The Economist

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The overlooked Trump-proof tiger

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APRIL 27TH–MAY 3RD 2024

HOW STRONG IS INDIA'S ECONOMY?

A SPECIAL REPORT

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Contents



On the cover
India isn't the next China. But it could still transform itself and the world economy: leader, *page 9.* Over 30 years, India has laid the foundations for growth. For its next phase, a new reform agenda is needed, say Arjun Ramani and Thomas Easton: see our Special report, *after page 34*

Where next in the tech wars? America, China and the competition to control the world's most important technologies, *page 48*

The overlooked Trump-proof tiger Without fanfare, the Philippines is getting richer, *page 17.* The family feud that holds the Philippines back: Banyan, *page 19*

Ukraine: what $61bn will buy Congress has given Ukraine a reprieve, but more battles lie ahead: leader, *page 10,* and briefing, *page 14*

Has Taylor Swift peaked? The musician is at the height of her commercial, but not her creative, power, *page 71*

The world this week
7 A summary of political and business news

Leaders
9 **India's economy** How strong is it?
10 **Aid for Ukraine** Good news, for now
10 **Electric vehicles** Back on the road
11 **British politics** Brechrit?
12 **Climate change** Dengue rising

Letters
13 On abortion and crime, artificial intelligence in health care, war novels, casual sex

Briefing
14 **The war in Ukraine** Reprieve

Special report: India's economy
The India express *After page 34*

Schumpeter Can Tesla be at once a metal-basher and a tech firm? *Page 56*



Asia
17 A Trump-proof tiger
18 Chinese diaspora
19 **Banyan** A political feud
20 Maldives geopolitics
20 Indian women
21 Music in Japan



China
22 The new leader in money-laundering
24 Tricky ties with Iran
24 Young people buying gold
25 **Chaguan** Moving closer to Russia



United States
26 Crackdown on campus
27 The centre holds
28 What the FERC
29 Crime and politics
29 SCOTUS and abortion
30 The Trump trial
31 **Lexington** Echoes of 1968



The Americas
32 Surging dengue fever
34 Argentina's richest man



Middle East & Africa
35 The Middle East's militia problem
36 Iran's defensive tactics
37 Getting out of Gaza
37 The Cyrus cylinder
38 Addis Ababa's demolition
39 The limits of South Africa's opposition



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Contents continues overleaf

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Contents

Europe



40 A greener Europe
41 Meloni and the media
42 Russia and San Marino
43 Political drama in Spain
44 **Charlemagne** Ursula von der Leyen's second term

Britain



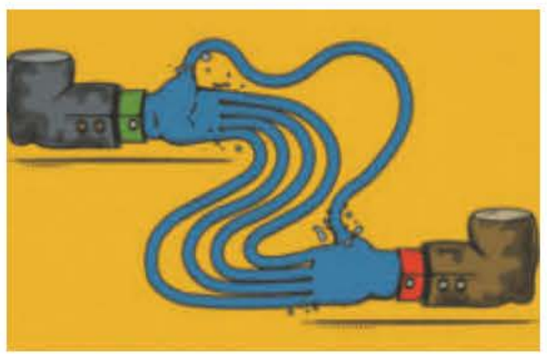
45 Britain and the ECHR
46 The ECtHR's climate case
47 **Bagehot** Reform UK

International



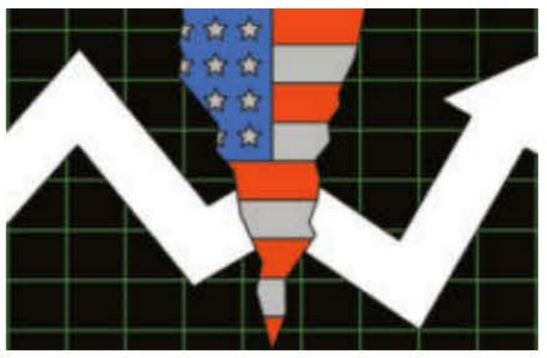
48 The next stage of the tech wars

Business



50 Age of the quasi-merger
51 Boeing's nosedive
53 War and money in the Gulf
54 **Bartleby** Gossip at work
55 Bye bye, TikTok
56 **Schumpeter** Musk's conundrum

Finance & economics



57 Politics and investing
58 Non-compete clauses
59 A stronger dollar
60 Chinese traffic fines
60 Financial diplomacy
61 **Buttonwood** Nervous stockmarkets
62 **Free exchange** Inflation

Science & technology



63 Psychiatry's problems
65 Longer years
66 Shorter seconds

Culture



67 Gangnam v gulag style
69 Judith Butler's new book
69 A history of Venice
70 Attacking Amazon
71 "The Vortex" at 100
71 Taylor Swift's new album

Economic & financial indicators

72 Statistics on 42 economies

Obituary

74 Terry Anderson, longest-held of the Western hostages in Iran

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

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The world this week Politics



Joe Biden signed a **military-aid package** worth $95bn. America's president said the legislation was necessary to fend off "terrorists" like Hamas and "tyrants" like Vladimir Putin, Russia's president. Of the aid, $61bn is to help Ukraine. Arms will begin flowing within days, according to the Pentagon. Congress overwhelmingly passed the bill following six months of deadlock. Republican hardliners called for the sacking of Mike Johnson, their party's House speaker, who worked with Democrats to bypass them.

The deal also carries $17bn of aid for **Israel**, despite concerns that its soldiers are violating human rights in Gaza and the West Bank. **Binyamin Netanyahu**, the prime minister, responded angrily to reports that America might impose sanctions on an Israeli battalion and promised to "fight" any penalties. The UN said that it had found mass graves containing bodies at two hospitals in Gaza. It called for independent investigations.

The final tranche of military aid in the package will go to **Taiwan**. American backing for the island has weighed on relations with China, which claims Taiwan as its own. **Antony Blinken**, America's top diplomat, visited China to keep communication channels open—and warn China against providing weapon parts and dual-use products to Russia.

Student protests against the war in Gaza swept elite American universities, including Columbia and Yale. Hundreds of pro-Palestinian demonstrators were arrested. Many have set up encampments. The White House condemned "blatantly anti-semitic" statements.

Donald Trump's hush-money trial kicked off in Manhattan. Prosecutors used their opening arguments to link electoral fraud to undisclosed payments, allegedly made to suppress stories of Mr Trump's sex life when he ran for president in 2016. In a separate trial in Arizona, several of Mr Trump's allies, including his ex-lawyer, Rudy Giuliani, were indicted for alleged electoral interference in 2020. The former president was not charged.

Voting in the world's largest election started in **India**. The first of seven stages runs until June. Armed clashes and damage to voting machines were reported at several polling stations, where voting will be repeated. Narendra Modi, the prime minister, and his Bharatiya Janata Party (BJP) are expected to win a third term in power.

America held joint military drills with the Philippines in the **South China Sea**. Meanwhile, China hosted naval officials from 29 countries in its port city of Qingdao to discuss threats to maritime security.

A court in the **Philippines** banned **golden rice**, an experimental grain modified to carry beta-carotene, a chemical precursor of vitamin A, added to combat childhood blindness. It cited "severe" health and environmental concerns.

Speaking freely

Elon Musk, an entrepreneur, clashed with **Australia** about access to footage of a stabbing in a church in Sydney. He decried a court order to remove the violent video from X, his social-media platform, across the world as a step towards censoring "the entire internet". Australia's leader, Anthony Albanese, said Mr Musk was an "arrogant billionaire who thinks he is above the law".

Israel struck an Iranian air-defence system in retaliation for Iran's unprecedented assault on April 13th. American troops in Syria faced renewed attacks, as militias in Iraq fired rockets at their air base.

Aharon Haliva stepped down as head of Israel's military intelligence directorate. He is the first senior official to resign over the failure to stop Hamas's attack in October 2023.

Fighting around the **Sudanese city of el-Fasher** ended a truce that had shielded it from the country's civil war. The city of some 1.6m residents was the last holdout in North Darfur not to have fallen to militias.

Britain passed a law to send unwanted asylum-seekers to **Rwanda** to deter people from making the perilous journey across the English Channel. Campaigners decry the law as expensive and inhumane; UN officials have urged Britain to rethink the plan. Rishi Sunak, the prime minister, said transfers would begin by July. Last year some 30,000 people arrived in Britain on boats. Five died when an overcrowded dinghy sank this week.



Ecuadoreans voted in a referendum to empower the police and army to fight gangsters. The country has become one of Latin America's deadliest. The unprecedented security measures, spearheaded by Daniel Noboa, Ecuador's president, include harsher penalties for gang-related crimes such as kidnapping, soldiers patrolling streets and legalising extraditions of gang bosses to the United States.

Pedro Sánchez threatened to step down as Spain's prime minister as a court opened a corruption investigation into his wife. The Socialist leader cleared his calendar ahead of an announcement on Monday.

Timur Ivanov, Russia's deputy defence minister, was accused of taking bribes. (He denies the charges.) Corruption is rife in Russia but high-level crackdowns have been rare since it attacked Ukraine in 2022. Activists say Mr Ivanov, who is in charge of military investment projects, profited from construction work in the Ukrainian city of Mariupol after it was bombed by Russia.

Ukraine tried to press draft-age men to join its army as it faced an acute shortage of manpower to fight Russia. Men eligible for conscription will be denied consular services abroad—a measure to "restore fair attitudes" towards those who stayed in Ukraine and those who left, said Dmytro Kuleba, the foreign minister.

Four **Germans** were arrested on suspicion of **spying for China**. One of them, Jian Guo, was a staffer for the far-right Alternative for Germany party.

Too much of a good thing

Thousands of protesters in the **Canary Islands** called for curbs on tourism, which they say is spoiling nature and inflating house prices. The Spanish archipelago of 2.2m people had 14m visitors in 2023. Rosa Dávila, president of Tenerife, suggested putting in place visitor limits and fees for natural attractions. Elsewhere, **Venice** became the world's first city to charge tourists to enter.

NASA's longest-running spacecraft started speaking to Earth again after months of relaying gibberish. *Voyager 1* was launched in 1977 to tour the outer planets. It is now humanity's most remote object. In November the probe began scrambling data. Engineers fixed it remotely.

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The world this week Business

As America's electric-vehicle industry sputters, **Tesla** announced gloomy first-quarter results. Revenue fell to $21bn, a decline of 9% year on year, and the firm's operating margin fell by half. Shareholders, however, found something to celebrate as the firm said that new, more affordable models would go into production sooner than expected. Tesla's share price, which has fallen by more than a third this year, climbed by 12% after its earnings release.

Boeing, Boeing, gone

Boeing burned through $3.9bn of cash and made a loss of $355m in the first quarter. The results were better than feared but will not pull the aircraft-maker out of its deep crisis. In March its boss announced his resignation, two months after the blowout of a fuselage panel from one of Boeing's 737 MAX planes. Among the corrective actions being considered is an acquisition of **Spirit AeroSystems**, a troublesome supplier it had previously spun off.

Business activity in **Europe** rose more than expected in April, according to the purchasing-managers' index. The gain is explained by services, where activity increased by the most since May 2023.

As part of a bill allocating military aid to Ukraine, Israel and Taiwan, America's president, Joe Biden, signed into law measures that will force **ByteDance**, the Chinese parent of **TikTok**, to divest the popular app within a year or face a ban in America. China's government is likely to resist any forced sale, and the firm could seek to challenge the law in the courts, arguing that it violates the right to free speech.

The European Commission launched a probe into the **medical-device market** in China, claiming that European manufacturers face discrimination in procurement processes. Officials also raided the European offices of **Nuctech**, a Chinese security-equipment supplier, under new anti-subsidy laws. These moves will further strain trade relations between Europe and China, which have been in focus since Europe launched an investigation into Chinese electric vehicles in October.

Australia's biggest oil-and-gas producer faced a revolt over its climate action plan. **Woodside Energy's** proposal was rejected by 58% of shareholders at its annual general meeting, though the firm's chairman managed to keep his job, despite a campaign against his reappointment backed by Glass Lewis, a proxy adviser.

Hong Kong's largest initial public offering of the year flopped. Shares in **Chabaidao** plunged by as much as 38% on their first day of trading after the firm, which makes bubble tea, raised HK$2.6bn ($330m).

The **Bank of England** has told banks to begin stress-testing their relationships with private-equity firms. The central bank said it had uncovered gaps in banks' risk-management processes and that the growth of private markets meant banks were exposed across many parts of their business.

After issuing a profit warning to investors last month, **Kering** announced bleak quarterly results. Sales at **Gucci**, its biggest brand, declined by 21% year on year.



