficiency leads to more use of a resource, not less—has in recent days provided comfort to Silicon Valley titans worried about the impact of DeepSeek, the maker of a cheap and efficient Chinese chatbot, which threatens the more powerful but energy-guzzling American varieties. Satya Nadella, the boss of Microsoft, posted on X, a social-media platform, that "Jevons paradox strikes again! As AI gets more efficient and accessible, we will see its use skyrocket, turning it into a commodity we just can't get enough of," along with a link to the Wikipedia page for the economic principle. Under this logic, DeepSeek's progress will mean more demand for data centres, Nvidia chips and even the nuclear reactors that the hyperscalers were, prior to the unveiling of DeepSeek, paying to restart. Nothing to worry about if the price falls, Microsoft can make it up on volume.

The logic, however self-serving, has a ring of truth to it. Jevons's paradox is real and observable in a range of other markets. Consider the example of lighting. William Nordhaus, a Nobel-prizewinning economist, has calculated that a Babylonian oil lamp, powered by sesame oil, produced about 0.06 lumens of light per watt of energy. That compares with up to 110 lumens for a modern light-emitting diode. The world has not responded to this dramatic improvement in energy efficiency by enjoying the same amount of light as a Babylonian at lower cost. Instead, it has banished darkness completely, whether through more bedroom lamps than could have been imagined in ancient Mesopotamia or the Las Vegas sphere, which provides passersby with the chance to see a 112-metre-tall incandescent emoji. Urban light is now so cheap and so abundant that many consider it to be a pollutant.

Likewise, more efficient chatbots could mean that AI finds new uses (some no doubt similarly obnoxious). The ability of DeepSeek's model to perform about as well as more compute-hungry American AI shows that data centres are more productive than previously thought, rather than less. Expect, the logic goes, more investment in data centres and so on than you did before.

Although this idea should provide tech tycoons with some solace, they still ought to worry. The Jevons paradox is a form of a broader phenomenon

known as “rebound effects”. These are typically not large enough to fully offset savings from improved efficiency. Usually they are examined by academics and policymakers keen to use less energy: environmental worries about peak coal turned into worries about peak oil and then into worries about greenhouse gases. Sometimes the effect is straightforward: tighter fuel standards, designed to lower emissions, lead American drivers to travel longer distances. Sometimes it is less direct: better-insulated houses have increased the size of windows in Europe, offsetting efficiency gains. Sometimes it is macroeconomic: less energy use by one industry frees up supply for another. The Jevons paradox occurs when the sum of all the rebounds is larger than the initial energy savings—and it is really quite rare.

How confident should Mr Nadella be that AI will turn out to be one of the instances where the Jevons paradox applies? The overall size of a rebound effect ultimately depends on the structure of demand: if the good in question can easily substitute for others, then the bounce-back will be bigger. If it is a luxury good—one for which demand rises faster than income—then again there will be more of a rebound effect. Cristina Peñasco and Laura Díaz Anadón of the University of Cambridge have looked at home insulation in Britain and found that the rebound effect is also more significant for poorer households than richer ones, since richer ones are already closer to their desired temperatures.

Got the morbs

Basing the bull case for AI on the Jevons paradox is, therefore, a bet not on the efficiency of the technology but on the level of demand. If adoption is being held back by price then efficiency gains will indeed lead to greater use. If technological progress raises expectations rather than reduces costs, as is typical in health care, then chatbots will make up an ever larger proportion of spending. At the moment, that looks unlikely. America’s Census Bureau finds that only 5% of American firms currently use AI and 7% have plans to adopt it in the future. Many others find the tech difficult to use or irrelevant to their line of business.

“Coal in truth stands not beside but entirely above all other commodities,” Jevons wrote in 1865. “It is the material energy of the country—the

universal aid—the factor in everything we do. With coal almost any feat is possible or easy." His paradox applied to the black fuel because it was energy that was the fundamental driving force of the industrial economy. For the moment, at least, the tools produced by hyperscalers are nothing of the sort. The intended message of Mr Nadella's tweet was not subtle: don't sell your Microsoft stock. He may have been right, but that would have been for reasons other than the Jevons paradox. ■

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Science & technology

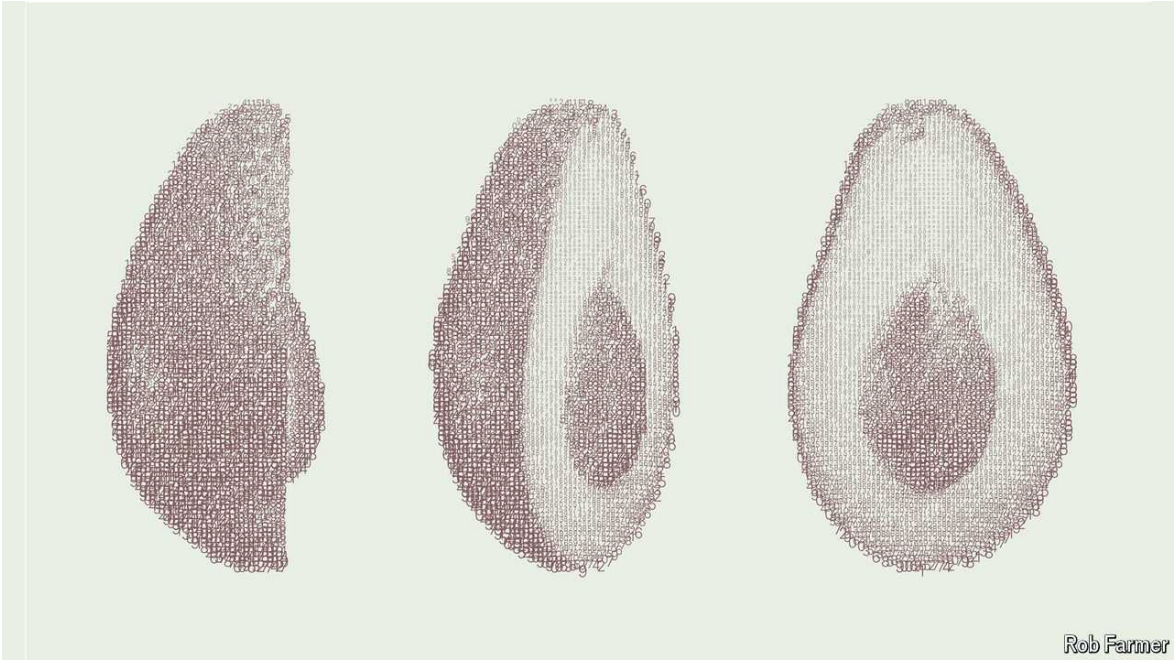
- Heritable Agriculture, a Google spinout, is bringing AI to crop breeding
- A sophisticated civilisation once flourished in the Amazon basin
- Why carbon monoxide could appeal to the discerning doper
- Should you worry about microplastics?

Science & technology | AI in the field

Heritable Agriculture, a Google spinout, is bringing AI to crop breeding

By reducing the cost of breeding, the firm hopes to improve yields and other properties for an array of important crops

January 29th 2025



WHEN NORMAN BORLAUG moved to Mexico in 1944, 60% of the wheat consumed in the country was imported. The government wanted to produce enough of the staple domestically to meet demand, so with money from the Rockefeller Foundation it had started the Cooperative Wheat Research and Production Programme, and asked Borlaug to lead it.

Borlaug and his team ran breeding programmes for the next 20 years, at first to improve Mexican wheat's resistance to disease, and then to increase its yield—largely by breeding shorter plants that did not collapse under the weight of a heavily fertilised wheat ear. By 1963 some 95% of wheat sown in Mexico was Borlaugian, yields had sextupled and Mexico was self-

sufficient. American governments and philanthropists exported this "green revolution" around the world in the hope of helping places like India and Pakistan feed fast-growing populations. Borlaug was awarded the Nobel peace prize in 1970.

Crop breeding remains a fiddly business. Plant geneticists must decide which traits they are looking for, cross plants which appear to possess them, run a series of field trials and wait to see if their new plants are an improvement. The interplay between a plant's genes and the weather, the soil condition and scores of other environmental variables in which it grows, are complex. Working out which genetics suit which conditions can take decades, as it did Borlaug in Mexico.

Heritable Agriculture, which spun out of X, Alphabet's moonshot lab, in December, aims to speed things up. The idea is to use artificial intelligence (AI) to predict, for a given environment, which genetic changes will improve a crop's yield, as well as other properties like taste, nutritional content and photosynthetic capacity. The software which does this has been trained on a database that Heritable's staff has spent the past six years compiling.

The data describe how different combinations of plant genes fare in particular soil and weather conditions, which genes are being expressed and which concentrations of various metabolites are present as a given plant grows. Heritable has processed data from some 14,000 samples taken from field trials it or its customers have run in Nebraska, Wisconsin and California with seven different crops. Once the desired genetics for a given environment have been determined, a different model determines the quickest breeding path to take to get there, based on the plants available to a given breeder. For now, Heritable does not edit the genomes of plants its customers plan to sell. The company's use of editing is, instead, restricted to checking the accuracy of its models.

Brad Zamft, Heritable's co-founder, says the firm's system can breed a crop with the right genetics to achieve a desired trait in just one year. He presented data validating Heritable's approach at the Plant and Animal Genome Conference in San Diego on January 13th. They showed that the firm's software can be used to quickly breed corn with fine-grained control over the time it takes to flower. Heritable says it has already used its

software to breed plants with specific properties for undisclosed customers, including tastier leafy green vegetables. “Traditional crop breeding is much too slow and expensive to enable all the beautiful things that synthetic biologists have said we’ll do: nitrogen fixation, sustainable forestry, food-as-medicine, carbon capture,” says Dr Zamft.