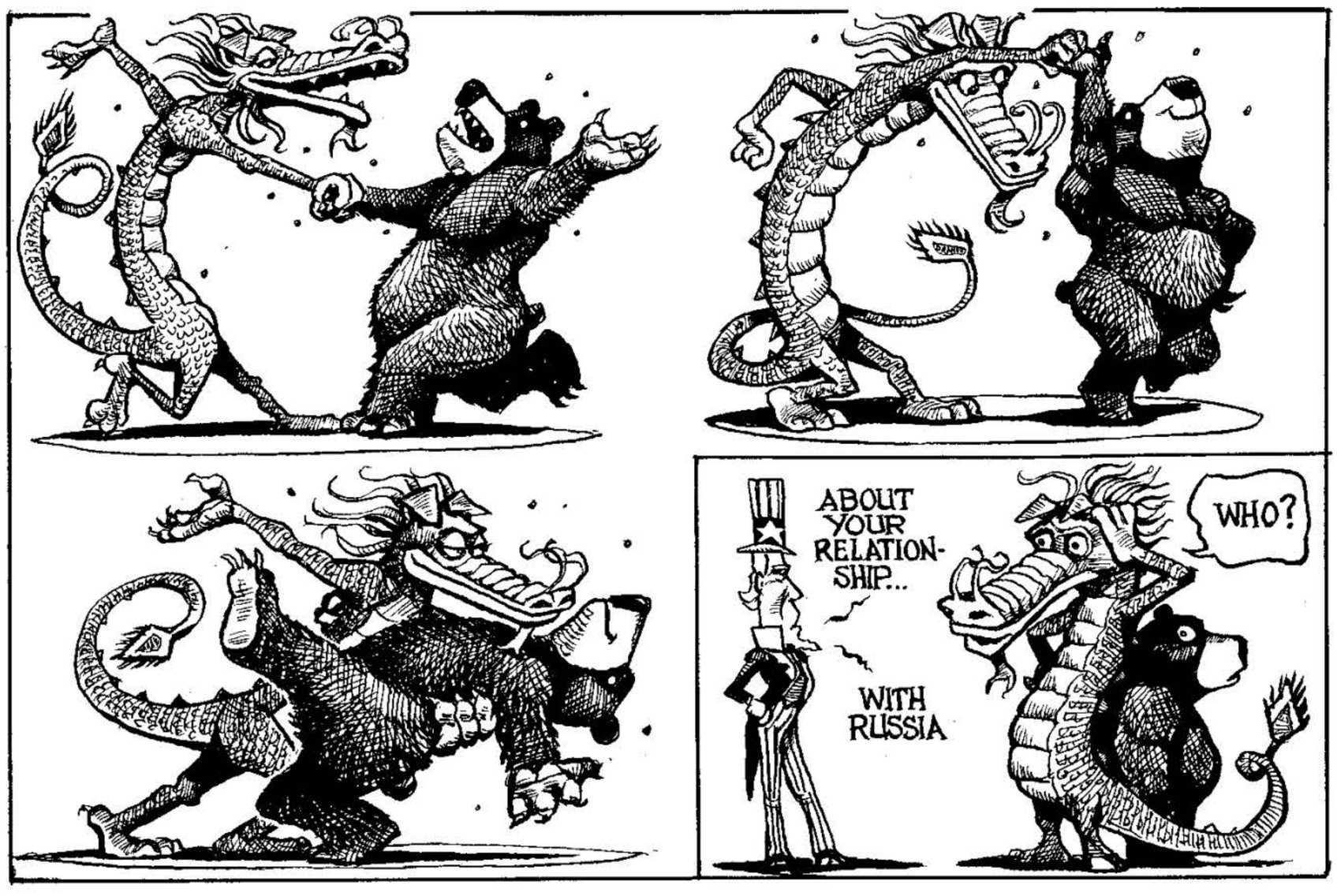
Britain's **FTSE 100** crept to a record high after a weaker pound and higher commodity prices boosted the index. This will do little to quell fears of further exits from Britain's stockmarket, however, or complaints about the index's poor relative performance in recent years.

Luxury handbagging

The **Federal Trade Commission** (FTC) voted to ban non-compete agreements. The American trustbuster said that nearly one in five Americans are bound by clauses that limit their ability to work for a competitor if they leave their employer, and that a ban would result in higher wages and more innovation. The **US Chamber of Commerce** quickly filed a lawsuit challenging the rules in a Texas court. Separately, the FTC sued to stop an $8.5bn retail merger. It said that allowing **Tapestry**, whose brands include Coach and Kate Spade, to buy **Capri**, which owns Michael Kors, would give it a dominant share of the "accessible" luxury handbag market.

BHP offered to buy **Anglo American** in what would be the biggest mining deal in more than a decade. The all-share merger, which would also involve Anglo hiving off its South African platinum and iron-ore units, would greatly expand the copper footprint of BHP. Any transaction could face significant regulatory hurdles, including from anti-trust authorities.

Meta increased its revenue to $36bn in the first quarter, a rise of 27% year on year. Profits more than doubled, to $12bn. Investors, however, were unimpressed by its revenue guidance for the current quarter and plans to boost investment in artificial intelligence.



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The Economist

How strong is India's economy?

It isn't the next China, but it could still transform itself and the world

IN SIX WEEKS' time Narendra Modi is expected to win a third term as India's prime minister, cementing his status as its most important leader since Nehru. The electoral success of this tea-seller's son reflects his political skill, the potency of his Hindu-nationalist ideology and his erosion of democratic institutions. But it also reflects a sense among ordinary voters and elites that he is bringing India prosperity and power.

Mr Modi's India is an experiment in how to get richer amid deglobalisation and under strongman leadership. Whether it can grow fast and avoid unrest over the next 10-20 years will shape the fate of 1.4bn people and the world economy. As our special report explains, Mr Modi's formula is working—up to a point. But there are questions over whether India's success can last and whether it depends on him remaining in power.

India, the world's fastest-growing big country, is expanding at an annual rate of 6-7%. New data show private-sector confidence at its highest since 2010. Already the fifth-largest economy, it may rank third by 2027, after America and China. India's clout is showing up in new ways. American firms have 1.5m staff in India, more than in any other foreign country. Its stockmarket is the world's fourth-most-valuable, while the aviation market ranks third. India's purchases of Russian oil move global prices. Rising wealth means more geopolitical heft. After the Houthis disrupted the Suez canal, India deployed ten warships in the Middle East. Presidents Joe Biden and Donald Trump have courted it without disputing that it will remain an independent actor.

If you are looking for "the next China"—a manufacturing-led miracle—it isn't India. The country is developing at a time of stagnating goods trade and factory automation. It therefore needs to pioneer a new model for growth. One pillar of this is familiar: a massive programme of infrastructure that knits together a vast single market. India has 149 airports, double the number a decade ago, and is adding 10,000km of roads and 15GW of solar-energy capacity a year. Some of this infrastructure is intangible, including digital payments, modern capital markets and banks, and a unified digital tax system. All this allows firms to exploit national economies of scale.



A second, more novel pillar is services exports, which have reached 10% of GDP. Global trade in services is still growing and Indian IT firms have marketed "global capability centres"—hubs that sell multinationals R&D and services such as law and accounting. Yet despite its slick tech campuses, India is still a semirural society. That explains the economic model's final pillar, a new type of welfare system in which hundreds of millions of poor Indians receive digital transfer-payments. New data suggest the share of the population living on less than $2.15 a day in 2017 prices, a global measure of poverty, has fallen below 5% from 12% in 2011.

How much credit does Mr Modi deserve? His most successful policies draw on the liberal agenda that emerged in India in the 1990s and 2000s, but there is nothing wrong with that. He deserves credit for forcing through stalled reforms, personally overseeing key decisions and browbeating laggards and opponents in the bureaucracy. Some say he has fostered crony capitalism. Yet although some big firms get favours, concentration in business is falling, corruption has waned and business boasts a rich diversity. A cross between a CEO and a populist, Mr Modi relishes PowerPoint presentations as much as rallies. If he wins five more years, India will continue to grow strongly. So will its middle class: 60m people earn over $10,000 a year; by 2027, 100m will, reckons Goldman Sachs, a bank that now has 20% of its staff in India.

Yet India faces a daunting problem. Out of a working-age population of 1bn, only 100m or so have formal jobs. Most of the rest are stuck in casual work or joblessness. Mr Modi's humble beginnings help him speak to these people. To absorb some of India's spare labour he is using a state-run incentive scheme to promote manufacturing. But even if the scheme hits its targets, it will create just 7m jobs. President Xi Jinping's plan for a Chinese export surge will only make the task harder.

India's economy must generate mass employment to sustain its growth. One path would be an even bigger IT sector, acting as a hub for a digitising world, and a cluster of export industries, including digital finance, food and defence (where stronger links with America would help). Spending by workers in these industries would in turn create more jobs in other sectors, from construction to hotels. An efficient, single domestic market would raise overall productivity and well-targeted welfare could help those who fall behind. For this, India would have to transform education and agriculture, and enable much more migration from the populous north to the big southern and western cities.

Judged by those epic standards, Mr Modi has too little to say. His Bharatiya Janata Party (BJP) has some talent and ideas but is mostly focused on ideology and Muslim-bashing. A rising illiberalism has curtailed political opposition and free speech. The fact that firms fear Mr Modi may explain why investment has yet to surge. The process of preparing the public for huge social change in the 2030s has barely begun. Remaking education, cities and agriculture will require the co-operation of state governments that are not led by the BJP and social groups that are facing disruption, but Mr Modi's rebarbative politics have left many of them estranged.

India's Lee Kuan Yew or its Erdogan?

The question for India and its heavyweight economy is not whether Mr Modi wins, but whether he will evolve. Aged 73, he may find his powers of management fade. To create a new reform agenda on a par with the one that emerged out of the 1990s, and to foster a thriving knowledge economy that rewards people for thinking for themselves, he will have to temper his autocratic impulses. To attract more local and foreign investment and to find a growth-minded successor, his party will need to curb its chauvinistic politics. If not, Mr Modi's mission of national renewal will not live up to its promise. ■

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Aid for Ukraine

Good news, for now

Congress has given Ukraine a reprieve, but more battles lie ahead

THROW A MAN a life jacket and you remove an immediate danger. But if he is miles from safety and the waters are frigid, he is still in peril. That, more or less, is how to think about Ukraine after President Joe Biden signed a long-delayed bill on April 24th. This will allocate $61bn-worth of military and financial assistance to help it fight back against the Russian invaders, as well as providing money for Israel and Taiwan. Had the cash not come through, as seemed possible during six months of congressional deadlock, Ukraine faced the prospect of losing yet more of its territory to a fresh Russian offensive expected early in the summer. Alas, although $61bn keeps Ukraine afloat, it remains far from the shore.

The good news for Ukraine is that the latest American package will soon be felt on the front lines. Since funds began to dwindle in the autumn, shortages of crucial supplies, especially shells, have become ever more pressing (see Briefing). Russia has been firing five or more rounds for every one Ukraine sends the other way. With munitions already stockpiled at American bases in Poland, that constraint will now be eased. As shells arrive, so Russia will find it more dangerous to concentrate men and tanks for fresh assaults. Getting much-needed drone- and missile-interceptors into Ukraine will take longer, but eventually Russia will no longer control the skies, especially over the front lines.



However, this news is tempered by some sobering facts. First, although the new package will boost Ukraine's defensive capabilities, it is not enough to help it recapture the territory it has lost to Russia, which now amounts to around 18% of its land mass (half seized in 2014, half after the invasion in 2022). The lesson of last summer's failed counter-offensive, which cost Ukraine dearly in terms of men and materiel, is that taking territory is hard. Drones and satellites have made the battlefield transparent, lifting the fog of war and making it easier to destroy concentrations of men and armour. Continued stalemate is now a more realistic hope for Ukraine.

Second, the battle in Congress to get the bill passed is a sign of trouble ahead. The $61bn roughly matches what America spent on Ukraine in the first 20 months or so of the war, after which its funding ran out. The new money may therefore be used up by the latter part of 2025. Even if funds are left over, by then a newly elected Donald Trump may decide not to use them. If Mr Biden is still president, the demoralising battle just fought will have to be fought again next year. This latest American package may turn out to be the last.

That is why European leaders would be wrong to see American aid as anything more than a temporary reprieve. The chances are that this war will drag on, possibly for many years. Since Ukraine drove the Russians back across the Dnieper river in November 2022, almost 18 months ago, the front line has barely shifted, despite an immense loss of life. Ukraine's allies may urge it to trade land for security, but it is hard to see an agreement that could satisfy both Ukraine and Russia. At some point one side or the other may give up, but there is no sign of it yet.

The West's goal is, rightly, a stable, secure and prospering Ukraine that lies within defensible borders and is progressing towards membership of the European Union and NATO. The bitterness of the struggle in Washington means European leaders are on notice that they will have to carry more of the burden for bringing this about, and will need a larger defence industry. Although Europe is the biggest donor of financial and humanitarian aid to Ukraine, in terms of military assistance European and American spending have been roughly the same. Thanks to the American lifeline, Europe's leaders have more time to sort out how to help Ukraine win. The size of the task means that their work is no less urgent. ■

Electric vehicles

Back on the road

Don't mistake the car crash at Tesla for an industry-crushing pile-up

COULD DONALD TRUMP be right about electric vehicles? In March America's former president, and its EV-basher-in-chief, complained that they "cost too much" and "don't go far". Many car buyers seem to agree. In America deliveries of EVs have not risen in the past three quarters. In greener-than-thou Europe they fell last month, by 11% year on year. On April 23rd Tesla, a byword for the electric revolution, reported poor quarterly results, with falling sales and revenues (see Schumpeter). It has shed $330bn in stockmarket value since January 1st. Five EV wannabes, collectively worth close to $400bn in 2021, are valued at a mere $58bn today.

Having raced to boost EV production, established carmakers are slamming on the brakes. Ford has delayed $12bn in planned EV investments. Mercedes-Benz now says it will reach its goal of selling as many EVs as petrol cars by 2030, five years later than originally promised. You may conclude that the electrified future is in peril.