Other biotechnology companies like Inari, based in Cambridge, Massachusetts, focus on editing genomes to help breeders tweak their crops towards higher yields. They mainly focus on crops grown on the largest, most industrial of scales like maize and soya. Pivot, based in Berkeley, California, sells tinctures that are meant to improve soil microbiomes, designed based on sequences of the genomes of the microbes in a given field. In the past ten years agricultural biotechnology firms have raised some $40bn in venture capital.

The big difference between these kinds of approaches and Heritable’s appears to be their lack of a map of the incredibly complex links between genetics, biology and environment that they are trying to distil. Heritable, in contrast, with its reams of field-trial data, represents a sort of Googlification of the breeding process, making it possible for breeders to search and explore the large number of possible genetic combinations for a given crop, to an extent and at a cost that was not possible before.

The other difference is the crops that Heritable is focusing on. Dr Zamft and his colleagues are coy about the crops to which they are applying their computational breeding programme at first, and which traits they will attempt to improve. But a priority will be less industrialised crops such as berries and avocados, which have not experienced yield gains comparable to industrially grown maize and soya over recent decades. “Oats, barley, rye, chickpea, bok choi, avocados and grapes: imagine if they all had the kind of gains that we’ve seen in corn over the past 100 years,” says Dr Zamft.

If technology can drive down the cost of breeding, then a larger number of plants could be adapted to a larger number of environments. Relatively poor farmers in developing countries, for example, could then breed and use plants which are designed for their needs. This will be particularly useful as staple crops face the pressures of climate change, which is happening too fast for traditional breeding to adapt. Heritable also hopes to apply its

computational powers to the breeding of trees, and thereby the management of forests. Native trees might be bred so that their yield of timber became competitive with industrial pine, thereby increasing biodiversity. The firm is already working with ArborGen, a seedling provider, to improve its loblolly pines.

Heritable also represents Alphabet's new approach to growing companies that gestate within its X division. Some of these have been absorbed into Google, like Google Brain, an AI company started in 2011. Others have become "other bets", independent companies operating under Alphabet's corporate umbrella, like Waymo, a self-driving car company. A few businesses, like Heritable, are a less natural fit. For some years now, X has been spinning these companies out, raising money from venture capitalists outside Alphabet, and freeing them to operate independently.

Fields in the Nebraskan countryside are not the Googler's natural home. It seems a good thing that software engineers are there now, collecting data and automating some of the processes which help feed the world. Borlaug would be proud. ■

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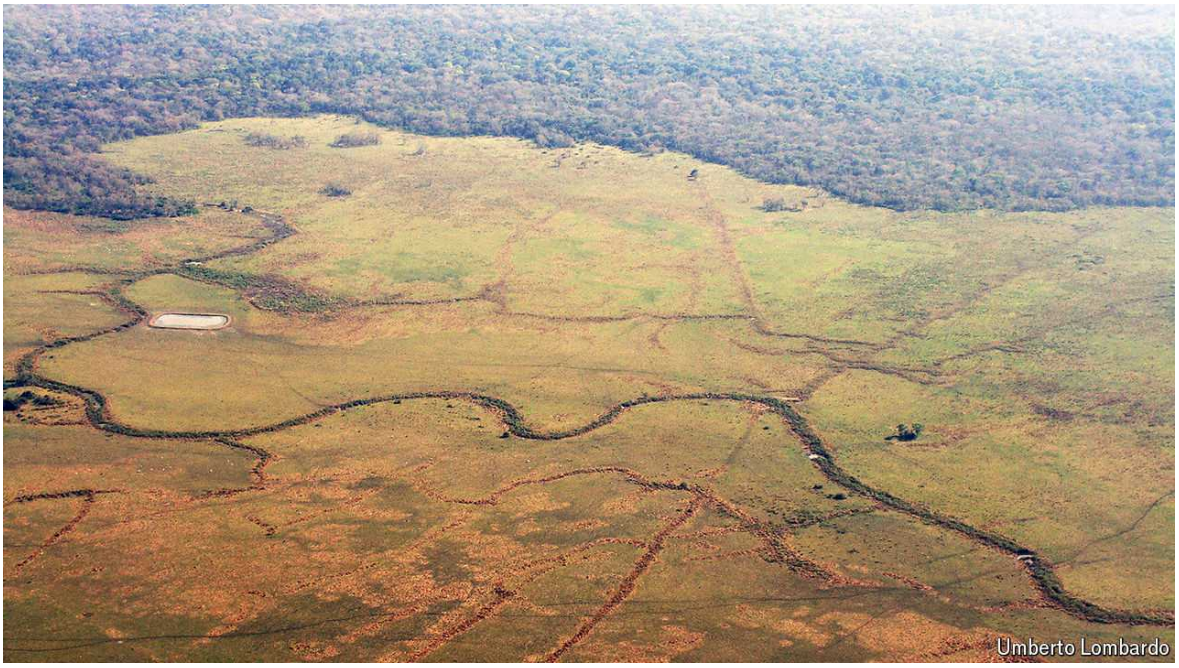
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Science & technology | Culture shock

A sophisticated civilisation once flourished in the Amazon basin

How the Casarabe died out remains a mystery

January 29th 2025



In northern Bolivia, on the edge of the Amazon rainforest, lies a savannah called the Llanos de Moxos. This is the stamping-ground of Umberto Lombardo, of the Autonomous University of Barcelona. Archaeologists once thought the Amazon basin's soil would have been too poor to have sustained a large human population before Europeans arrived. Dr Lombardo is head of a team proving them wrong.

The idea that the pre-Columbian Amazon was pristine has taken a nose-dive in recent years. Scientists have found several lines of evidence suggesting habitation, including once-populated sites and tree species that seem to have

been transplanted. But just how big the civilisation was, and how many people it may have supported, has remained unclear.

It is clearer now. In a paper published this week in *Nature,* Dr Lombardo and his colleagues provide evidence of large-scale hydrological engineering and maize-planting, bolstering the case that a good number of people lived in the area in the centuries before Columbus, during the period when the Inca ruled the Andes, and the Maya and the Aztecs Mesoamerica.

The Llanos de Moxos is mostly flat, and is flooded for between three and six months a year. But some hillocks rise above the water level. These are where trees grow, and where people dwelt—building with earth, for lack of stone.

Remnants of some of their earth-built structures can still be seen. One area in particular, the 4,500km^2 Monumental Mound Region, is home to hundreds of mounds, some more than 20 metres tall and spanning 20 hectares, linked by causeways that run for kilometres. These were constructed by people known to modern scholarship as the Casarabe culture, who flourished for roughly 1,000 years. The extent of the Casarabe's earthworks suggests there were a lot of them. That raises the question of how they fed themselves.

Using satellite images and LIDAR—an optical equivalent of radar that can peel away vegetation to reveal the topography beneath—Dr Lombardo's group has identified a system of canals and ponds near the mounds. They suggest the canals drained water from the savannah into the ponds during the rainy season, keeping parts of it dry enough to be farmed, and that this water was then used for irrigation during the dry season. That arrangement would have allowed year-round farming. They also searched local sediments for pollen and phytoliths—microscopic silica structures that form in many plant tissues. The pollen and the phytoliths suggested that the Casarabe grew maize, to the exclusion of almost anything else.

How numerous the Casarabe were remains unclear. Though the earthworks are extensive, they could have been built gradually, over the centuries, by a population that was never particularly big. Estimating how much maize was produced—and the numbers this could have supported—will need further fieldwork. It will also require identifying the varieties of maize grown, for these would not have been as productive as modern cultivars.

Recent attempts to estimate the pre-Columbian population of the entire Amazon basin have gone as high as 8m-10m, but these are just educated guesses, according to Eduardo Neves of the University of São Paulo, in Brazil, a co-author of the paper. As for the fate of the Casarabe people, many suspect they went the way of other indigenous populations of the Americas, both South and North: ravaged by Old World diseases, especially smallpox, even before direct contact between victims and incomers. But that, too, is largely speculation. In the case of the Monumental Mound Region, radiocarbon dating suggests people stopped living on at least some of the mounds around 1400, almost a century before Columbus's landfall. But others remained, and were still cultivating maize as late as 1550.

The Casarabe themselves remain mysterious. Stone axe heads, and jewellery made of copper and lapis lazuli, suggest commerce with the Andes and what is today Brazil. Diverse ways of burying the dead—some more opulent than others—imply a social hierarchy. The most colossal of the mounds might have carried specific religious significance, or been associated with political power.

In any case, the thread between past and present inhabitants of the Monumental Mound Region was broken. Most of the savannah is now owned by ranchers. The Sirionós—the indigenous people who live there today—have no connection to the Casarabe culture. Locals are aware of the remains, though; some have built their homes on top of ancient mounds. Others continue to use the Casarabe causeways and canals. Many report turning up ceramics and bones while farming. And they are, says Dr Lombardo, curious to know more about the history of their lands. ■

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Science & technology | What doesn't kill you

Why carbon monoxide could appeal to the discerning doper

Professional cycling is debating whether to ban the poisonous gas

January 30th 2025



CARBON MONOXIDE is best-known as a poison. Each year around 30,000 people worldwide die from exposure to the gas, which can be produced by cooking stoves or indoor fires. But could it also have something to offer the hard-pressed athlete looking for an edge?