That would be much too gloomy. In fact there are good reasons to expect demand to pick up. The industry may well emerge from today's dip on a more sustainable course towards carbon-free motoring. One reason for optimism is that the recent slowdown is partly cyclical. Sales grew rapidly in 2021 and ▸▸

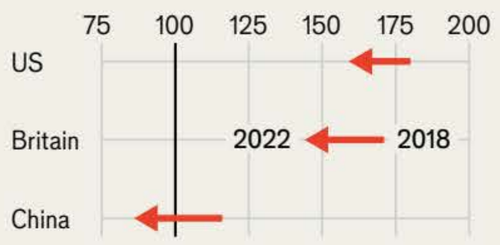
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2022 as cash-rich consumers went on a post-pandemic spending spree. Many EVs that are not being bought now were purchased back then—as were lots of laptops, smartphones and other gizmos that are now languishing. Higher interest rates mean that Americans who paid less than 5% a year on a car loan two years ago now have to pay more than 8%. That is a problem, especially when in many places the typical EV remains 40-60% pricier than its petrol-powered alternative.

Mr Trump may have a point on EVs' cost today, but not for much longer—another reason to dismiss the gloom. The green premium is narrowing for many models. Prices of battery minerals such as lithium have fallen, as have prices of the cells they go into. Five years ago electric SUVs were two to three times the cost of their gas-guzzling cousins, without being two to three times as good. Today you can buy a Ford F-150 Lightning for less than $40,000, just $4,000 more than the petrol version of the popular pickup—$4,000 that you earn back in a single year by not having to fill it up with petrol (which, in contrast to lithium, is not getting cheaper). It is easier to juice up, too, at one of roughly 200,000 charging ports across America, twice the number available in 2020. In China electric cars are already the cheaper option on average, says the International Energy Agency, an official forecaster, even before running costs. Small EVs are two-thirds the price of a comparable fossil-fuel runaround. A new survey by AlixPartners, a consultancy, found that 97% of Chinese car buyers say their next car will run on batteries.

Electric car prices

As % of non-electric cars, pre-subsidies



Western carmakers may also draw lessons from the Chinese experience. Whereas early adopters bought a Tesla as a status symbol, the Chinese are now buying cars made by its rival, BYD, because they are good value. Western makers should fixate less on high-end models and stop neglecting the middle-of-the-road. Until they do, high prices will keep demand subdued and economies of scale elusive. Ford expects its pickup-obsessed electric division to lose at least $5bn this year.

The fact that investors are becoming more discerning should help. They are no longer prepared to pour billions into any e-startup with a passable slide deck. And they are rewarding firms with mass-market ambitions. Tesla's stock price plunged when it was reported earlier this month that Elon Musk would scrap a $25,000 car in favour of a fleet of self-driving robots. The share price bounced back on April 23rd, after he performed a U-turn. Shares in General Motors, whose bosses talked up its coming mass-market EVs on an earnings call this week, have gained 25% so far this year.

Western governments worried about climate change and oil prices could do more to speed along the EV revolution, by giving Chinese carmakers more access to their markets. AlixPartners found that seven in ten Americans, Britons, French and Germans would consider an EV from China if it cost 20% less than a non-Chinese alternative—which is close to the real price difference.

So far policymakers have focused on expanding charging capacity (which is welcome) and handing out subsidies (which is less so). They would do better to lift the barriers that keep Chinese EVs from their roads. That would please motorists and, by boosting competition, jolt incumbent carmakers into cleaning up their EV act. ■

British politics

Brechrit?

The latest litmus test of Tory purity is a bad one

IN AN IDEAL world, bad ideas would fade into irrelevance. In Britain's ruling Conservative Party, they have a good chance of becoming official policy. Divorce the country's largest trading partner? Sure. Send asylum-seekers to Africa? Let's do it. Now there is momentum behind another scheme: leaving the European Convention on Human Rights (ECHR).

The ECHR is a set of individual rights and freedoms that Britain was the first country to sign up to after the second world war. For chunks of the Tory party, the ECHR has long been an irritant; now it is an affront. In 2022 the court that enforces it blocked flights deporting asylum-seekers to Rwanda; this week Parliament passed a through-the-looking-glass law designating Rwanda a safe country and allowing ministers to ignore similar injunctions. Rishi Sunak, the prime minister, warned that no "foreign court" would stop the Rwanda scheme from getting off the ground. Leaving the ECHR will almost certainly be a litmus test for leadership candidates if Mr Sunak is turfed out at the next election (see Britain section).

The court, based in Strasbourg, is almost certain to be contentious. Laws based on rights lend themselves to wide-ranging judgments that can stray into politics. In April it ruled that Switzerland's failure to combat climate change had violated the right to privacy and family life of a group of elderly women. The right to privacy was cited in an influential ECHR ruling in 2002 that let a British trans woman change her birth certificate. The court is also opaque; until recently, judges could issue emergency injunctions without being named.

But none of this adds up to a compelling argument for walking out of the ECHR. First, on the narrow issue of asylum, the judges in Strasbourg were backed up by Britain's highest domestic court, which said last year that Rwanda was unsafe. That judgment was based on a myriad of international agreements and laws (indeed, a fairer target for Tory ire may be the Geneva Convention, which tells countries who should be granted asylum). The problem of illegal migration into Britain is compounded by domestic dysfunction. The country grants a higher proportion of asylum requests than either France or Germany, and takes so long to process them that many asylum-seekers can disappear into the crowds in the meantime. The ECHR is a useful scapegoat for a complex problem.

Second, the costs of leaving are clearer than the benefits. Withdrawal from the ECHR would bear no comparison with Brexit in terms of its impact, but it would suck up time and energy for little obvious reward. Adherence to the convention is ▸▸

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sewn into the Good Friday Agreement, the deal struck in 1998 to end 30 years of sectarian strife in Northern Ireland, and into the post-Brexit trade agreement with the European Union. It would also send another bad signal about Britain to the wider world. It is axiomatic that international obligations impose constraints on national governments. A mid-size, open economy whose appeal rests on the rule of law does not want a reputation for resiling from agreements it does not much like.

That is especially true when reform is an option—the third argument for staying in. The court can be pragmatic: recent changes to the rules about judges' anonymity, along with much tougher criteria for issuing emergency injunctions, owed much to pressure from Britain. The Swiss climate judgment was less sweeping than it might seem (see Britain section). The court can also be reformed. Since 1951 its members have agreed on 16 amending "protocols"; one was introduced by Britain in 2013 and underlined that national authorities are often better placed to make decisions. Tory hardliners seem wholly uninterested in changing things from within.

Given its commanding lead in the polls, the position of the Labour Party matters more in the short term than that of the Tory party—and Labour has no plans to quit the ECHR if it wins the election. But the trajectory of the Conservatives, one of Britain's two big parties, is not some minor detail. If leaving the ECHR becomes the Tories' settled position, it will show that quixotic pursuits matter more to them than the country's pressing problems. And another bad idea will be further advanced on the path to becoming policy. ■

Climate change and disease

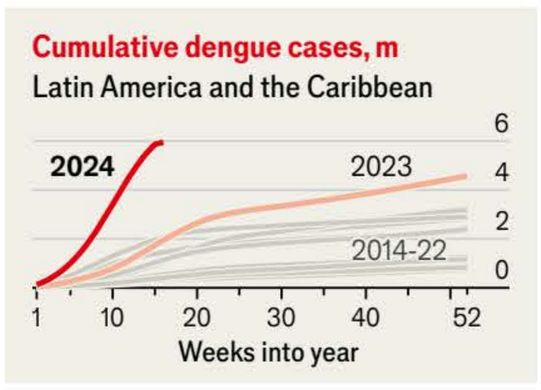
Dengue rising

As the world warms, a mosquito-borne disease is spreading. It must be curbed

UNLIKE HER stealthy, malaria-spreading cousin, the female *Aedes aegypti* signals her approach with an exasperating drone. Her bite is far worse than her buzz. If she carries a flavivirus pathogen, her victim can be infected with dengue fever. Most infections pass without symptoms, but an unfortunate few are racked with "breakbone fever", which causes severe joint pain, haemorrhage and, occasionally, death. The after-effects, which are poorly understood, include fatigue and cognitive impairment. *Aedes* is so plentiful that the United States Centres for Disease Control and Prevention reckons 100m people around the world fall sick with dengue every year.

The number of people contracting dengue has risen dramatically. In 2000 about 20,000 people died of it, according to the World Health Organisation (WHO). This year at least 40,000 will perish. By contrast, between 2000 and 2022, deaths from malaria declined by 30%, the WHO says.

The terrible fever and its after-effects are dengue's greatest burdens. Cases have risen much faster than deaths. Latin America, the worst-afflicted region, had an average of 535,000 cases a year in 2000-05, according to the Pan American Health Organisation, an arm of the UN. In 2023 it suffered 4.6m. Already in 2024 there have been 5.9m (see chart). *Aedes* sickens Brazilians so badly that it could drag down national GDP by 0.2%. Schools in parts of the country afflicted with dengue suffer dropout rates that are about 5% higher than those spared it (see Americas section).



The suffering is likely to rise further and spread beyond the tropics. *Aedes* mosquitoes are sensitive to small changes in temperature and their range has been expanding as the planet warms. *Anopheles*, the species that spreads malaria, is already established in most of the world. *Aedes* is not. Modelling suggests that, on current trends of climate change, *Aedes* will spread into large parts of southern Europe and the United States, putting another 2bn people at risk of getting dengue.

Urbanisation also helps the disease spread. As people cluster in cities, each individual mosquito can bite more victims during its short, two-week lifespan. Cases are rising fast in places that had not previously suffered much from the disease, including Bangladesh and India. In recent years cases of dengue have been growing in California, southern Europe and subtropical Africa, too.

The world must prepare for much more of the fever. Although the rich northern hemisphere is increasingly at risk, it is the poorer parts of the world that will suffer most. Struggling economies can ill afford to have their productivity sapped by the disease. Nor will it be easy for them to pay for measures that might restrict its spread. Bed nets, a cheap and effective way to curb malaria, do not work for dengue, since *Aedes*, unlike *Anopheles*, bites people during the day.

Singapore has long done a fine job of fighting dengue. It helps that it is rich enough to pay armies of public-health workers to traipse through its streets, searching out the standing water in which mosquitoes breed, pipetting puddles and issuing fines. The city-state models outbreaks and then deploys platoons of insecticide sprayers in hazmat suits to the predicted epicentres. Latin American countries have hazmat armies too, but with modest budgets and vast areas to cover, they have not done much to slow dengue's explosive growth in the region. Slums are hard places in which to track down mosquito breeding-grounds.

So it is wise to consider other approaches. Since 2016 Singapore has been running another, higher-tech dengue programme. Every week it releases 5m mosquitoes infected with wolbachia bacteria. This prevents them or their offspring from transmitting the virus that causes dengue and costs about $35m a year, or $6 per resident. Combined with new vaccines under development, it provides a way of fighting dengue that does not rely on legions of standing-water spotters. Trials of wolbachia infection in Colombia have seen a 94% drop in dengue incidents in the area where the mosquitoes are released. The world's largest wolbachia-mosquito factory is due to start operations in the Brazilian city of Curitiba this year. As dengue spreads, other places should follow. The aim should be to turn *Aedes*' buzz into a nuisance, rather than a menace. ■

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Letters

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Why crime fell

We support the rights of women to control their fertility. However, we were surprised to see Steven Levitt and John Donohue reiterating their claim that abortion caused a drop in crime (By Invitation, April 8th). *Roe v Wade*, the case in 1973 that legalised abortion in America, related only to that country. But the drop in crime was international, occurring in all high-income countries. Abortion was not a factor causing the steep falls in crime observed in Canada, Britain and many other places. Declines in big-volume crimes in America, including burglary and larceny theft, began in 1980 not 1990. This was just seven years after *Roe v Wade*, so too soon for abortion to have had an impact on adolescent crime.

We have been researching the role of security for many years. Evidence showing the importance of security in generating the reduction in crime has grown.

The Levitt and Donohue analysis relied on five states that introduced abortion earlier than 1973. Any effect is probably spurious and related to income. These states had median incomes far above the national average. Higher-income residents replace their cars and renovate or buy new homes more quickly and frequently, buying more and newer security measures. There is scientific consensus on the effectiveness of electronic vehicle-immobilisers in reducing car theft across multiple jurisdictions, and of door deadlocks in reducing break-ins.

America, followed by other rich countries, experienced what has been termed an avalanche of security in all walks of life. With easy property crimes no longer available, fewer adolescents became involved in crime. This led to reductions in violent crime, which are far fewer in number than property crimes.

GRAHAM FARRELL
University of Leeds
NICK TILLEY
University College London

A proper use of AI in health

The Technology Quarterly on artificial intelligence in health care (March 30th) was correct to point out that AI has a significant potential to augment clinical diagnostic workflows. Prospective trials are indeed required to demonstrate the safety and efficacy of these devices before deployment in clinical environments, especially as the majority of regulator-approved devices are diagnostic.

However, it is equally as important that studies are well designed, methodologically robust and assess clinically relevant outcomes. AI technology introduces several unique challenges that increase the risk of bias, including how data is sourced and subsequently used to train, validate and test AI algorithms. Global initiatives to harmonise reporting guidelines and quality assessment of diagnostic studies will be crucial to allow clinicians, regulators and health policymakers to determine which AI tools are safe and effective for clinical use.

DR AHMAD GUNI
Clinical research fellow
Imperial College London

There are valuable applications of AI in medicine. Replacing the provider with the artificial, even accompanied by an avatar, is not one of them. For the replacement to work, the interventions recommended to the patient would have to be straightforward, single-choice options which the patient would accept. In practical terms, there are usually different options for the patient to select, which are not, in an objective manner, able to be ranked as "best".

Rather, choosing an option requires a discussion with patients that takes an important note of their personal values. Most extreme among these is when patients decide whether to have treatment for their disease or palliative care. Applying their values to these decisions results in vastly different selections, given the otherwise same diagnoses and treatment options. Guiding patients through these decisions requires an ability to establish a personal rapport too nuanced to be replaced by an algorithm. The same inputs could result in potentially quite different care plans from one patient to the next.

DR BRANDON SMAGLO
Associate professor of gastrointestinal medical oncology
University of Texas
MD Anderson Cancer Centre
Houston

There are two critical barriers to the uptake of AI in health: legal liability and the investment required to train healthcare providers to use AI effectively and safely. We are not lawyers, so cannot comment on liability issues. But we can say that few medical or nursing trainees have the skills to navigate AI. It is already a struggle to integrate digital health technology into training. We continue to produce healthcare graduates who are simply ill-equipped to engage with AI at the level your report suggests is required.

This is a quality and safety-of-care issue. Teaching doctors, nurses and health professionals to use their critical judgment on AI, in contrast to becoming prompt engineers or worse yet, passive absorbers of AI outputs, is not a trivial matter for providers and consumers of health care. It needs to become a priority as AI becomes more pervasive.

DR DAVID RESER
Senior lecturer
Monash Rural Health
DR ZERINA LOKMIC-TOMKINS
Associate professor
School of Nursing
Monash University
Melbourne

In "Star Trek: Voyager" the starship's crew is attended to by a holographic medical AI called "the Doctor". The Doctor's quest for self-awareness and a sense of humanity was one of the show's most interesting storylines; he was often the wryest and most-philosophical character. As he once declared, "Photons and force fields, flesh and blood, why quibble over details? I'm just as real as any of you."

AUGUSTUS HANEY
New York

War is hell

The omission of "The Naked and the Dead" from your list of the best war novels was surprising (*The Economist* reads, March 21st). Published in 1948 it was Norman Mailer's debut at the tender age of 25 and is widely regarded as one of the best novels ever written in English. Through a clinical and stark account of combat in the Philippines the reader is exposed to the brutal dehumanising nature of war. The book should be studied in schools as part of the education of our young men.

UMBERTO ANSALDO
Professor of linguistics
University of Hong Kong

One of the more overlooked books written from the viewpoint of the common foot soldier is Eugene Sledge's "With the Old Breed", a visceral account of his days island-hopping across the Pacific as a Marine in 1944-45. Written 35 years after the end of the second world war and based on notes he had written in a pocket version of the New Testament bible that he carried into battle, Sledge's prose is as remarkable as it is realistic. The astonishing, graphic descriptions of combat often leave the reader speechless.

JODY FERGUSON
Austin, Texas

Reaching a climax

I was both surprised and encouraged to read that "Britons born before 1945 have come to accept casual sex at a slower pace than members of Generation X" (Bagehot, March 9th). Perhaps the older generation has something to teach the younger about the journey being more important than the destination.

ANDY BATES
London

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Briefing Military aid for Ukraine



Last-minute reprieve

KYIV

America's $61bn aid package buys Ukraine time

SINCE LATE February Russia's army has been creeping across eastern Ukraine. First the town of Avdiivka fell—Russia's biggest advance in almost a year. Next its soldiers occupied a series of villages farther west. Russia's progress is a reflection of its overwhelming advantage in firepower: on some parts of the front line, for every shell the Ukrainians have shot at Russian lines, the Russians have rained down 17 in response. Ukrainian forces have been rationing ammunition, for fear of running out. That scarcity, in turn, was a reflection of America's failure to approve any new military aid for Ukraine since last summer.

This week, however, after months of dithering, Congress approved $40bn of such assistance, a sum roughly equivalent to all America's military aid to Ukraine since the war began. (There was also some humanitarian aid and help for Israel and Taiwan—see United States section.) Joe Biden, America's president, signed the bill into law on April 24th and ordered the immediate dispatch of the first $1bn of supplies, to arrive in days.

It comes just in time. In March Emmanuel Macron warned the heads of French political parties that Russia might break through Ukrainian lines and advance towards Kharkiv or Odessa. On April 18th Bill Burns, the director of the CIA, warned that Ukraine would be in a "dire" position if Congress did not approve the aid package. "There is a very real risk that the Ukrainians could lose on the battlefield by the end of 2024, or at least put Putin in a position where he could essentially dictate the terms of a political settlement."

Such a calamity has now been averted. With the assistance Congress has approved, Mr Burns has said that Ukrainian forces should be able to "hold their own" on the battlefield this year and dispel the "arrogant view" of Vladimir Putin, Russia's president, "that time is on his side". The new aid should include around a year's worth of shells, reckons Michael Kofman of the Carnegie Endowment, a think-tank.

But the imbalance in firepower of recent months has already had grim consequences. Russia's advantage in artillery has provided cover for its troops to advance. Worse, it has forced Ukraine to repel assaults using infantry armed with grenades and small arms, rather than its own artillery. This has led to more Ukrainian casualties and fewer Russian ones than would otherwise have been the case (though Russian losses are still appallingly high: about 1,000 killed and wounded a day during offensives, Western officials reckon).

Half a step forward

What is more, even the fresh infusion of weaponry will not wholly eliminate Russia's advantage in terms of firepower. With its huge population and oil wealth, Russia also finds it easier to drum up new recruits. Ukraine is therefore likely to remain on the back foot, unable to mount new offensives. And uncertainty about Western aid will ▸▸

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not go away: America may become much less friendly to Ukraine after presidential and congressional elections in November.

The fiercest fighting at the moment is in Chasiv Yar, a town just to the west of Bakhmut, the city Russia captured a year ago after nine months of trying. For Russia, seizing Chasiv Yar would open a path towards bigger cities in Donetsk province. Donetsk and neighbouring Luhansk (almost all of which is already in Russian hands) form the Donbas region, which Russia has annexed in theory and would like to do so in practice (see map). For Ukraine, Chasiv Yar is a strategic stronghold, on high ground and shielded by a canal, trenches and other recently strengthened fortifications. Russian forces have reportedly been ordered to advance as far as they can before May 9th, Victory Day, which commemorates the end of the second world war and is an occasion for bombastic military parades and jingoistic speeches.

Colonel Pavlo Fedosenko, who leads a brigade defending the city, says Ukrainian forces maintain a substantial degree of control there. During the past month of all-out fighting, Russia has shown it "lacks the strength and means" to advance. In the meantime, Ukraine has inflicted serious losses, destroying around 100 armoured vehicles in a month in this section of the front alone. Now, he says, the Russians are "largely attacking on off-road motorcycles, buggies and quad bikes". Surveillance drones allow Ukrainian forces to detect movement as much as 10km away and react promptly. But Russian attack drones torment Ukrainian forces: stay at any point in the city for more than a few minutes and they begin to rain down. Although news of the new aid package was greeted with cheers in the local command room, Colonel Fedosenko says, he and others suspect Chasiv Yar will fall eventually.

The infusion of arms should, however, put Ukraine in a stronger position to fend off a bigger Russian offensive that Kyrylo Budanov, the head of Ukraine's military-intelligence service, has said he expects in May. Ukrainian forces predict a push in the east to capture more of Donbas. They have also noticed an increase in Russian reconnaissance farther north, around Kharkiv, Ukraine's second city. Capturing such an important place would be a huge psychological victory, but Russia almost certainly lacks both the troops and sufficient mechanised vehicles for a decisive attack.

Defending Ukraine's skies will also be hard. Russia has hammered Ukraine's defence industry and power grid with barrages of drones and missiles. Ukraine tries to defend against these assaults with a hotchpotch of American, European and Soviet-era anti-missile systems. But as with its artillery, its stock of ammunition has dwindled. Videos published on social media in recent weeks show Russian Su-25 jets flying at relatively low altitudes in the east, providing close support to troops. Russian reconnaissance drones have also penetrated as far as 40km behind the front lines without being shot down. Such incidents suggest that Ukraine is running short of interceptor missiles.

The erosion of Ukraine's air defence has several malign effects. On the front lines, the shortage of interceptor missiles has given more freedom of manoeuvre to Russian jets and guided aerial bombs, which have been flying in at a rate of 100-130 a day. The worst-case scenario is that Russia achieves air superiority, allowing it to bomb the front lines at will, as it did in the city of Mariupol in the first months of the war. That would make it vastly harder for Ukraine to hold its current lines.

Many possible steps back

There is also the damage to infrastructure away from the front. On April 16th a Ukrainian official said that Russia had destroyed seven gigawatts (GW) of power-generation capacity in previous weeks, leaving just 10GW or so operational. Ukraine is now almost entirely reliant on nuclear plants. Although Russia is unlikely to bomb those, it may well strike transmission lines. Kyiv is already suffering from rolling blackouts, which sap morale.

Small wonder, then, that Ukraine is desperate for more air-defence systems. America's new aid is likely to include some missiles. Ukraine also needs launchers. It has between five and ten Patriot batteries, which protect against longer-range and faster-moving ballistic missiles. But these are defending cities, which leaves infrastructure and the front lines exposed. Ukraine is hoping Poland and Spain, among others, will donate more. The catch is that they are in high demand elsewhere, as Iran's drone and missile barrage against Israel on April 13th underscored.

Even before any ammunition arrives, America's latest aid provides Ukraine's weary forces with a psychological boost. Mr Putin might have hoped that a well-timed offensive over the summer would capitalise on Ukraine's shell shortage and make great headway. That, in turn, might have heightened doubts within NATO and among American politicians about the long-term viability of Ukraine's resistance. If Mr Putin could show that Russia's war machine was unstoppable and Ukraine was a lost cause, he might have hoped to strike an advantageous deal with Donald Trump, were he to become America's president again in January, and so force a Ukrainian surrender on humiliating terms.

The approval of the aid bill may change his calculations. In the very short term, it may spur Mr Putin to intensify assaults on places like Chasiv Yar, to try to make gains before much new ammunition arrives. But if Ukraine is properly armed in the coming months, any offensive is likely to peter out or make only marginal gains at eye-watering cost in lives and equipment—exactly as happened to Russia in early 2023 and, to a lesser extent, to Ukraine in its own unsuccessful counter-offensive in the summer and autumn of that year.

If so, that would be a heavy blow. Mr Putin's war machine cannot maintain its current pace indefinitely. Russia's artillery is keeping up such a heavy barrage that the barrels of the guns are wearing out. It is likely to run very low on replacements next year, requiring it to use more rockets instead. But artillery rockets need five times as much explosive material, which is also



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in short supply. By the same token, Russia is thought to have lost around 3,000 armoured vehicles in the year to February, according to data collected by the International Institute for Strategic Studies, a think-tank in London, and around 9,000 since the start of the war. It has replaced them from Soviet-era stockpiles, but those are expected to run out in about two years. "Russian defence industrial capacity maxes out in 2025," says a Western official.

The capacity of Ukraine's allies, meanwhile, is growing. The bill Congress has just passed includes investments to increase the rate of ammunition production. Annual output of PAC-3 interceptors, the missiles fired by Patriot launchers, could rise by about a fifth over the coming year, from the current 500 or so. America's annual production of shells should rise to about 1.2m next year. Add to that European shells—1.4m this year and 2m next—and Ukraine's allies should soon be able to match Russian production.

Stepping up

In the long run, Ukraine's biggest shortage is not likely to be munitions, but manpower. On April 3rd Volodymr Zelensky, the president, signed a long-delayed bill lowering the conscription age from 27 to 25. The bill also requires all military-age men to register on a new database, potentially bringing many previously overlooked candidates to draft officers' attention. The armed forces had lobbied for these steps for months; Mr Zelensky had resisted, concerned about the political and economic fallout. Mr Kofman has argued that manpower is likely to be the "decisive" factor for Ukraine this year. Many battalions, already under strength, also have relatively few soldiers young, fit and well-trained enough to undertake serious assaults.

Ukraine's counter-offensive last year fizzled for a variety of reasons: delayed arms deliveries from the West, a dramatic expansion of Russian fortifications during the resulting hiatus, miscalculations over how lethal a drone-saturated battlefield had become and strategic mistakes such as the decision to launch attacks in both the east and the south, splitting Ukraine's forces. But high on the list was a lack of skill. Ukrainian units, armed with unfamiliar Western weapons, were expected to wage complex "combined-arms" warfare against prepared defences with a meagre five weeks' training. The lack of experience in such co-ordinated attacks means that both Ukraine and Russia are largely fighting at the level of companies, rather than battalions or brigades. Even if one side could find or make a breach in the other's lines, they would struggle to exploit it.

The side that can master large-scale operations first will have a big advantage. If Ukraine is to get there, it will take lots of training. One difficulty is withdrawing entire units from the front for long enough to provide that training. Another is where to do it. Poland, an obvious candidate, is hesitant to host training on such a scale. An alternative would be for Western troops to do it on Ukrainian soil—an idea aired by Mr Macron in March which is under consideration in Western capitals. European governments suggest that they would be unlikely to take this risk without American involvement, not least because any training sites would need to be bristling with air-defence systems.