The Union Cycliste Internationale (UCI), which governs professional cycling, worries that it might. At a meeting starting on January 31st the UCI will recommend that its bosses ban the use of carbon monoxide by riders "on medical grounds". The UCI has also asked the World Anti-Doping Agency (WADA), whose rules it has signed up to, to decide whether repeatedly inhaling the gas should be considered doping.

There are currently no restrictions on the gas. Indeed, carbon monoxide is routinely used in the peloton to allow teams to keep track of their riders' fitness. Giving a small dose is the gold-standard way to measure levels of haemoglobin, a molecule found in red blood cells, and an important statistic for endurance athletes. Cyclists including Tadej Pogacar and Jonas Vingegaard, two of the best in the world, have said their teams currently use the gas in this way, which is not against any rules. But last year Escape Collective, a cycling-news website, put the cat amongst the pigeons by suggesting that some teams (it did not name any) might be going further, and using the gas repeatedly to deliberately boost their athletes' performance.

That a poisonous gas might also be performance-enhancing is less surprising than it sounds. Haemoglobin's job is to bind to oxygen, so that the red blood cells can ferry it around the body. But carbon monoxide binds to haemoglobin more strongly than oxygen does. A red blood cell that is transporting carbon monoxide is one that is not available to move oxygen about. Inhale too much carbon monoxide, and it will asphyxiate you.

Inhale a smaller dose, though, and you will merely become mildly oxygen-deprived. If you are oxygen-deprived for long enough, the shortage will stimulate your bone marrow to ramp up the production of red blood cells to try to compensate.

That is an attractive proposition for any endurance athlete. More red blood cells mean that their blood can carry more oxygen to their muscles (at least, once the carbon monoxide has worn off). That allows them to run or pedal faster over long distances. The effects of oxygen deprivation are why many athletes spend time at high altitudes, where the air is thinner. When they descend for a race, the hope is that the extra oxygen-carrying capacity of their blood will give them a boost. The same hope underlies the use of the banned drug erythropoietin (EPO). EPO stimulates red-blood cell production directly, and has been a mainstay of doping for more than 30 years. Carbon monoxide theoretically offers similar benefits.

It may work in practice, too. In 2020 a group of researchers led by Walter Schmidt at the University of Bayreuth published a paper examining the effects of carbon monoxide on fit amateurs. They found that small doses given five times a day for three weeks—far more than would be necessary

for mere monitoring—led to a roughly 5% increase in the amount of haemoglobin in their blood, and a 3% increase in VO_2max—a measurement of how much oxygen the body can use and, therefore, an important number in endurance sports.

Another paper, published in 2024 by Tomas Urianstad at the University of Inland Norway and his colleagues, found that combining carbon monoxide with altitude training gave a greater boost to some performance markers than did altitude training alone. Any performance increase is probably small, notes Ross Tucker, a sports scientist and keen cyclist, and not comparable to what can be achieved with EPO, "but in conjunction with other things it might be significant."

Even if it is less powerful than EPO, carbon monoxide, were it banned, would offer some advantages to the aspiring doper. Unlike anabolic steroids, which are often used to enhance performance, it is cleared from the body within hours. If it were nonetheless detected in a blood sample there are plenty of environmental sources, from car exhausts to open fires, that could be blamed. (Explaining away a steroid or EPO detection is much more difficult.)

Even more appealing, though, is the fact that the gas has legitimate uses. All the equipment and supplies which would be necessary to abuse the gas are already widely used, which means "it would be pretty easy to move the needle from just monitoring to performance enhancement," notes Dr Tucker. It also means that any attempts to impose restrictions, rather than an outright ban—rules that tried to govern the frequency of inhalation, say—would be hard for the authorities to police. And there is precedent for a ban: in 2014 WADA forbade the use of xenon and argon gas, on the grounds that they had similar benefits to those being claimed for carbon monoxide. (Indeed, sports scientists in Russia had been actively promoting the use of xenon, which was not forbidden at the time.)

"For the last two or three years speeds [in cycle races] have been going crazy again," notes Dr Tucker. That could, he says, be the result of better bikes, or better training, or even better nutrition during a race, which has been the subject of much experimentation in recent years. But cycling's chequered past leaves a lot of people sceptical. Whether carbon monoxide is

the culprit or not, the authorities may decide it is easiest to forbid it altogether. ■

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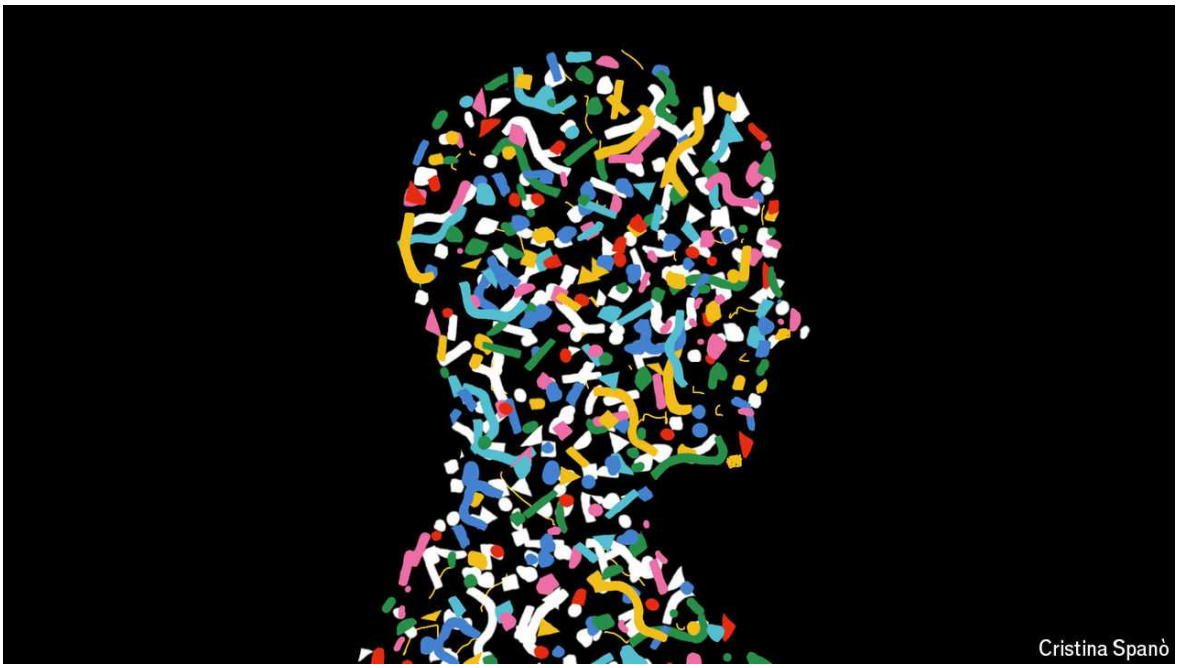
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Science & technology | Well informed

Should you worry about microplastics?

Little is known about the effects on humans—but limiting exposure to them seems prudent

January 24th 2025



Ever since Austrian scientists first began looking for them in people in 2018, microplastics have turned up in the blood, lungs, kidneys, liver, heart and even the brain. They have also been detected in the placenta and breast milk.

It is no mystery how these tiny particles, which can range from 5mm across to less than 2 microns (µm), get into human bodies. They are ubiquitous in the air, food and water. They accumulate from degrading plastic waste and the wear and tear of everyday products such as car tyres, paints and synthetic fabrics.

Whether they are harmful is still unclear. These "forever particles" could have a role in various health problems, from infertility to heart attacks and cancer. They may cause physical damage by blocking ducts or scratching tissues. Or they may cause chemical damage to cells. They could also act as microscopic Trojan horses for various heavy metals, allergens and bacteria that cling to them.

In a study published in 2024 in the *New England Journal of Medicine* scientists examined the plaque scraped from the arteries of 257 patients who had a procedure to remove it (to reduce blockages). Microplastics turned up in more than half of cases. In the next three years, those patients were four times as likely to have a heart attack or stroke, or to die from any cause, than the patients without detectable microplastics in the plaque. It is unclear, however, whether the particles were to blame. Their presence in arteries could have been a byproduct of the biological changes that cause these health problems.

Some studies in the lab have found that microplastics can cause damage to cells, tissues and DNA and promote the growth of cancers. But a problem with lab-based experiments is that the particles used in them do not reflect those that people actually ingest or inhale. More than a dozen types of plastics have been found in human tissues, in all shapes and sizes, from jagged-edged specks to fibre strings. Of most concern are nanoplastics (those smaller than 1μm). These are small enough to pass into the bloodstream through the linings of the gut and the lungs. Particles bigger than 10μm are unlikely to enter human cells. When inhaled, they are typically expelled by the body's "mucous escalator" that brings them up from the lungs to be swallowed and excreted.

By contrast, early laboratory experiments used sterile spherical beads of just one type of plastic, polystyrene, which were bigger than the nano-size range. Shape matters, too. In better studied nanomaterials, the more jagged shapes are the most harmful. Scientists are now developing more relevant microplastics cocktails for experiments by breaking down items like water bottles in ways that simulate natural wear and tear.

Microplastics are impossible to avoid. In 2019 a team from King's College London found that daily deposits from the air in central London reached

1,000 microplastics per square metre. And that was only particles bigger than 20µm.