Wherever the training occurs, it will take time. A person familiar with the planning says that it would probably take until 2026 or 2027 for Ukraine to develop a serious offensive capacity. In the interim, Ukraine would need to continue to degrade Russian combat power. A strategy paper published by Estonia's defence ministry last year argued that Ukraine would need to kill or seriously wound 50,000 Russian troops every six months to prevent Russia from building a stronger army. It would also need to keep up long-range strikes against Crimea, the Black Sea Fleet and Russian air bases, which in turn would require a steady supply of long-range missiles. Ukraine is husbanding a relatively small stock of British and French cruise missiles; America, it emerged this week, has quietly provided some long-range ATACMS ballistic missiles, which have already been put to use. Western sanctions would also need to be tightened, to hobble Russia's defence industry.

In other words, a big military breakthrough could be several years away for Ukraine and, even then, only if large-scale Western support is maintained and enhanced. That is far from certain, especially given the vagaries of American politics. Mr Trump is much less resolute in his support for Ukraine than Mr Biden. And even if Mr Biden is re-elected, the next Congress may be even more cantankerous about Ukraine than the current one.

In private, some Western officials argue that, given the likelihood of a long period of—at best—stalemate, a peace deal which froze the front lines and took the rump of Ukraine into the European Union and (less probably) NATO would constitute a strategic victory for Ukraine and a defeat for Russia. Others are sceptical that Russia would agree to such a deal or abide by it, or that Western countries would be able to provide sufficient guarantees to coax Ukraine to accept. Yet others want Ukraine to keep fighting, in the hope that Russian weaknesses will eventually force the Kremlin to withdraw or accept a more favourable deal. The mood inside Ukraine remains surprisingly defiant. A recent poll finds that 73% of the population is prepared to "tolerate as much as victory requires". Some military leaders think the fighting will continue as long as Mr Putin is alive. "This war will be ongoing while this regime remains in place in Russia," Mr Budanov recently told the *Washington Post*.

Congress, by coughing up $61bn, has fended off the worst, without setting Ukraine clearly on the path towards any of these outcomes. But the newly signed military-assistance bill also includes a series of provisions requiring Mr Biden's administration to submit a strategy for Ukraine to Congress within 45 days. Officials will be obliged to spell out specific objectives, along with a budget for bringing them about, and update them each quarter. This exercise may be a figleaf, but at the very least it will show that coming up with a plausible, palatable long-term plan is even harder than coming up with more cash. ■



Getting them ready takes years

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Asia



The Philippines

Trump-proof tiger

COTABATO AND MANILA

Without fanfare, the Philippines is getting richer

AT COTABATO AIRPORT travellers must join a long sweaty queue to pay a tax of ten pesos (less than $0.20). Having handed over their cash—cards are not accepted—they must wait while three unhurried officials produce a paper receipt and stamp it. If they could avoid this hassle by having the tax added to their ticket, most would be delighted, even if the tax were ten times larger. Yet this simple reform has not happened, perhaps because it would cost those three unhurried officials their jobs.

Visitors to the Philippines have ample time to imagine ways to make its transport system less frustrating. When not queuing in rickety airports, they are often stuck in traffic. A typical commute from an outlying suburb to the centre of Manila, the capital, takes two hours, including nearly 30 minutes waiting for a bus to show up.

Yet things are improving. Roads are being paved, bridges built. In February the government picked a private consortium to revamp and double the capacity of Manila's main airport. Later this year, it is expected to award contracts to modernise several regional airports, too. Manila is scheduled to have its first underground metro line by 2029.

The Philippines is often an afterthought for investors: neither a giant like India nor a manufacturing superstar like Vietnam. But growth has been brisk at around 6% a year since 2012 (except during the pandemic). The economy has quietly boomed under a variety of regimes, from the liberal President Benigno Aquino (2010-16) to the thuggish President Rodrigo Duterte (2016-22). The run is set to continue under President Ferdinand "Bongbong" Marcos (see chart on next page). The World Bank says the Philippines will soon be an upper-middle-income country.

This might seem surprising, given its politics. Mr Marcos, the son of an appalling kleptocrat, was elected to the top job in 2022. He was helped by a massive campaign of disinformation aimed at rehabilitating the family name. Still, businesses rate his administration as more competent than his predecessor's. Whereas Mr Duterte filled key posts with his drinking buddies from Davao, the city where he was mayor for many years, Mr Marcos has mostly appointed technocrats. His economic team is widely praised. "We appreciate the high level of collaboration between the government and the private sector," says Alberto De Larrazabal, the chief financial officer of Ayala, a conglomerate.

Many of the reasons for optimism about the Philippines have nothing to do with who is in charge. The country is at a demographic sweet spot, with a bulge of working-age citizens. With half its people still living in the countryside, there is plenty of potential to shift from farming to better-paid urban jobs. But governance mat- ▸▸

→ ALSO IN THIS SECTION

18 China's business diaspora
19 Banyan: A feud in the Philippines
20 Geopolitics in the Maldives
20 India's untapped potential
21 Why the Japanese buy CDs

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ters, too, and so far Mr Marcos is nowhere near as bad as many observers feared.

He has continued with his predecessor's efforts to upgrade the infrastructure linking the archipelago's 7,600 islands to each other and the world. Returns on investment in physical and digital infrastructure in the Philippines are higher than in neighbouring countries because "the gaps are huge", says Ndiamé Diop of the World Bank. An improvement in respect for human rights helps, too. Whereas Mr Duterte loudly urged police to murder drug suspects, leading to thousands of extra-judicial executions, Mr Marcos stresses treatment for addicts. The police still shoot a lot of people, but the country no longer has a leader who says things like: "If it involves human rights, I don't give a shit." That probably makes investors less skittish about doing business there.

Mr Marcos has wooed foreign investment in improving broadband access, which is wildly uneven; congress is mulling a bill to spur more competition in this area. The roll-out of a national digital-identity system should make it easier for Filipinos to do business and get access to government services online. Since it began in 2020, roughly 70% of Filipinos have enrolled: impressive, though far behind the nearly 100% rate in India, a poorer country.

Asian exceptionalism

Like many of its neighbours, the Philippines worries about another Donald Trump presidency. His tariff hikes could hurt its exports of electronic goods. But it has handy sources of foreign currency that may be Trump-proof.

One is remittances from its 2m citizens working abroad, steering ships on the high seas or nursing patients in the Gulf. Though their numbers are equivalent to a mere 4% of the labour force in the Philippines, they send home the equivalent of 9% of GDP a year, a cash gusher that flowed steadily even during the pandemic. Remittances kick-start small businesses in every village. Norhaya Daud, a young mother in Cotabato, says she earned five times as much as a domestic worker in Qatar as she could have at home, and used the savings to buy land. Now she grows corn and coconuts, and runs a village shop.

Another Trump-proof source of dollars is tourism, which could boom when the airports improve. The Philippines has enormous untapped potential: warm weather, pristine beaches, coral reefs to snorkel over and a culture of hospitality. Yet it attracted only a fifth as many international tourists as Thailand in 2022, partly because it is so hard to get there. CLSA, a bank, predicts that annual tourist arrivals will soar from 5.5m in 2023 to 43m by 2030, and tourism revenues will grow from 9% of GDP to a hefty 22%.

The biggest threat to this cheerful scenario is geopolitics: the Philippines often clashes with China over its baseless claims to Philippine waters, and China's government could warn Chinese tourists not to go there.

The third source of resilience is exports of services, which may be less affected by a future trade war than physical goods. With their fluent English and familiarity with baseball, Filipino call-centre workers are much in demand by American firms. The country's business-process outsourcing firms employ more than 1.7m people. Jack Madrid, the head of IBPAP, the industry association, predicts revenue will grow by nearly 9% in 2024 to $40bn, as banks and health insurers move more back-office operations offshore.

Some expect artificial intelligence to destroy jobs in call centres, but Dominic Ligot, the head of research at IBPAP, doubts it. Today the industry's growth is constrained by a lack of sufficiently skilled staff. AI could help make the less capable ones more productive, he predicts.

Obstacles remain. No farmer in the Philippines may own more than five hectares, so farms stay tiny and inefficient. Several laws discourage foreign investment: foreigners may not own stakes of more than 40% in a wide variety of industries, from public procurement to trading. Mr Marcos promises to ease rules on foreign ownership, but has met fierce resistance.

And the global environment is deeply unpredictable. When Mr Marcos visited the White House earlier this month for a summit with President Joe Biden and Japan's prime minister, Kishida Fumio, he received a warm welcome. But Mr Biden may not be president next year, and Mr Trump could suddenly declare war on outsourcing. Relations with China, meanwhile, are dismal and could get worse. Nonetheless, "there's a guarded optimism among businesspeople in the Philippines, despite everything that's happening in the world," says Mr De Larrazabal. ■

A rising tide



A new diaspora

No longer just made in China

JAKARTA

Chinese firms are expanding in South-East Asia

IN 2021 THE founders of PalFish, a platform based in China which connects English teachers and students, realised its future lay abroad. The Chinese government had just launched a crackdown on private tutoring, after Xi Jinping, its leader, accused the industry of preying on the educational anxieties of China's parents. The firm considered expanding to Latin America, the Middle East or Russia before landing on South-East Asia. Three years on, 10m students in the region use it.

PalFish is part of a broader trend. Exact numbers for Chinese companies in South-East Asia are hard to come by, but there are thought to be thousands, as unpredictable politics in Mr Xi's China, coupled with a slowing economy, are forcing businesses to look for opportunities elsewhere. This new Chinese business diaspora is different from previous ones: it is wealthier, highly educated and with ambitions beyond South-East Asia.

One reason why Chinese firms are expanding abroad is political. President Joe Biden's administration has added more controls to those introduced by Donald Trump on products made in China. Chinese firms sometimes bypass these restrictions by moving factories to countries in the region. One Chinese businessman who moved to Hanoi, Vietnam's capital, nearly two decades ago estimates that 40% of factories in northern Vietnam are now Chinese-owned. Annual foreign direct investment from China to Indonesia, Malaysia and Vietnam hit $8bn in 2022, quadruple the amount a decade earlier.

Chinese entrepreneurs across South-East Asia sum up their desire to go abroad with one word: *juan*. This abbreviation comes from *neijuan* or "involution", a term used to describe how extra input no longer yields more output. Entrepreneurs born in the 1980s and 1990s say that no matter how hard they work, they will not be rewarded with a better quality of life in China. One result of the country's enormous population is that extreme levels of competition make it almost impossible to stay at the top of one's field, especially as Chinese consumers become more demanding.

And for some business types, the pandemic was a turning point. "We got fed up being locked up," says one Chinese entrepreneur. He, along with many of his friends, fled abroad once China opened its borders. But over the past few years, they ▸▸

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have found that their operations in the region are faring better than in China. "Now, it is a pragmatic business decision that keeps us expanding into South-East Asia-...rather than a single-minded hatred of the Chinese Communist Party," he says.

Indonesia is the most important market for Chinese firms. Several big companies with links to China have set up shop there. J&T Express, a courier company based in Jakarta, Indonesia's capital, was the second-biggest initial public offering of 2023 in Hong Kong. It is backed by Chinese investors including Tencent, a Chinese tech firm. Meanwhile Tsingshan, the world's largest producer of stainless steel and nickel, dominates nickel processing in the country. Beyond the giants, a myriad of smaller companies have emerged across the region. In 2022 China's annual investment in South-East Asia's medical sector was $1.6bn, triple that of 2015.

Liu Yuan, a business consultant who helps Chinese businesses expand to Vietnam, says that most of her clients have no plans to settle permanently in the region. This is in stark contrast to many previous generations of the Chinese diaspora, who made South-East Asia their home when fleeing poverty and civil war, often in rickety boats. This new generation is driven by a different belief: that the future of South-East Asia is inextricably tied to the economic powerhouse to its north. But they are also hoping that they will expand farther West, too. ■

BANYAN

Rule by Montagues and Capulets

The family feud that holds the Philippines back

LIKE ROMEO AND JULIET, the president and vice-president of the Philippines come from rich, powerful families that are constantly at daggers drawn. Unlike Shakespeare's star-crossed lovers, Ferdinand "Bongbong" Marcos and Sara Duterte detest each other. This makes governing the Philippines rather harder than it should be.

Both families have grubby histories. Mr Marcos is the son of a despot, also called Ferdinand Marcos, who stole billions, tortured thousands and was ousted by a popular uprising in 1986. (He died three years later.) Ms Duterte is the daughter of Rodrigo Duterte, who as president from 2016-22 urged the wholesale murder of drug suspects and called the pope a "son of a whore".

The Marcoses and Dutertes have co-operated in the past. Sara Duterte's grandpa served in Marcos senior's cabinet. Her father allowed the late kleptocrat's corpse to be buried in the national heroes' cemetery. The two dynasties formed an uneasy alliance to win an election in 2022: Ms Duterte stood for the number-two job, which is chosen separately, with a rumoured understanding that she will run for the top one in 2028. But now they are openly feuding.

Early squeals of discord were audible last year, when Mr Marcos's government stopped giving Ms Duterte's office millions of dollars in "confidential funds", which are not rigorously audited, and which the president uses by the shovelful. This year things have heated up. Mr Marcos has suggested revising the constitution to remove clauses that hinder foreign direct investment. The Dutertes fear he may use this as a pretext to relax term limits. Currently he is barred from running for re-election. If that changes, Sara Duterte's path to the presidency gets more complicated.

In January Ms Duterte's brother, a mayor, called on Mr Marcos to resign. Her father accused Mr Marcos of being a "drug addict". Mr Marcos suggested that his predecessor's mind was clouded by fentanyl, a painkiller he has admitted to taking after a motorcycle crash eight years ago.

Former President Duterte upped the stakes by threatening that if Mr Marcos tinkers with the constitution, the Duterte family stronghold, Mindanao, the second-largest island in the Philippine archipelago, might secede. Such loose talk of dismantling the country set off alarm bells, especially since Mindanao has a recent history of horrific separatist violence. Marcos officials threatened stiff penalties for fomentors of secession. At a Duterte rally on April 14th a prominent lawmaker urged the army and police to stop supporting Mr Marcos, so he would have to resign. The lawmaker later apologised, but the atmosphere remains turbulent.

The feud matters for three reasons. First, it makes foreign policy less predictable. Mr Duterte cosied up to China; Mr Marcos has pivoted sharply back to America, giving it access to military bases and extracting promises of protection. China claims Mr Duterte verbally agreed to ease tensions in the South China Sea by not repairing a Philippine outpost on a disputed reef. Mr Marcos retorts that if such a secret agreement exists, it is null and void. Mr Duterte calls Mr Marcos a "crybaby" for seeking help from President Joe Biden. No one is sure how ties might shift if his daughter is the next president.



Second, although the country is better-run under Mr Marcos than it was under Mr Duterte, the feud is an unhelpful distraction. Ms Duterte wanted to be defence minister. Mr Marcos, who perhaps does not trust her with all those guns, put her in charge of schools instead. The Alliance of Concerned Teachers, a political party, gripes that the job should have gone to someone who knows more about education and is less concerned with scrabbling for supreme power. Covid learning loss was dire, partly thanks to Ms Duterte's dad.

Third, the feud could make the next election campaign even dirtier and nastier than previous ones. Both families have much to lose. The International Criminal Court is investigating Mr Duterte for crimes against humanity during his anti-drug war. Mr Marcos has vowed not to co-operate, but has recently allowed investigators into the country and could one day start helping them. Meanwhile, a commission charged with retrieving some of the billions stolen under Marcos senior is now run by appointees of Mr Marcos junior, and making predictably little headway. The Philippines is a country of immense potential. Rule by Montagues and Capulets is not the best way to realise it.

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Elections in the Maldives

Pacific pivot

DELHI

A landslide victory for the president's party strengthens closer ties with China

THE MALDIVES tends to evoke images of cocktails enjoyed on pristine white beaches framed by gently swaying palm trees. Thoughts of geopolitics rarely feature. Yet they were to the fore this week as the People's National Congress, the party of President Mohamed Muizzu, won a landslide victory in parliamentary elections, claiming over two-thirds of seats.

The victory is likely to help Mr Muizzu, who took over as president in November, change his country's foreign policy. He has sought to make good on an election promise to reorient the archipelago away from India, traditionally the Maldives' closest regional economic and security partner, and step up co-operation with China.

Both India and China have an interest in maintaining a base in the Maldives, which sits near several important shipping lanes and could become important in a wider regional conflict. Both countries have invested in infrastructure, though they have not published the conditions of most deals. Historically, India has had the edge. Yet China has stepped up its efforts. The Maldives now owes about $1.3bn to China, or 19% of its total debt, compared with less than a tenth of that for India.

Mr Muizzu claims that his foreign policy is merely "pro-Maldives" rather than pro- or anti-China or India. Yet he won last year's presidential election on an "India out" platform. He promised to rid the atoll of India's small military presence, which consists of a few dozen soldiers manning rescue helicopters donated by India, and to attract more investment from China. After he took office he eschewed the tradition adhered to by his predecessors, all of whom made their first foreign visit to Delhi. Instead, he went first to Turkey and then to the United Arab Emirates. In January he made a five-day state visit to China, where he met with President Xi Jinping and signed a raft of co-operation agreements. He has yet to visit India.

The pivot is already visible in tourism, which accounts for virtually all of the Maldives' $7bn economy (a small chunk is generated by the tuna trade). Until last year, Indians were the largest group of tourists, with 210,000 visiting in 2023, more than 11% of the total. During the first quarter of this year, the number of Indian visitors dropped to 34,847, compared with 56,208 during the same period in the previous year. The drop was probably related to boycott calls from India in January after three of Mr Muizzu's junior ministers made what were seen as derogatory remarks about Narendra Modi, India's prime minister, and the tourism potential of India's beaches. Chinese tourists made up for this: 67,399 arrived over the past three months, up from 17,691 in the same period last year.

Yet Mr Muizzu is unlikely to break completely with India. The withdrawal of India's troops from the islands is expected to be completed over the coming weeks. But they are likely to be replaced with civilian crew. India has not paused its infrastructure investments in the country, nor has Mr Muizzu asked it to. The two countries continue to discuss how to expand economic co-operation. Mr Muizzu seems to realise that for small countries, two big friends are better than one. ■

Jobs in India and Bangladesh

Women's work

POCHAMPALLI, INDIA AND MANIKGANJ, BANGLADESH

Can female-only factories help more women into employment?

WHEN KAVIPRIYA, a 22-year-old from a village in the south Indian state of Tamil Nadu, decided to take a factory job, her family was not thrilled. "My mother-in-law wanted me to stay at home and look after my two-year-old son," she explains. Her relatives eventually came around when they realised that Kavipriya would be earning good money to supplement her husband's income as a cab driver.

Women like her are still unusual. In 2023 only 33% of Indian women were active in the labour market, compared with around 50% of women globally and 37% in neighbouring Bangladesh, with which India shares many economic and social characteristics. The only countries where fewer women work are a handful of conservative Muslim countries across North Africa and the Middle East, Taliban-ruled Afghanistan and Pakistan, India's troubled neighbour. Yet Kavipriya's experience also illustrates one way of bringing more women into work: by designing jobs in a way that is acceptable to them and their families.



A looming work shortage

In part, the woes of India's working women are just the woes of India's workers. For decades, the country's labour market has not generated enough new jobs to absorb the country's young and growing population. Between 2000 and 2012, employment increased by about 1.6% a year, even as GDP grew by 6.2% a year on average. Between 2012 and 2019, employment did not grow at all, even as GDP continued to grow by 6.7% a year, according to a report published by the International Labour Organisation in March. During that 20-year period, women's participation in the labour market declined from 31% to 26%; men's from 82% to 75%.

The disparity is reinforced by persistent conservative norms that discourage women from working outside the home. Fully 80% of Indians believe that when jobs are scarce, men should be given preference, according to a Pew poll published in 2022; two-thirds of respondents told the same survey that a wife must always obey her husband. A time-use survey published by the government in 2020 found that women spent nearly seven and a half hours a day on unpaid housework, compared with just over two hours for men.

Norms frequently trump the financial benefits of women's work, says Chitra AR, who trains female auto-rickshaw drivers in Chennai in Tamil Nadu. "One trainee's husband and father stopped speaking to her when she took up driving, even though they really needed the money," she says. Rubi, a 20-something who organises leadership courses for young women in Delhi, says she spends most of her time persuading families to let their daughters out of the house at all.

Yet there are ways to nudge women into work while assuaging the fears of conservative families. Kavipriya is a case in point. Her factory in Tamil Nadu is run by Ola, a company that makes electric scooters. She works on a brightly lit, airy assembly line making 20,000 rupees ($240) a month, a decent wage by local standards. The aim is for the factory to employ around 10,000 people and for the assembly line to be staffed exclusively by women once it reaches full capacity. Most workers are from the surrounding villages. Ola provides buses to ensure they get there safely. ▸▸

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Such women-only or women-majority factories can create a virtuous cycle, says Josh Foulger of Zetwerk, a contract manufacturer, who set up several in Tamil Nadu and neighbouring Andhra Pradesh for previous employers. "Many of our workers referred their friends and neighbours," he says. Once people from the surrounding areas realised that the jobs were safe and decently paid, the objections died down. Other problems were trickier to solve. "We used to have men lurking outside the factory gates and chase the buses transporting women workers." A heavier security presence eventually put paid to the lurkers.

The results of Mr Foulger's virtuous cycle can be observed in Bangladesh. Though similarly conservative norms as in India prevail there, the country has been more successful at getting women into work, largely owing to the better availability of jobs, argues Alice Evans of King's College in London. Its garment industry employs around 2.6m women. (India, with eight times the population, employs a total of 1.6m women across the entire manufacturing sector.) Unlike her colleague in India Lakhi, a 24-year-old from a village near Dhaka, Bangladesh's capital, faced no resistance when she applied to work in a factory 40 minutes from her house. "People here are used to women working, they know it's good for the family income."

Will India embark on a similar trajectory? There are signs that it might. Since the pandemic Indian women's participation in the labour market has begun to grow again, after declining for nearly two decades. That suggests the country may be following the U-shaped development trajectory sketched out by Claudia Goldin, who was awarded the Nobel prize for economics last year for her insights into women and work. Ms Goldin found that at subsistence level women are forced to work along with everyone else, often on the family farm. As incomes rise and jobs move out of the home, they tend to leave the labour force, because men make enough to provide for the household and women's work is frowned upon. As incomes rise higher, and women's education levels and the availability of white-collar jobs improve, they return to work in greater numbers.

Yet even though the decline in women's labour-market participation in India looks consistent with Ms Goldin's analysis, the recent uptick appears to have been driven less by the availability of better jobs and more by women in dire financial straits being forced to return to the hard agricultural work they had previously left, cautions Rosa Abraham, an economist at Azim Premji University in Bangalore. That means it is likely to reverse, once their economic circumstances improve. India will need many more Ola factories to travel up the far side of Ms Goldin's U-shape. ■

Japanese music habits

Back to the future

Why do the Japanese still buy compact discs?

WHEN PRINCE sang "Tonight, I'm gonna party like it's 1999" on his 1982 hit "1999", he was describing a party during a turn-of-the-millennium apocalypse. He could have been singing about the music industry. In 1999, according to the International Federation of the Phonographic Industry (IFPI), global recorded-music revenues soared to $22bn ($40bn in 2023 prices). That revenue was largely driven by the compact disc (CD). Over the next 15 years, those revenues would fall as consumers turned to streaming. The IFPI recently reported that streaming accounts for 67% of revenues. CDs account for just 10%.

But in Japan it seems time has stood still. In 2023, 39% of recorded revenues came from CDs there, making Japan the second-biggest music market globally. On the face of it, this may be down to demography. Nearly 30% of the Japanese population is 65 or older. But older listeners have cottoned on to streaming elsewhere: although 24% of Italian citizens are 65 or older, 65% of recorded-music revenues come from streaming.

Instead, two factors explain the Japanese market for CDs. The first is price controls. In 1953 Japan's government, concerned about its products being devalued, established *saihan seido*, or its "price retail maintenance system". This system gave copyright owners the ability to set the prices for certain classes of intellectual property, including physical products such as CDs. Because retailers and resellers could not compete on prices, they were inflated and consumers had few alternatives. Music companies are able to leverage this monopoly power to maintain the status quo. Japanese talent agencies also stopped their artists from being on streaming platforms.

The second factor is that, in the decades after the establishment of *saihan seido*, these talent agencies began to market performers as "idols". Part of the way that this idol status is maintained is through events, which fans are typically only eligible for if they purchase a CD. Some buy several in order to up their chances of an encounter with a pop star. The branch of Tower Records, a record shop, in Tokyo has several floors dedicated to idols. This type of fan culture has kept the CD alive in South Korea, too. Fully 33% of recorded-music revenues came from CDs there last year.

Despite this, however, the CD does seem to be losing its grip over Japanese music fans. In 2019 CDs accounted for 49% of recorded-music revenues on the island nation, while streaming only accounted for 18%. Last year streaming surged to 36%. Soon, it seems, Japanese listening habits will mirror those in the rest of the rich world.



Disc jockey

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China



Money-laundering

Mules and motorcades

How underground Chinese networks clean dirty money on a vast scale

IT IS RARE these days for America and China to co-operate on anything. As *The Economist* went to press, America's secretary of state, Antony Blinken, was on a trip to China, in part to press his hosts to stop sending weapons-related materials to Russia's defence industries (see Chaguan). He will be lucky to get a polite smile. So it is noteworthy that the two countries have recently decided to boost mutual support in another domain: the fight against money-laundering. This month they launched a bilateral forum to discuss the problem. Unlike Russia, it is a big one for both of them.

The menace has grown in recent years, fuelled by underground Chinese networks equipped with new technologies that can enable dirty money to be washed clean in minutes. For transnational criminal gangs, these shadowy "banks" are becoming the financiers of choice. Suppressing them requires the two great powers to talk. Amid their political rancour, discussions about money-laundering had been on ice for years. Their resumption marks "a big change, a big positive change", says an official from America's Treasury Department.

In America the threat is a matter of life and death. In the 12 months to November 2023 more than 105,000 Americans were killed by overdosing on drugs, mainly fentanyl and other synthetic opioids smuggled into the country from Mexico. Chinese underground banks play a crucial role in this by enabling Mexican cartels to launder their proceeds swiftly and at low cost.

In a paper published in 2021 by the *American Intelligence Journal*, Virginia Kent of the State Department and Robert Gay of the National Intelligence University in Maryland wrote of a "bloodless coup" by Chinese money-handling organisations, noting how, in recent years, they have largely displaced home-grown ones in Mexico. The authors called these Chinese operators "a new and more challenging money-laundering foe".

The American government has been sounding the alarm. In its "National Money Laundering Risk Assessment" of 2022, the Treasury Department highlighted the involvement of Chinese illicit finance, saying that drug-traffickers were making increasing use of it. The department's latest such report, published in February, said that Chinese organisations had since become "more prevalent" and were now among the "key actors" laundering money around the globe. American officials hope that the new money-laundering forum, along with another launched by America and China this year to tackle drug-trafficking, will help fight them.