Reducing exposure to microplastics is feasible, by avoiding food and drinks packaged in plastics, using less synthetic fabric and cleaning up household dust. Heating plastic containers leaches lots of microplastics, so avoiding microwaved ready-meals and plastic kettles should help too. A European research consortium of more than 70 organisations is trying to untangle the specific harms from microplastics to human health and what sort of regulation may be warranted to prevent them. For now, there are more questions than answers. ■

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Culture

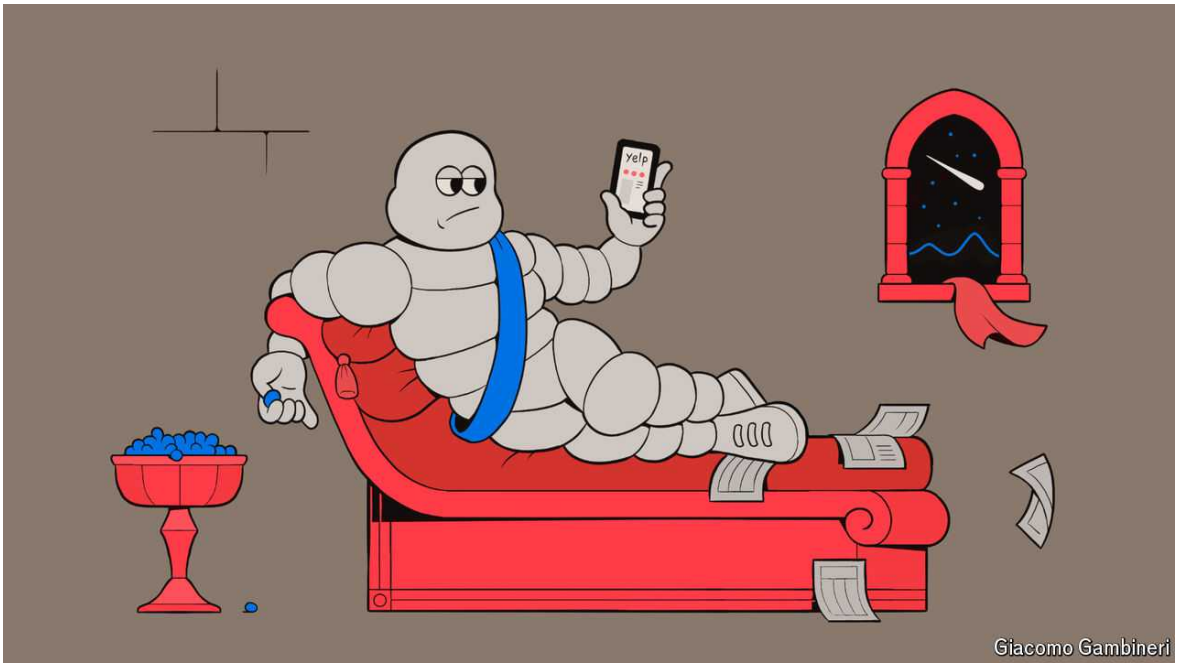
- The Michelin Guide is no longer the only tastemaker in town
- Tofu: never judge a food by its political reputation
- Can Magnus Carlsen convince people to watch chess?
- Why “Emilia Pérez” is loved by Hollywood and hated by everyone else
- Are internet firms the problem, or are you the problem?

Culture | Word of mouth

The Michelin Guide is no longer the only tastemaker in town

How is it adapting to changing eating habits?

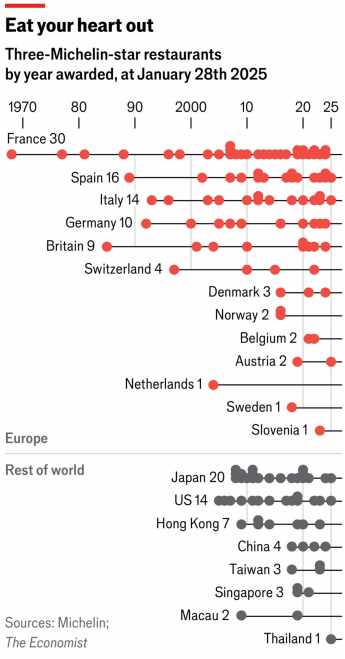
January 30th 2025



It began, implausibly, with a guide to French roads. In 1900 two brothers, André and Édouard Michelin, wanted to promote travel by car as a route to rev up sales of their tyres. Their first book gathered practical information such as maps and the locations of mechanics; later, recognising that travellers want fuel for themselves as well as their vehicles, it expanded its restaurant recommendations. The company first introduced its star-ranking system in 1926.

In the century since, over 30m copies of the Michelin Guide have been sold —making it about as widely read as "Gone with the Wind", "The Great Gatsby" or "Pride and Prejudice". Michelin's taxonomy has become the

restaurant industry's standard. Only the most exalted eateries earn a star: of the roughly 11.8m places that serve food in the world, only 3,647 (or 0.03%) currently hold at least one.



Of those, 82% have one star—denoting an establishment "where dishes with distinct flavours are prepared to a consistently high standard"; 13.6% have two stars, in acknowledgment of their "refined and inspired" offerings that show "the personality and talent of the chef". Only 149 restaurants have three stars, the highest honour (see chart). According to Michelin, they are institutions where "cooking is elevated to an art form" and chefs are "at the peak of their profession".

Gordon Ramsay, a British chef with eight stars currently to his name, has said that Michelin prizegivings are to chefs what Academy Awards are to film-makers. And just as an Oscar encourages people to go to see a film, recognition from Michelin can boost reservations. Joël Robuchon, who held 31 stars at the time of his death in 2018, observed that "With one Michelin star, you get about 20% more business. Two stars, you do about 40% more business, and with three stars, you'll do about 100% more business."

In recent years, however, the star system has lost some of its lustre. Michelin's status as the ultimate arbiter of taste seems to be under threat.

One problem is its longtime emphasis on fine dining. Many associate Michelin with hefty prices, minuscule portions and pretension. In a discussion about rated restaurants on Reddit, a social-media site, users complained of "gimmick-driven shit". "You won't appreciate it unless you have so much money to waste that your time is completely worthless," one person wrote, "because you have nothing better to do than spend three hours eating two morsels of food."

Michelin has said that neither presentation nor silver service is an eligibility requirement: "Any restaurant of any style" can earn a star. Gwendal Poullennec, international director of Michelin Guides, insists the company looks for quality, not luxury. A taco stand in Mexico City won a star in May, for instance.

Even so, diners are not the only ones turned off. A handful of establishments are refusing the prize. (Marco Pierre White, a British chef, started the trend in 1999; he said he felt that the judging process was meaningless.) Giglio in Tuscany won a star in 2019 but voluntarily gave it up in 2024. Benedetto Rullo, a co-owner, said the star brought "incredible" stress and implied a snooty vibe: "We're not the kind of place you come to worship star chefs." Top accolades increase the pressure on chefs and drive up costs (suppliers and staffers use it as an excuse to demand bigger fees).

Of cravings and critics

Yet the internet poses the greatest challenge to Michelin, as it has democratised food criticism. Diners can share reviews on websites such as TripAdvisor and Yelp; bloggers collate lists of the best local spots; influencers dish up assessments on social media. Videos about food on TikTok have more than a trillion views combined.

Posts by Toby Inskip (@eatingwithtod), an influencer, have amassed more than 25m likes on the app. They show him avidly tucking into chicken wings as well as £400 ($500) tasting menus. At a time when almost 80% of Americans and Britons say going out to eat is too expensive, such sites and accounts can point to trendy new spots and affordable treats for foodies. Mr

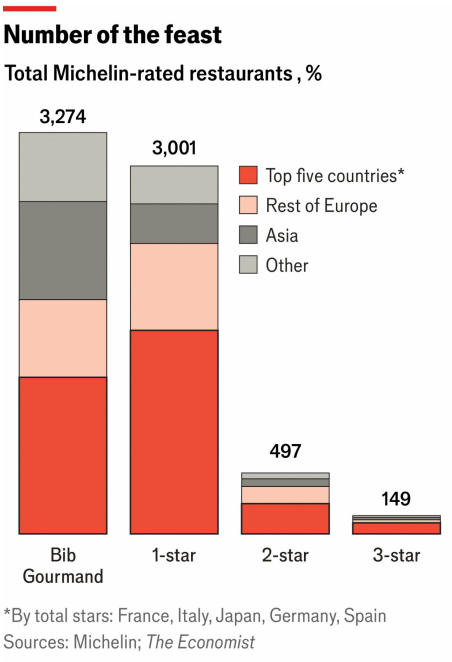
Inskip often focuses on cheap dishes—some as low as £1—in London. Queues soon gather at the joints he highlights.

Despite all this, Michelin is determined not to join meat in aspic and seafood mousse in culinary oblivion. People across the globe are becoming more adventurous and curious about the world of food; Michelin, too, is opting for a more varied diet. In 2004 only Europe shimmered with stars. France still has the highest number of starred restaurants. However, today Michelin sends reviewers (of 30 different nationalities) to four continents. The company produces guides to 43 countries; the number of guides has increased by almost 50% since 2020.

Inaugural guides to Lithuania and Mexico were launched in 2024. Restaurants in Slovenia and Thailand recently earned three stars for the first time. Mr Poullennec has said that 20 new locations are being scouted, including India. Michelin already covers several Chinese cities and is expanding to provinces.

In America only New York was deemed worthy of review 20 years ago. Now foodies can get recommendations for Atlanta, Chicago and Orlando, among other places. Michelin recently expanded into Texas, which has a growing, hungry population. Restaurants in the Lone Star State savoured more than $100bn in sales in 2023—some $20bn more than those in New York.