Other authorities have been chiming in, too. In 2019 Europol, the EU's police agency, said money-laundering by Asian criminal groups, particularly Chinese ones, presented a "growing threat to Europe". It called the Chinese gangs "extremely flexible", saying they were handling "substantial proceeds" from a variety of criminal activity. In January the UN Office on Drugs and Crime (UNODC) reported on a "revolution" under way in South-East Asia's "un-

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24 Tricky ties with Iran

24 Young people buying gold

25 Chaguan: Moving closer to Russia

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derground banking architecture", involving everything from casinos to cryptocurrency. The details it provided suggested that Chinese gangs were at the forefront.

China's anxiety is evident, too. It worries about the conduit provided by underground banks for evading the country's strict foreign-exchange controls (capital flight, even by legitimate means, is a persistent headache: see chart). Mainland Chinese are not allowed to send more than $50,000 a year out of the country. For many rich Chinese, that is far from enough.

Chinese often turn to illicit financiers not to launder cash, but to move some of their wealth abroad. Such demand is only likely to grow as China's economy falters. Some of these people are criminals, including corrupt officials who want to park their ill-gotten gains beyond the reach of China's police. They have cause to be nervous: China's leader, Xi Jinping, has been waging a war against graft. In 2022 the chief prosecutor's office said anti-money-laundering efforts were part of "a major national strategy for maintaining the country's political and financial security". According to state media, China is working on the biggest changes to its anti-money-laundering law since it came into force in 2007.

Flying here and there

Several factors are making the problem much harder to deal with. First is the rapid evolution of a centuries-old culture of informal banking based on what is often known as the *feiqian* (flying money) system. Its origins have nothing to do with crime. It began as a way for traders to settle accounts without the need to carry cash over long distances. Like the *hawala* system that is popular in the Middle East and South Asia, *feiqian* depends on trust: a sum of money exchanged between two parties in one location is matched by an equivalent transaction in another.

In China *feiqian* has remained in common use as a way of getting international deals done quickly, without the encumbrance of banks. Chinese workers abroad often use such methods to send remittances home. The near-universal use among Chinese of WeChat, a messaging app that is often linked to people's bank accounts, has turbocharged the *feiqian* system.

America's opioid epidemic has given it a further boost. Some of the billions of dollars in cash generated by drug demand is smuggled back, at considerable risk, to the cartels in Mexico. Some is handed over to Mexican money-launderers, who charge high commissions: usually between 8% and 12%, according to Ms Kent and Mr Gay. Chinese launderers provide a much cheaper option, even virtually free.

This is made possible both by the *feiqian* system and the huge needs of Chinese wanting access to dollars. The Chinese money-launderers take the drug money and sell it for yuan at a high profit: *feiqian* enables a buyer in America to send the specified equivalent in yuan from their bank account in China to one or more accounts in China controlled by the launderers. With no money crossing borders, this kind of swap is extremely difficult for America's investigators to spot. The sums are often broken up into smaller amounts that do not draw the attention of China's enforcers, either. The yuan in China may then be used there to buy goods that are shipped to Mexico and sold for pesos that are handed over to the cartels. The Chinese brokers arrange delivery of the pesos nearly instantly after the receipt of the dirty dollars. "They are very, very efficient at what they do," says Laurence Howland, a former investigator at Britain's tax agency.

Traffickers in Europe are picking up on this idea, too. In October police in Italy arrested 33 people for alleged involvement in laundering more than €50m ($53m) for drug-traffickers. Among those detained were seven Chinese citizens. An Italian officer in charge of the operation suggested to Reuters, a news agency, that the amount handled by the alleged launderers was probably far greater than the police had managed to detect. Also that month, police in Italy and Spain arrested 78 people for alleged participation in a cannabis-trafficking network. Europol said the syndicate had involved people of several nationalities, including Albanians and Moroccans. Payments for drug shipments were handled by Chinese *feiqian* bankers.

In South-East Asia governments face "unprecedented challenges" from transnational organised crime, according to the UNODC. Ask Singapore, which has been rocked in recent months by its biggest money-laundering scandal. It has involved the seizure or freezing of more than $2bn held in bank accounts or as assets such as luxury properties, cars and gold. This month a court in Singapore sentenced two of ten Chinese citizens (some of them holding other passports as well) who were arrested in connection with the case. The pair have been given terms of 13 months and 14 months in prison. One forfeited assets worth more than $120m.

The UNODC says organised crime in the region has flourished thanks to "record levels" of the production of synthetic drugs in the "Golden Triangle" of Laos, Myanmar and Thailand. They have been served by fast-growing underground banking networks that use casinos, online betting platforms and cryptocurrencies to launder the traffickers' money. China's efforts to prevent its citizens' access to all of these (warning, for example, that visiting casinos abroad may be considered illegal by Chinese police) have not ended the problem. "It has never been easier to set up an online casino operation with limited technical expertise and overhead capital, irrespective of gambling laws within a given jurisdiction," the UNODC said.

Trending online

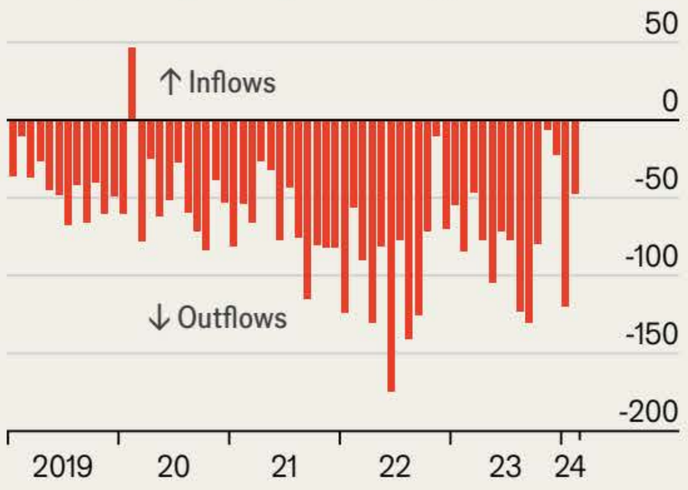
It is also easy to hook up with the Chinese brokers. Offers of their services abound on social media such as Facebook and WeChat. Underground bankers (often referred to online as *chedui*, or motorcades) use such internet platforms to recruit people as "money mules", as those who allow their bank accounts to be used for laundering are known. They often target Chinese students abroad, who may be attracted by commissions and unaware of the risks. In December Europol announced it had identified nearly 11,000 mules and 500 recruiters in 26 countries, leading to the arrest of more than 1,000 people around the world.

In 2022 China's police launched a three-year campaign against money-laundering that has so far brought more than 2,300 people to court. One case, announced in December, involved the arrest of 74 people in 17 provincial-level areas suspected of handling nearly 16bn yuan ($2.1bn) in *feiqian*-style deals. They allegedly moved money through more than 1,000 bank accounts, each with an average daily turnover of 3m yuan. This is the tip of the iceberg. America says more than $150bn in illicit proceeds moves through China annually.

China's agreement with America to liaise in the fight against money-laundering was announced by America's Treasury secretary, Janet Yellen, during a visit to Beijing earlier this month. Her country, she said, "cannot do it alone". She said weaknesses in regulatory regimes in China and other countries were helping criminal gangs involved in everything from human-trafficking to fraud. But even with the best will in the world it would be hard to control a problem so large, complex and easily hidden as money-laundering has become. For officials in two mutually wary countries that have little experience of joint law enforcement, it will be harder still. ■

Moving money around

China, net implied capital flows*, $bn



*Based on foreign-exchange reserves, trade balance and FDI
Sources: General Administration of Customs; Ministry of Commerce; PBoC; Wind; Haver Analytics; *The Economist*

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China and Iran

Friends, sorta

Unless its interests are served, China is unlikely to restrain Iran

EARLIER THIS year, when the Iranian-backed Houthi rebels in Yemen were attacking commercial ships in the Red Sea, America approached China for help. In talks with their Chinese counterparts, American officials reportedly asked them to urge Iran to rein in the Houthis. Months later, after Israel struck the Iranian consulate in Syria, America again approached its biggest rival. This time it was said to have asked China to tell Iran not to retaliate.

During crises like these China would seem a useful interlocutor. It has good relations with Iran. Last year it facilitated a deal to re-establish diplomatic ties between Iran and Saudi Arabia. It also allowed Iran to join its regional security group, the Shanghai Co-operation Organisation, as well as the BRICS, a bloc of big emerging economies. After the Iranian-Saudi rapprochement, China's top diplomat, Wang Yi, heralded a "wave of reconciliation" in the Middle East.

But beyond that agreement, it does not appear that China has much interest in holding Iran back for the sake of reconciliation. The Houthis did not stop their attacks, nor did Iran refrain from retaliating against Israel this month. It is unlikely that China put much pressure on Iran in either case. And even if it had, Iran may not have listened. There is less to their relationship than meets the eye. For China, the priority is advancing its own interests.

Three years ago China and Iran signed what appeared to be a sweeping 25-year co-operation agreement, said to involve $400bn in new Chinese investment in Iran. But China invested just $19.7m in Iran in 2022, compared with $279m in Israel. Iran sees China's trade and investment as "kind of insulting", says Jonathan Fulton of the Atlantic Council, a think-tank in Washington. Iran is awash in Chinese imports, but China buys relatively little from Iran apart from hydrocarbons.

In many ways the relationship is defined by oil. China buys roughly 90% of the black stuff produced by Iran, sidestepping American sanctions. It thus provides Iran with an economic lifeline. But China has its own economy in mind. Iranian oil is cheap and lets China diversify its energy supply. Its purchases hit a record high last autumn, but temporarily stalled in the winter when Iranian sellers raised prices.

China opposes American sanctions on most countries—and seeks to outsmart them. The oil imported from Iran is often relabelled as Malaysian and sold at a discount to small independent Chinese refineries known as "teapots". China's big state refiners steer clear of Iranian oil for fear of punishment by America. But the teapots are "highly opportunistic" and less exposed to America's financial system, says Erica Downs of Columbia University.

China's cynical approach extends beyond the oil trade. It may not have pressed the Houthis to stop attacking all commercial ships in the Red Sea, but it is said to have struck a deal to spare its own vessels.

And when Iran hit back against Israel this month, China was supportive. Officials in Beijing praised Iran's restraint and condemned Israel's aggression against Iran and in Gaza. "The main key to easing tensions in the Middle East lies in the US restraining Israel, not China 'reining in' Iran," said an editorial by the *Global Times*, a state-run tabloid. That argument is playing well in the region, says Ahmed Aboudouh of Chatham House, a think-tank in London. "America is declining in the Middle East in terms of influence because of the Gaza war. China is taking advantage of that," he says. "It wouldn't spend political capital to turn that around for the US." ■

Precious metals

Bean counting

BEIJING

Why China's young people are rushing to buy gold

CHINA'S GOLD market, which accounts for about a fifth of global sales, used to attract an older crowd. Many buyers were middle-aged women looking to add to their nest-eggs or buy chunky bracelets. But these days Chinese gold shops regularly serve customers in their 20s. Xiaohongshu, a social-media site favoured by "Generation Z" (those born between 1997 and 2012), is buzzing with talk of the precious metal.

Young people don't have much spare cash. The youth-unemployment rate in cities is about 15%. Many companies are cutting salaries. So youngsters are hoping to make the most of what little savings they have. But traditional investments aren't doing well. The stockmarket is slumping and house prices have fallen for ten months in a row.

The international price of gold, though, is soaring. It stood at $2,320 per ounce on April 24th, up 12% since the start of the year. Customers elsewhere are buying because of inflation fears (China doesn't have this problem) and geopolitical concerns. Another big reason for increased demand is China's central bank. It has been purchasing gold to diversify its holdings away from dollars amid tensions with America.

Most young people cannot afford to buy gold by the bar. So they are buying it by the bean instead. Weighing about a gram, the beans can be picked up for about 600 yuan ($80) from banks and jewellers. In videos on social media gold bugs shake glass piggy banks containing their collections. "The clitter-clatter fills me with a sense of accomplishment," says one. "I can save beans until I retire."

Gold jewellery is also increasingly popular as a luxury good that, unlike handbags or shoes, might increase in value. "You feel like you're spending money without spending money," one enthusiast told local media. Young women are snapping up "China chic" designs, which feature national symbols, says a salesman in Beijing. Some companies have started embossing their products with Japanese cartoon characters that were popular in the 1990s.

Inexperienced gold bugs, though, are easy to take advantage of. Many young people complain that their beans have been adulterated with other metals or shaved to weigh less than advertised. Buyers should blowtorch their gold to check its purity, say online influencers. Just be careful not to melt your savings.



Itty-bitty bling

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CHAGUAN
China firms up ties with Russia

Our columnist visits a future Russian outpost in China's most advanced spaceport



CHINA'S FIRST tropical spaceport, Wenchang, is proof of national swagger. During the cold war, China launched rockets from the Gobi desert and other desolate inland spots, for fear of enemy attack. Once China was more confident that it could deter invaders, though, Wenchang became a fine gateway to space. This close to the equator, on the southern island of Hainan, the Earth's rotation gives a boost to every launch. The palm-fringed coastal site allows the largest Long March rockets to be delivered by sea. Wenchang finally opened in 2016. Its well-guarded launch areas are flanked by a science-education centre (closed to foreign visitors), replicas of rockets, statues of flag-waving astronauts and other tourist kitsch, like a Communist Party homage to Florida.