The expansion is guided by market growth and other financial incentives; places eager to lure gastro-tourists are willing to pay for the prestige of a Michelin Guide. Travel Texas, part of the governor's office, had a hand in bringing Michelin to the state. In 2017 Thailand's tourism board reportedly paid Michelin $4.4m in exchange for a series of guides, starting with Bangkok. (Michelin has insisted that commissioned guides are still subject to the same rigour and that countries and states cannot buy stars.)



Michelin's judges have been paying attention to hawker stalls as well as haute cuisine. Since 1997 the Bib Gourmand award has spotlighted restaurants that offer "a complete quality menu" for "a reasonable price". The company seems cognisant of the importance of the category: there are almost as many Bib Gourmands as there are starred restaurants.

Of the 3,274 Bib Gourmands, 134 of them are street-food vendors. Many dish up Chinese, Mexican, Thai or Vietnamese food: cuisines with a history of cheap, informal dining. The Bib Gourmand rewards local, authentic cooking, a trend Mr Poullennec identifies as important to eaters. The category appeals to those put off by the frippery a star implies.

The company is also catering to a growing cohort of climate-conscious eaters. In 2020 Michelin launched the Green Star, given to restaurants that demonstrate a commitment to sustainability. (So far only 608 have qualified.) Mr Poullennec notes that restaurants "are making a great deal of effort" to balance their menus with plant-based offerings to satisfy the 1.5bn vegetarians and 88m vegans worldwide. A top chef told him that, after winning a Green Star, his restaurant attracted a younger crowd who ordered vegetarian dishes.

Will these efforts be enough to keep Michelin on the road for another century? The firm says traffic to its website has doubled in the past year, suggesting Michelin is accruing trust. Time and constancy work in its favour. Whereas food influencers may visit a restaurant once—and be paid by the owners to film a glowing video—Michelin's expert reviewers have a standardised approach. (They must visit several times and tell no one who they are or that they are going.) Clare Smyth, the British chef who catered the wedding of Prince Harry and Meghan Markle, says her restaurant, Core, received eight secret visits before it was awarded three stars in 2021.

Today anyone can have an opinion on food, but not everyone can be an authority. Michelin will always have its critics. But discerning diners will continue to seek it out—for, as George Bernard Shaw, a playwright and critic, once wrote, "There is no love sincerer than the love of food." ■

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Culture | World in a dish

Tofu: never judge a food by its political reputation

Think outside the white plastic box. Here is a carnivore's guide to tofu

January 27th 2025



SUELLA BRAVERMAN, Britain's former home secretary, blamed "*Guardian*-reading, tofu-eating wokerati" for a protest that closed a bridge. Ted Cruz, a conservative American senator, complained that Democrats want Texas "to be just like California, right down to tofu". Across the West, eating tofu is seen as leftist, weak and somehow unmanly. This view is silly, and carnivores who hold it are depriving themselves of a healthy, delicious and adaptable source of protein.

Tofu—rich in calcium, protein and a variety of minerals—remained obscure in the West until counterculture looked east in the 1960s; Asians have eaten it for millennia. In some Asian languages, the words for "tofu" and "cheese" are similar, and they have strikingly similar production methods. (Animal

milk and soy milk are heated, inoculated with a coagulant, pressed and shaped into solid form.) Just as cheeses differ markedly in taste and texture, tofu takes a variety of forms, from delicate silken tofu—delicious as a dessert when dressed with syrup—to the refrigerated boxed-in-water versions.

To detractors, what all these forms share is blandness and virtue. Tofu is wobbly and tasteless; people eat it only because they feel they should or, having sworn off meat for ideological reasons, they must. In a new book, "Tofu: A Culinary History", Russell Thomas, a journalist, argues that bean curd deserves better than its worthy reputation. The first step in enjoying it is getting politics out of the kitchen and appreciating its endless versatility. Boosters do tofu no favours by calling it a "meat substitute"—generally, it is not. Nobody will ever mistake pressed bean curd for a seared steak.

But for carnivores who want to reduce their meat consumption, tofu can prove a surprisingly delicious stand-in. Extra-firm tofu, crumbled into a skillet, sautéed until dry and well-seasoned, makes a taco filling reminiscent of Mexican chorizo. Coated in cornstarch, shallow-fried and sauced, it makes a crisp, light stir-fry. Thawed tofu has a porous resilience that soaks up sauce, making it perfect for stews.

But tofu need not stand in for meat; across Asia, people see no contradiction in eating both meat and tofu, even in the same dish. In mapo tofu, a Sichuanese favourite, chewy nubs of ground beef or pork swimming in a fiery sauce complement silken tofu's yielding delicacy. Soft tofu cut in squares makes a bed for a whole steamed fish bathed in chillies and garlic.

Smoked or pressed tofu, with its firm and meaty texture, stir-fried with pork and celery, offers a quick and gentle lunch, served over rice. And though tofu sticks may look shiny and more like industrial products when packaged and dried, paired with chunks of pork belly in a spiced broth, they make a winter stew hearty and delicious enough to convert the most ardent tofuphobe—and remind you never to judge a food by its political reputation. ■

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Culture | Opening gambit

Can Magnus Carlsen convince people to watch chess?

The world's best player hopes that glamming up the ancient game can make stars of its players

January 30th 2025



CHESS IS THE sort of deep and rewarding game that you can spend an enjoyable lifetime failing to master. But even ardent fans might concede that, as a spectacle, watching two players think for long periods before shuffling pieces around a board is somewhat short on sparkle.

On February 7th a new tournament will try to change that. The Freestyle Chess Grand Slam Tour, whose name is borrowed from professional tennis, will take place in a resort on Germany's Baltic coast. The competition is the brainchild of Magnus Carlsen (a Norwegian player and five-time world champion widely regarded as the best in the world) and Jan Henric Buettner

(a German businessman). The idea is to inject as much glitz and glamour as possible, in the hope that chess can be made into a mass-market spectators' game.

"My wife and I go to Formula 1 races," says Mr Buettner. "We saw the huge difference between how F1 stars are seen by the public, and how chess players are." Messrs Carlsen and Buettner have invested their own money and secured $12m from Left Lane Capital, an American investment firm that backed the Kings League, a high-tech seven-a-side football tournament founded in Spain, and League One Volleyball, a startup American women's league. The hope is to make marketable stars of chess's (mostly unknown) players.

In addition to Germany's Baltic coast, the Grand Slam Tour will visit Cape Town, Delhi, New York and Paris. The broadcast will feature all kinds of viewer-friendly innovations. One live-stream, aimed at aficionados, will feature in-depth commentary from grandmasters. The other will be aimed at a mass audience, with chess jargon ("Knight E4", for instance) forbidden.

The players will be wired to heart-rate monitors to amplify the tension. A computer chess program (which these days are far stronger than any human player) will analyse each move as it happens; a black-and-white bar will ebb and flow according to the machine's opinion of which rival is ahead. Players will enter "confession booths" during matches, to explain their thoughts to viewers.

But the biggest innovation will be in the sort of chess the participants play. Mr Carlsen has said he has come to dislike classical chess tournaments. (In November he surprised the chess world by refusing to defend his world championship.) The problem, he has said, is that computer analysis has turned the opening phase of the game into a dull contest of rote memorisation, in which players respond to each other's moves in a way that a machine has already determined is best.

Instead, the tournament will use what it calls "freestyle" chess, and what chess players know as "Fischer Random", named after Bobby Fischer, an American grandmaster who codified the rules in the 1990s. The idea is to randomise the starting positions of the non-pawn pieces. That means there

are 960 possible outcomes, although the tournament will disallow two—the standard start and the standard start with the positions of the king and queen swapped—giving 958 overall.

Confronted with board states they have never seen before, players will be forced to rely more on their own instincts and talents, letting their personalities show through. This style of play also gives more opportunities for viewer-friendly drama: both blunders and brilliance are more likely when players are in unfamiliar territory.

Can glammed-up chess really tear many viewers away from football and Instagram? Perhaps: the covid-19 pandemic caused a spike in interest in the game, as did "The Queen's Gambit", a Netflix series released in 2020. A one-off tournament played last year—and won by Mr Carlsen—did much better than expected, according to Mr Buettner.

Mr Carlsen himself is living proof that chess stars can indeed be bankable. He is the first grandmaster since Garry Kasparov, who retired in 2005, to achieve widespread recognition outside the game. He has signed a sponsorship deal with Puma, a sportswear firm, and a modelling contract with G-Star, a Dutch fashion company. Whatever you think of chess, it is worth watching his next move. ■

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Culture | Split screen

Why “Emilia Pérez” is loved by Hollywood and hated by everyone else

And the Oscar for Worst Picture goes to…

January 28th 2025



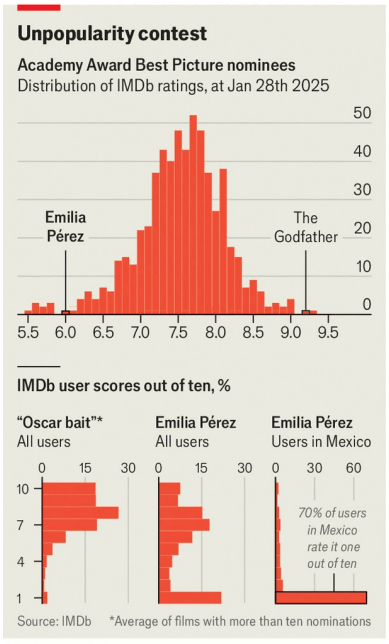
Lockdown has a lot to answer for. As many were baking sourdough at home, Jacques Audiard, a French film-maker, was writing an opera libretto about a Mexican cartel boss who fakes his own death, undergoes gender-transition surgery and campaigns for the missing victims of the drug war. The resulting film, a trans-narco-musical fever dream called “Emilia Pérez”, has earned 13 Oscar nominations. Since the Academy Awards began in 1929, only three films have received more. No other foreign-language film ever has.

Hollywood is besotted, but audiences are not. Movie-goers’ reviews have been savage. On the Internet Movie Database (IMDb) it is the lowest-rated Best Picture nominee since 1935, earning a six out of ten. On Rotten Tomatoes,

which aggregates critic and audience opinions, the public approval rating is just 23%. The nine other Best Picture nominees score between 75% and 99%.

The film's Rotten Tomatoes rating is down from 75% in December, before it opened in Mexico, where viewers were unimpressed (see chart). Some of this decline is explained by "review bombing". This can happen when films take on heated subjects. "The Promise" (2016), about the Armenian genocide, saw its IMDb page mobbed with thousands of one-out-of-ten ratings from users in Turkey; in response, most Armenians gave it full marks, resulting in a middling overall score.

But socially conservative Mexicans objecting to a trans woman starring in a film is not the full picture. "Emilia Pérez" is, objectively, poor. The dialogue sounds as if it has been hastily translated from French to English to Spanish, leading to jarring phrases like, "*Hasta me duele la pinche vulva nada más de acordarme de ti*" ("Even my fucking vulva still hurts as soon as I think of you"). The lyrics have been lost in translation, too. Consider the opening line of one song: "Hello, very nice to meet you. I'd like to know about sex-change operations." (Somehow "hello" gets one syllable and "change" gets two.) "I see, I see, I see," is the reply, as perfunctory an iambic trimeter as you will ever hear.



Botched pronunciations have angered Mexicans. Karla Sofía Gascón, who plays Emilia, was born in Madrid and cannot always hide her Spanish accent. Emilia's wife with the sore vulva (played by pop star Selena Gomez) sounds robotic in Spanish and slips into English halfway through a line. Adriana Paz, Emilia's love interest, is the only Mexican in the main cast. She has less than 12 minutes of screen time.

Some also feel the film trivialises the drug war. They accuse it of focusing on one person's story while ignoring how devastating the cartels continue to be; some 100,000 Mexicans have disappeared or are missing since record-keeping began. Even some trans people are critical. GLAAD, an LGBT+ advocacy group, has called the film a "profoundly retrograde portrayal of a trans woman", relying on tired tropes.

Why, given the film's flaws, does Hollywood celebrate it? Two factors are at work. One is money. Netflix, which bought the film for $12m, has reportedly invested tens of millions of dollars in its awards campaign. This is its tenth attempt at a Best Picture win since "Roma" became the first film on a streamer to be nominated in 2019. (Apple TV+ was the first streaming service to win the top prize with "CODA" in 2022.)

The other explanation is Hollywood's liberal self-image. Members of the Academy of Motion Picture Arts and Sciences, who vote on Oscar winners, put a high premium on diversity. Both "Crash" (2004) and "Green Book" (2018) won Best Picture, despite what critics saw as mawkish takes on America's race problems. The ostensibly inclusive credentials of "Emilia Pérez", including a trans lead, probably contributed to its nomination haul. Hollywood's top brass may want to send a message to Donald Trump and his socially conservative administration. But even Oscar wins are not going to be enough to persuade audiences to sing the film's praises. ■

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Culture | The bloom is off the rose

Are internet firms the problem, or are you the problem?

A veteran critic of technology offers his take on a familiar target

January 30th 2025



Superbloom. By Nicholas Carr. *W.W. Norton; 272 pages; $29.99 and £19.99*

In early 2019 an unusual abundance of orange poppies appeared on the slopes of Walker Canyon, in the Temescal Mountains south-east of Los Angeles. Social-media influencers flocked to the scene to take pictures of themselves among the blossoms, prompting their followers to do the same. The "superbloom" of flowers produced a superbloom of people, trampling the poppies, causing gridlock and creating a public-safety hazard.

For Nicholas Carr, a thoughtful critic of technology and its consequences, all this is a metaphor for today's media-saturated world. Like poppies, social platforms look pretty, but a form of narcotic is contained within. "We live today in a perpetual superbloom—not of flowers but of messages," he writes in "Superbloom", which examines the unanticipated impacts of communications technologies.

As in his previous critiques of technological overenthusiasm, Mr Carr frames his argument against the ill effects of digital media using historical analogies. In 2004 his first book, "Does IT Matter?", argued that information technology, like previous innovations such as steam power and telegraphy, would be rapidly commoditised and that adoption could give companies only a short-term competitive advantage. Subsequent books considered the rise of cloud computing as a utility, the internet's impact on cognition (Google is making people stupid, Mr Carr argued) and the pitfalls of automation.

"Superbloom" starts by examining the long-standing belief that more and faster communication would not just be a good thing, but would inevitably promote education, understanding and peace. This idea goes back at least as far as the era of the electric telegraph, and Mr Carr extensively quotes Charles Horton Cooley, a 19th-century academic who first used the term "social media" and whose optimistic pronouncements sound very familiar today. Indeed, Cooley eerily prefigures the social-media prophets of 2010-11 who hailed the Arab spring as an example of technology's liberating power.

Such optimists failed to foresee the downsides of faster, easier communication, such as factionalism, authoritarianism and radicalisation. Guglielmo Marconi, an Italian inventor, thought radio would "make war impossible", but the Nazis used it for indoctrination. Mr Carr explains how digital networks brought previously separate forms of media together and eroded the distinction between conversations and broadcasting—a process that culminated in the introduction of the endless feed, pioneered by Facebook and since adopted by other social-media platforms. He details how unchecked self-expression on social media produces feelings of envy and enmity, affects how people perceive themselves and others and has been blamed for causing loneliness and depression.

It is customary to blame profit-hungry tech firms for all this and to demand that they should be more heavily regulated or broken up. But Mr Carr takes a different tack. The problems associated with social media, and visible to a lesser extent with earlier forms of communication, are the result of the interplay between fundamental characteristics of digital networks on one hand and human nature on the other, he argues. By blaming social-media giants, "We let the net itself off the hook while also absolving ourselves of complicity."

He gives many examples of how digital media can exacerbate "deep-seated tendencies in human nature" that predate the internet. A study in 1976 of residents of a condominium complex, for example, found that proximity to other people was more likely to breed animosity than affection: enemies outnumbered friends among close neighbours. And on social media, everyone is a neighbour. Digital media do not change human nature, Mr Carr writes, "But they do accentuate certain aspects of it while dampening others". As a result, he argues, breaking up big tech firms is "unlikely to change social media's workings"; other companies, offering similar products, would simply take their place.

If break-ups are not the answer, what is? Mr Carr dismisses the notion of "frictional design", which aims to slow the sharing of information and make social platforms less engaging, as futile and likely to annoy users. He argues that it is "too late to rethink the system", so users need to change themselves instead and try to live "a more material and less virtual existence" through "personal, wilful acts of excommunication". Presumably he has in mind things like smartphone bans in schools and voluntary abstinence during "digital detox" days. But after such a detailed and persuasive diagnosis, Mr Carr's meagre prescriptions seem disappointingly vague.

Perhaps he is simply reluctant to repeat the suggestions made by Jonathan Haidt in "The Anxious Generation", published in 2024. But that points to a deeper problem. Like the poppy fields of Walker Canyon, the notion that social media have deleterious effects is well-trodden ground. Mr Carr's scepticism about the promises made by big technology firms felt bracingly provocative a decade or two ago. But bashing social-media platforms and the ways they manipulate their users' behaviour has become an overcrowded genre. The argument has now moved on to the implications of AI and tech

bosses' cosiness with Donald Trump. Like the influencers who rushed to Walker Canyon, Mr Carr has ended up following the herd. ■

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Economic & financial indicators

- Economic data, commodities and markets

Economic data, commodities and markets

January 30th 2025

Economic data

1 of 2

	Gross domestic product, % change on year ago: latest		quarter*	2024†	Consumer prices, % change on year ago: latest		2024†	Unemployment rate, %	
United States	2.7	Q3	3.1	2.7	2.9	Dec	2.8	4.1	Dec
China	5.4	Q4	6.6	5.0	0.1	Dec	0.2	5.1	Dec‖§
Japan	0.5	Q3	1.2	-0.2	3.7	Dec	2.7	2.5	Nov
Britain	0.9	Q3	0.1	0.9	2.5	Dec	3.2	4.4	Oct††
Canada	1.5	Q3	1.0	1.3	1.8	Dec	2.4	6.7	Dec
Euro area	0.9	Q3	1.6	0.8	2.4	Dec	2.4	6.3	Nov
Austria	-0.6	Q3	-0.5‡	-0.9	2.1	Dec	2.9	5.0	Nov
Belgium	1.1	Q4	0.8	1.0	4.4	Dec	4.3	5.8	Nov
France	1.2	Q3	1.6	1.1	1.8	Dec	2.3	7.7	Nov
Germany	-0.1	Q4	-0.4	-0.2	2.8	Dec	2.5	3.4	Nov
Greece	2.5	Q3	1.1	2.2	2.9	Dec	3.0	9.6	Nov
Italy	0.4	Q3	nil	0.6	1.4	Dec	1.1	5.7	Nov
Netherlands	1.7	Q3	3.3	0.9	3.9	Dec	3.2	3.7	Dec
Spain	3.5	Q4	3.1	3.0	2.8	Dec	2.9	11.2	Nov
Czech Republic	2.1	Q3	2.1	1.0	3.0	Dec	2.4	2.8	Nov§
Denmark	2.9	Q3	3.6	1.8	1.9	Dec	1.3	2.9	Nov
Norway	3.5	Q3	-7.1	1.7	2.2	Dec	2.2	4.0	Nov‡‡
Poland	2.7	Q3	-0.4	2.3	4.7	Dec	3.8	5.1	Dec§
Russia	3.1	Q3	2.7	3.7	9.5	Dec	8.4	2.3	Nov§
Sweden	1.0	Q4	0.8	0.6	0.8	Dec	1.9	8.0	Dec§
Switzerland	2.0	Q3	1.7	1.2	0.6	Dec	1.1	2.6	Dec
Turkey	2.1	Q3	-0.8	2.9	44.4	Dec	57.7	8.4	Nov§
Australia	0.8	Q3	1.3	1.1	2.4	Q4	3.1	4.0	Dec
Hong Kong	1.8	Q3	-4.2	2.5	1.4	Dec	1.7	3.1	Dec‡‡
India	5.4	Q3	3.0	6.6	5.2	Dec	4.8	7.8	Dec
Indonesia	4.9	Q3	3.8	5.0	1.6	Dec	2.3	4.9	Aug§
Malaysia	4.8	Q4	-1.2	5.1	1.7	Dec	1.8	3.2	Nov§
Pakistan	3.2	2024**	na	3.2	4.1	Dec	12.6	6.3	2021
Philippines	5.2	Q3	7.0	5.5	2.9	Dec	3.2	3.9	Q4§
Singapore	4.3	Q4	0.4	3.8	1.6	Dec	2.4	1.9	Q4
South Korea	1.3	Q4	0.4	2.2	1.9	Dec	2.3	3.8	Dec§
Taiwan	1.8	Q4	2.1	5.0	2.1	Dec	2.2	3.4	Dec
Thailand	3.0	Q3	4.9	2.6	1.2	Dec	0.4	0.8	Dec§
Argentina	-2.1	Q3	16.4	-2.6	118	Dec	220	6.9	Q3§
Brazil	4.0	Q3	3.7	3.4	4.8	Dec	4.4	6.1	Nov§‡‡
Chile	2.3	Q3	2.7	2.3	4.5	Dec	3.9	8.2	Nov§‡‡
Colombia	2.0	Q3	0.8	1.6	5.2	Dec	6.6	8.2	Nov§
Mexico	1.6	Q3	4.4	1.5	4.2	Dec	4.7	2.6	Dec
Peru	3.8	Q3	2.8	3.1	2.0	Dec	2.4	4.5	Dec§
Egypt	3.5	Q3	38.0	2.4	24.1	Dec	28.3	6.7	Q3§
Israel	-1.1	Q3	4.0	0.4	3.2	Dec	3.1	2.6	Dec
Saudi Arabia	-0.8	2023	na	1.3	1.9	Dec	1.7	3.7	Q3
South Africa	0.3	Q3	-1.4	0.8	2.9	Dec	4.4	32.1	Q3§

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. ‡Not seasonally adjusted. §New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. Note: Euro area consumer prices are harmonised.

The Economist

Economic data

2 of 2

	Current-account balance, % of GDP, 2024†	Budget balance, % of GDP, 2024†	Interest rates, 10-yr gov't bonds latest, %		change on year ago, bp	Currency units, per $ Jan 29th	% change on year ago
United States	-3.4	-6.5	4.5		47.0	-	
China	2.1	-5.0	1.4	§§	-92.0	7.26	-1.1
Japan	4.2	-4.7	1.2		48.0	155	-4.7
Britain	-2.9	-4.0	4.6		50.0	0.80	-2.5
Canada	-0.6	-1.7	3.2		-32.0	1.44	-6.9
Euro area	3.2	-3.2	2.6		35.0	0.96	-3.1
Austria	2.2	-3.7	2.9		22.0	0.96	-3.1
Belgium	-0.3	-4.6	3.1		32.0	0.96	-3.1
France	-0.4	-6.2	3.3		60.0	0.96	-3.1
Germany	5.8	-1.8	2.6		35.0	0.96	-3.1
Greece	-6.4	-1.3	3.5		12.0	0.96	-3.1
Italy	1.3	-4.2	3.7		-6.0	0.96	-3.1
Netherlands	9.5	-2.0	2.8		28.0	0.96	-3.1
Spain	3.1	-3.2	3.2		-7.0	0.96	-3.1
Czech Republic	1.3	-2.4	4.0		6.0	24.1	-4.6
Denmark	10.8	2.1	2.3		-8.0	7.16	-3.6
Norway	17.3	12.5	3.8		17.0	11.3	-7.3
Poland	0.3	-5.7	5.9		52.0	4.04	nil
Russia	3.2	-1.6	16.4		470	99.5	-9.8
Sweden	6.0	-0.9	2.3		-2.0	11.0	-4.6
Switzerland	7.0	-0.9	0.4		-42.0	0.91	-4.4
Turkey	-0.9	-4.1	25.6		48.0	35.8	-15.2
Australia	-2.0	-1.2	4.5		23.0	1.61	-5.6
Hong Kong	12.0	-3.2	3.8		13.0	7.79	0.3
India	-0.5	-4.9	6.7		-49.0	86.6	-3.9
Indonesia	-0.2	-2.4	6.9		34.0	16,172	-2.2
Malaysia	1.6	-4.4	3.8		nil	4.39	7.7
Pakistan	0.2	-6.7	12.1	†††	-238	279	0.2
Philippines	-2.6	-5.6	6.2		-3.0	58.4	-3.7
Singapore	19.6	0.2	2.9		-6.0	1.35	-0.7
South Korea	4.1	-1.8	2.9		-54.0	1,431	-6.7
Taiwan	13.5	0.5	1.6		36.0	32.7	-4.6
Thailand	2.2	-3.7	2.3		-40.0	33.8	5.4
Argentina	0.4	0.3	na		na	1,051	-21.5
Brazil	-2.4	-7.5	15.1		447	5.87	-15.7
Chile	-2.5	-2.5	6.0		42.0	992	-6.1
Colombia	-2.8	-5.7	11.0		149	4,197	-6.4
Mexico	-1.0	-4.9	10.0		74.0	20.6	-16.1
Peru	1.8	-3.6	6.7		6.0	3.73	1.9
Egypt	-5.2	-3.7	na		na	50.2	-38.5
Israel	4.1	-7.0	4.5		25.0	3.60	1.7
Saudi Arabia	0.4	-2.5	na		na	3.75	nil
South Africa	-2.1	-5.3	9.0		-80.0	18.6	1.2

Source: Haver Analytics. §§5-year yield. †††Dollar-denominated bonds.

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Markets

In local currency	Index Jan 29th	% change on: one week	Dec 29th 2023
United States S&P 500	6,039.3	-0.8	26.6
United States NAS Comp	19,632.3	-1.9	30.8
China Shanghai Comp	3,250.6	1.2	9.3
China Shenzhen Comp	1,911.1	-0.5	4.0
Japan Nikkei 225	39,414.8	-0.6	17.8
Japan Topix	2,775.6	1.4	17.3
Britain FTSE 100	8,557.8	0.1	10.7
Canada S&P TSX	25,473.3	0.6	21.5
Euro area EURO STOXX 50	5,230.7	0.5	15.7
France CAC 40	7,872.5	0.4	4.4
Germany DAX*	21,637.5	1.8	29.2
Italy FTSE/MIB	36,371.7	1.4	19.8
Netherlands AEX	904.9	-1.0	15.0
Spain IBEX 35	12,286.5	3.4	21.6
Poland WIG	86,203.2	1.1	9.9
Russia RTS, $ terms	948.4	-0.5	-12.5
Switzerland SMI	12,530.3	2.6	12.5
Turkey BIST	10,077.0	-0.3	34.9
Australia All Ord.	8,700.7	0.2	11.1
Hong Kong Hang Seng	20,225.1	2.3	18.6
India BSE	76,532.9	0.2	5.9
Indonesia IDX	7,166.1	-1.3	-1.5
Malaysia KLSE	1,552.7	-2.2	6.7
Pakistan KSE	111,487.4	-1.7	78.5
Singapore STI	3,801.1	0.5	17.3
South Korea KOSPI	2,536.8	-0.4	-4.5
Taiwan TWI	23,525.4	nil	31.2
Thailand SET	1,343.2	-1.4	-5.1
Argentina MERV	2,545,355.0	-5.1	173.8
Brazil BVSP*	123,432.1	0.4	-8.0
Mexico IPC	51,555.8	1.2	-10.2
Egypt EGX 30	29,891.6	-0.3	20.1
Israel TA-125	2,519.5	-2.1	33.5
Saudi Arabia Tadawul	12,439.5	0.6	3.9
South Africa JSE AS	85,314.8	0.8	11.0
World, dev'd MSCI	3,836.3	-0.1	21.0
Emerging markets MSCI	1,089.1	0.6	6.4

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	94	154
High-yield	315	502

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research. *Total return index.

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Commodities

***The Economist* commodity-price index**

2020=100	Jan 21st	Jan 28th*	% change on month	% change on year
Dollar Index				
All items	137.8	138.1	2.4	6.7
Food	155.2	157.5	2.5	20.3
Industrials				
All	123.5	122.1	2.3	-4.1
Non-food agriculturals	134.6	132.2	-0.4	4.6
Metals	120.6	119.5	3.1	-6.3
Sterling Index				
All items	144.0	142.8	3.1	8.7
Euro Index				
All items	151.4	151.4	1.7	10.9
Gold				
$ per oz	2,740.3	2,757.4	5.0	35.6
Brent				
$ per barrel	79.5	77.6	3.8	-6.4

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ. *Provisional.

The Economist

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Obituary

- Mauro Morandi needed to abandon consumer society

Obituary | One man on his island

Mauro Morandi needed to abandon consumer society

The hermit-guardian of Italy's loveliest beach died on January 3rd, aged 85

January 30th 2025



To Polynesia! That was where Mauro Morandi wanted to go. By 1989 he had the means to get there, a 16-metre seven-cabin catamaran, "a Ferrari of the seas". Flat, dull Modena would be left behind; in the footsteps of Paul Gauguin he would discover tropical forests, coral reefs, turquoise lagoons and dark, brooding women. He would break with the Western world, and find himself.

Sadly, though, the Ferrari ran into a storm before it had cleared Sardinia. It was laid up for repairs in La Maddalena, where he and the crew had to hang around for a while. And there began an intriguing chain of events. By sheer

synchronicity (not fate, an absurd imposition, but close vibration with the universe) he happened to talk to an Argentine. The man mentioned an island, the smallest in the archipelago, called Budelli, and knew the warden. The gruff warden, when visited, happened to be leaving his job in two days; and Mauro, who had instantly fallen for Budelli, became his successor, making the island his for more than 30 years. Stranger still, this scrap of a place, less than two kilometres square, had the turquoise waters, pink coralline beaches and rampant vegetation he had meant to find in Polynesia.

He had longed for years to escape. At nine, he had run away from home for the first time. As a young man he would take the family's punt through the maze of canals and ditches round Modena, ever exploring, while longing for the riskier open sea. He became a PE teacher in a rural school, where he got into trouble for introducing music and asking the children to imagine they could fly. He managed a seven-year marriage and had three daughters, but chafed at doing what hidebound, consumerist society expected of him. One reading of Richard Bach's "Jonathan Livingstone Seagull" convinced him that he could perfect himself, like the seagull, only in flight and in exile.

His job on Budelli was simple enough: to look after the island, especially the Spiaggia Rosa, a beach of rare, beautiful salmon-pink sand made of fine-crushed coral, fossils and shells. It was also to work on himself. Living there alone, in a tiny granite-block cottage hidden in juniper trees, was less easy. He had no running water, just a cistern to collect the rain. Power came from one solar panel on the roof, not enough to run a fridge during the baking summers. In winter storms ravaged the island; he was once stuck in his house for 25 days. Vegetables refused to grow there, and all his food had to be shipped from La Maddalena, the nearest town. His sole form of transport was a dinghy, which liked a calm sea.

Yet none of this outweighed the compensations. The first was the sunrise over the sea, which it was a sin to miss. He would get up when he heard his two hens stirring, go down to his armchair above the beach, and watch. He did not know, or care, what the day or the hour was; time moved more serenely here. Breakfast, of barley coffee and half an apple, was followed by his first cigarette of the day. As the sky grew bluer, he liked to see the white smoke curl against it. Only gulls disturbed the all-pervading silence. Even

during storms he was content, cosy by his fire with his library of books, reading of other adventures while in the middle of his own.

He also learned self-reliance. Working slowly, since he was no mechanic, he rigged up more solar panels and brought his dead dinghy motor back to life. His grand armchair, a sort of throne from which he supervised the Spiaggia Rosa or simply gazed at the horizon, he had made himself out of hard, knotty juniper wood. Cleverly he avoided cuts, hard knocks and doctors; most wounds, he found, needed only disinfectant and a plaster. Otherwise, he never caught as much as a cold. Something about Budelli, with its salt-and-juniper air, kept them away.

As for his work on himself, it became submerged in his passion for the place. His mission in life was now to preserve that beauty and that peace, which had taken him over. He disliked the word *solitudine*, which suggested he shunned people or was missing something, when his mind was full of new birdsong, the characters of winds, the pattern of the tides, and everything else Budelli could teach him. What he had entered was *isolamento*, isolation, a positive state of being alone on an island, and wanting its undamaged survival as keenly as his own.

In truth, too, he was not so solitary. He knew the grocer, baker and butcher in La Maddalena, and had a few friends there to share a glass of red and a smoke. He took odd weeks off to visit his family in Modena. For the first few years his girlfriend, Silvana, stayed for parts of the summer. Budelli in the season was crowded with visitors who came to swim and sunbathe on the Spiaggia Rosa. Although in 1994 the park authorities had closed off the beach, day-trippers still came to marvel at it. From his cottage Mauro could hear the guides talking about it, and about him.

At first he kept well away from them. But then his attitude changed. Dostoevsky had written that only beauty could save the world; now only humans could save beauty. He had to get them on his side. He encouraged tourists to come to his veranda, under the shady awning, and talk about anything—free will, religion, love problems—but especially the destruction of Nature and the urgent need to save it. They heard his plea to be *viaggiatori consapevoli*, conscious travellers, to see beauty deeply and

respect it. The same message went out to the 100,000 followers he acquired on Facebook and Instagram, once Budelli had WiFi.

Eventually, though, he had to leave. The park authorities had tried to dislodge him since 2016, wanting their own way with Budelli. He had fought them hard, but in his 80s his health was fading anyway. He was given a one-bed apartment in La Maddalena where cars and motorbikes roared past all night, but at least he had a balcony and the sea. There he went on gazing at the horizon, and sometimes wondering, too, whether his own tiny Polynesia had been real, or just a dream. ■

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The Economist
Why the AI crash is good news
A federal-spending freak-out
Could Trump and Xi divide up the world?
How covid boosted America's murder rate
FEBRUARY 1ST-7TH 2025
The revolt against regulation

Table of Contents

The world this week
- Politics
- Business
- The weekly cartoon
- This week's covers

Leaders
- Around the world, an anti-red-tape revolution is taking hold
- By cutting off assistance to foreigners, America hurts itself
- The real meaning of the DeepSeek drama
- How to use "maximum pressure" to stop an Iranian bomb
- Rwanda does a Putin in Congo
- Despite fears of a global tax war, Donald Trump has a chance to make peace

Letters
- Letters to the editor

Briefing
- Many governments talk about cutting regulation but few manage to
- Even in India, bureaucracy is being curtailed

United States
- Donald Trump goes to war with his employees
- America's foreign aid pause puts lives at risk
- Donald Trump revives ideas of a Star Wars-like missile shield
- Kash Patel is a crackpot
- An alternative theory to explain America's murder spike in 2020
- Donald Trump's Defining Decade

The Americas
- Donald Trump turns an angry gaze south
- Armed groups are terrorising Colombia's border with Venezuela
- Brazil's ragged finances are holding back its green ambitions

Asia
- Who is Lee Jae-myung, South Korea's possible next president?
- Is Cambodia slipping out of China's orbit?
- Why Taiwanese youth complain of becoming "housing slaves"
- The Quad finally gets serious on security

China

- China needs its frightened officials to save the economy
- The bad side-effects of China's campaign to cut drug costs
- America and China are talking. But much gets lost in translation

Middle East & Africa

- The fall of Goma heralds more bloodshed in eastern Congo
- Ahmed al-Sharaa declares himself president of Syria
- Iran's alarming nuclear dash will soon test Donald Trump
- Hamas talks a big game but is in chaos
- Syria's new rulers say they are keen to integrate foreign fighters

Europe

- Inside Europe, border checks are creeping back
- A day of drama in the Bundestag
- The EU is worried about sensitive exports to competitors and foes
- Amid talk of a ceasefire, Ukraine's front line is crumbling
- The French government's survival is now in Socialist hands
- Meet Europe's Gaullists, Atlanticists, denialists and Putinists

Britain

- Backing Heathrow expansion suggests Labour is serious about boosting growth
- Britain's oldest newspaper is a treasure trove of trivia
- Why Britain has fallen behind on road safety
- Is British justice too secretive?
- Many Britons are waiting 12 hours at A&E
- What the rise of bubble tea says about British high streets
- The rise of the Net-Zero Dad

International

- As adoptions collapse, demand for international surrogacy is soaring
- A big, beautiful Trump deal with China?

Business

- DeepSeek sends a shockwave through markets
- DeepSeek poses a challenge to Beijing as much as to Silicon Valley
- No one gains from American tariffs on cars from Mexico and Canada
- Football clubs are making more money than ever. Players not so much
- From cribs to carriers, high-end baby products are in vogue
- The allure of the company town
- What Elon Musk should learn from Larry Ellison

Finance & economics

- Donald Trump’s economic warfare has a new front
- Will America’s crypto frenzy end in disaster?
- Don’t let Donald Trump see our Big Mac index
- Georgia Meloni has grand banking ambitions
- Can Germany’s economy stage an unexpected recovery?
- Why your portfolio is less diversified than you might think
- Tech tycoons have got the economics of AI wrong

Science & technology

- Heritable Agriculture, a Google spinout, is bringing AI to crop breeding
- A sophisticated civilisation once flourished in the Amazon basin
- Why carbon monoxide could appeal to the discerning doper
- Should you worry about microplastics?

Culture

- The Michelin Guide is no longer the only tastemaker in town
- Tofu: never judge a food by its political reputation
- Can Magnus Carlsen convince people to watch chess?
- Why “Emilia Pérez” is loved by Hollywood and hated by everyone else
- Are internet firms the problem, or are you the problem?

Economic & financial indicators

- Economic data, commodities and markets

Obituary

- Mauro Morandi needed to abandon consumer society