Here, in this showcase for Chinese technology, a privileged foreign friend—Russia—is being given a precious piece of real estate. Moscow Power Engineering Institute, a large Russian technical university, has been invited to open a branch in Wenchang with room for 10,000 students of aerospace engineering and science. Russian and Chinese scholars and officials held a ground-breaking ceremony in January. Though the 40-hectare campus is bare earth for now, Chinese media have already announced that, unusually, the Hainan institute will be a Russian-led academy, rather than a joint venture with a Chinese university.

Russia's outpost in Wenchang will be next to a vast, partly built space-technology park. On a muggy weekday a forest of cranes rises above future laboratories, a satellite-assembly shed and a radar receiving station. The prime site is evidence that Sino-Russian space co-operation, long held back by mutual suspicion between the countries, is surging ahead.

Examples abound in a study published last year by the China Aerospace Studies Institute, a research arm of the US Air Force. The study details Russia's growing willingness to help China build missile-warning and defence systems, and to sell it advanced rocket engines, overcoming qualms about China selling Russian technology to others. It describes Chinese and Russian agreements to link up their respective satellite-navigation systems, Beidou and Glonass. The two countries have pledged to build a joint base on the Moon and to work together on detecting space debris—a technology also useful for tracking an adversary's satellites. The study quotes Xi Jinping, China's supreme leader, linking technical co-operation with Russia to plans for "the reform of the global governance system" (ie, pushing America from centre stage).

The study describes why the countries have moved closer. China wants to harness Russia's decades of expertise in space. Russia's space programme needs China's money. It has also wanted access to Chinese components ever since Vladimir Putin invaded Crimea in 2014 and Russia was hit by Western sanctions. Mr Putin's all-out war on Ukraine, launched in 2022, has caused ties between China and Russia to grow even deeper. Ordinary Chinese citizens are noticing, including in sleepy Wenchang.

Zhao Chenxi is head of the Russian department at the Hainan College of Foreign Studies, a vocational school in Wenchang. It is a far humbler institution than the Russian-run campus due in her city. But the Moscow school's opening should make her Russian-language pupils "more confident about their future careers", she says. She may be right. Chaguan met students in a Russian culture class who described Russia as a land of opportunity. Several plan to transfer to Altai State University in Western Siberia. One of them is a 20-year-old surnamed Gao. He calls Mr Putin "very imperious" and the person he admires the most after Xi Jinping.

There are parallels between space co-operation and China's broader support for Russia. Western sanctions after the Crimea invasion pushed Russia's space industry to overcome its doubts about China. Today American officials accuse Chinese firms of supplying microelectronics, drone engines and machine tools that Russia's defence industry uses to make missiles, tanks and aircraft for the war against Ukraine. Those dual-use items undermine Western sanctions meant to starve Russia of weaponry. Imposing sanctions was a rational strategy. Yet they have pushed Russia into China's arms. Russia sends discounted oil and gas eastwards, and imports Chinese electronics, cars and more.

A partner against the West

Even before Antony Blinken, America's secretary of state, landed in China on April 24th for a brief visit, the Biden administration and China's government were arguing, publicly, about commercial sales to Russia that prop up Mr Putin's war machine. With President Joe Biden and his team imposing ever-higher tariffs on Chinese goods and ever-stricter bans on sensitive high-tech exports to China, they cannot credibly use promises of access to American markets to change Chinese behaviour. Instead Team Biden is taking a twin-track approach. First come threats of American sanctions on Chinese banks that finance sales to Russia's defence industry. Next, suggestions that Europe's more open markets may start to close if Chinese firms help Russia to attack Ukraine.

American sanctions are a powerful threat: banks cut off from the dollar lose access to most international markets. It is less clear that China really believes it is risking the loss of European markets. When Germany's chancellor, Olaf Scholz, met Mr Xi in Beijing on April 16th, he raised the issue of dual-use items sold to Russia. China's leader gave no detectable ground on Ukraine.

For years American and Western politicians have taken comfort in the notion that China and Russia were in an unequal, unstable "marriage of convenience" that suited neither very well. Mutual distrust did constrain ties. But look carefully, including in far-off spots like Wenchang, and Sino-Russian interests are aligning in ways that may prove enduring. ■

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United States



Free speech on campus

A clumsy college crackdown backfires

NEW YORK AND WASHINGTON, DC

Police intervention at Columbia has provoked protests at other universities

PART OF THE reason Elisha "Lishi" Baker wanted to go to Columbia University, an Ivy League university in New York, was its Middle Eastern History programme. He loved his first year and says he "felt great as a Jewish student at Columbia". But since the Hamas attacks on Israel on October 7th, the atmosphere on campus has changed. Within days there were protests. He heard students calling for an intifada. He kept being told: "You're interpreting it wrong", but this week there was no misinterpreting, he says, the undercurrent of antisemitism on campus. "We're coming for you," other Jewish students say they were told: "Get off our campus."

University presidents are struggling with policing free speech on campus: how to deal with pro-Palestinian protests? Having seen the heads of Harvard and the University of Pennsylvania being forced to step down after their timid responses, they are trying a tougher approach. They are in danger of over-correcting.

The trigger for the latest troubles was the clearing by police of tents and protesters at Columbia on April 18th, and the arrest of more than a hundred students. This was an "alarming decision", wrote Jameel Jaffer, from the university's free-speech centre, adding that "it was not evident to us how the encampment and protest posed such a danger" as to justify the escalation. According to the New York Police Department (NYPD), the arrested protesters were peaceful and offered no resistance. "It was so scary," says Layla Saliba, who saw the arrests. "All these cops just swarming everywhere and we had people in like full riot gear." Within days another encampment sprang up on a nearby lawn.

In a letter posted on Columbia's website Minouche Shafik, Columbia's president, wrote that she asked the NYPD to intervene after other efforts failed: she did so "out of an abundance of concern for the safety of Columbia's campus". The move only inflamed matters. "The irony is that in trying to quiet things down and assert control over the encampment, the administration unleashed this firestorm," says David Pozen, a law professor at the university.

That firestorm spread, with tent encampments popping up far beyond Columbia. The demands by student protesters are largely the same: divest endowments from Israeli firms and any weapons manufacturers that sell there; end academic partnerships with Israeli institutions; and condemn Israel's actions in the war.

As at Columbia, administrators elsewhere are overcoming their reluctance to call the cops. On April 22nd nearly 50 protesters were charged with trespassing for taking part in a week-long occupation of a plaza at Yale (protesters returned the next day). At New York University police broke up a copycat encampment, arresting more than 130. At the University of Texas dozens were arrested after state troopers in riot

→ ALSO IN THIS SECTION

27 The centre holds
28 What the FERC
29 Crime and politics
29 SCOTUS and abortion
30 The Trump trial
31 Lexington: Echoes of 1968

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gear swept through the campus. "These protesters belong in jail," Texas's governor, Greg Abbott, wrote on X. Police clashed with protesters as they attempted to clear the campus at the University of Southern California (USC).

Long before the debacle at Columbia, instances of disruptive behaviour had put administrators on edge. In February pro-Palestinian activists at UC Berkeley shattered a glass door leading to a lecture by an Israeli speaker. Weeks later others interrupted an event at the home of Erwin Chemerinsky, the dean of the law school.

Last year Columbia suspended two pressure groups, Students for Justice in Palestine and Jewish Voice for Peace, for organising unauthorised demonstrations. The New York Civil Liberties Union has sued over the move. Equally controversial was USC's decision to cancel the graduation speech of its pro-Palestinian valedictorian, who is Muslim; the school cited safety threats. USC has since cancelled all guest speakers at commencement.

Presiding over an American university was once a plum job; now it is a minefield. On April 17th Dr Shafik was the latest president to be grilled by the House Education Committee about antisemitism on campus. Unlike the presidents of Harvard and the University of Pennsylvania, who fumbled their appearances in December, Dr Shafik survived—for now. When asked the question that both Claudine Gay, at Harvard, and Elizabeth Magill, at Pennsylvania, had struggled with (whether calling for the genocide of Jews violated their university's code of conduct), she and her colleagues answered simply: "Yes, it does."

Critics say she has not defended free speech adequately. The university's rules, wrote Mr Jaffer, guarantee broad protection "even for speech that is objectionable or offensive to some listeners". In her own public letter, Dr Shafik insists: "we cannot have one group dictate terms and attempt to disrupt important milestones like graduation to advance their point of view."

Dr Shafik is not out of the woods. Donors are restive and politicians are circling: on April 24th the House speaker, Mike Johnson, visited Columbia and said calling in the National Guard should be an option. He told students who heckled him to "enjoy your free speech", and described Dr Shafik as "a very weak and inept leader". For her part, Dr Shafik touted progress in talks with student protesters, raising the possibility of an internal resolution.

At Columbia, life is now disrupted for the majority of students not taking part in protests. Classes have moved partially online. Helicopters circle above. The bullhorns from protesters outside the gates are so loud that students studying for the MCAT, an exam for medical school, cannot find a quiet spot for practice tests. ■

Congress

The centre holds

WASHINGTON, DC

Will the dramatic outbreak of bipartisanship last?

SOMETHING REMARKABLE just happened in American politics. Despite intense polarisation, a burst of bipartisanship has enabled Congress to pass vital legislation, over the objections of hardcore obstructionists in the House of Representatives. How was this possible?

The Republican Party began the 118th Congress holding the fifth-narrowest House majority in American history—and its most extreme members appeared firmly in control. Kevin McCarthy became speaker after a humiliating 15 rounds of voting. As a way to win the job, Mr McCarthy agreed to place hard-right members on the powerful Rules Committee, where they could routinely undermine the party's leaders. He also accepted a change that allowed a single member of Congress to call a vote on his ouster. The influence of the berserker caucus peaked when eight Republicans voted with the Democratic Party to remove Mr McCarthy from the speakership in October 2023.

However, the extremists have had stunningly little influence on policy, despite their formidable procedural power. The passage of legislation to aid Ukraine and other allies is only the latest example. President Joe Biden signed it into law on April 24th (along with a bipartisan move to ban TikTok unless it is sold by its Chinese owner—see Business section).

In the spring of 2023 Mr McCarthy negotiated a deal to modestly cut discretionary spending in exchange for an increase to America's borrowing limit. The House Freedom Caucus howled that the reductions were insufficient. Although 71 Republicans voted against the Fiscal Responsibility Act, the legislation still passed with help from Democrats. The insurgent wing of the Republican Party could only grumble as Mr McCarthy held on to his job.

But averting a government shutdown in September 2023 was a step too far. Mike Johnson, a Louisiana congressman, replaced Mr McCarthy after several weeks of chaos in the lower chamber. He kept the government funded with short-term spending bills, the sin for which Mr McCarthy was excommunicated, but Republicans were not eager to go through the ordeal of finding yet another speaker. Republican divisions undermined the party's bargaining power with the White House and the Democrat-controlled Senate, and Mr Johnson eventually passed a solution for the remainder of the fiscal year that bore a striking resemblance to what Mr McCarthy had negotiated a year before.

The hard right betrayed even greater legislative ineptitude in its fight against funding for Ukraine. Many conservatives demanded drastic changes to America's immigration system, and a group of senators negotiated what would have been the most restrictive immigration law in decades in exchange for nearly $100bn in funding for Ukraine, Israel and Taiwan. Republicans rejected the proposal because of pressure from Donald Trump, who sees the crisis on America's southern border as a political winner as he campaigns for a new stint in the White House.

Mr Johnson, who had voted against Uk- ▸▸



Johnson assembles a new coalition

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raine aid several times before taking the speaker's gavel, had a change of heart, swayed in part by intelligence briefings. The legislation he put to the House was remarkably similar to the Senate bill, though he broke it into several pieces. Whereas a majority of Republicans supported the debt-ceiling increase and the government-funding bills, most rejected the new aid for Ukraine. Ironically, many complained that nothing had been done to tackle America's porous border. Republican hardliners won virtually nothing they had sought in earlier negotiations, yet Congress still provided $61bn for Ukraine. Though shamefully late, it will make a big difference to Ukraine's war effort (see Briefing).

While the hard right was up in arms, Mr Trump stood by the speaker. "We have a majority of one, OK?" Mr Trump said in a radio interview on April 22nd. "It's not like he can go and do whatever he wants to do. I think he's a very good person."

For now Mr Johnson appears secure in his position. Marjorie Taylor Greene, an excitable congresswoman from Georgia, has threatened to oust him, but has yet to force the question. "The old maxim on Capitol Hill is that you vote when you have the votes," says Doug Heye, a former Republican leadership aide. "Clearly Marjorie Taylor Greene didn't have the votes."

A strong majority of House Republicans would back Mr Johnson, as they did Mr McCarthy, but the new speaker has also built goodwill with some Democrats. "For all its rank partisanship, the House right now is functionally and uneasily governed by a group of Republicans and Democrats," wrote Brendan Buck, a former aide to two Republican speakers.

Mr Johnson's shift on Ukraine does not mean Congress will take up much serious legislation for the remainder of this term, especially as the campaign season shrinks the legislative calendar. Expect some tweaks—Mr Johnson is considering changes to how "earmarks", which designate a specific recipient for certain spending, are made in funding bills, probably an attempt to shore up support with conservatives—but nothing as salient as the foreign-aid package. A serious effort to impeach Mr Biden is unlikely: even trying would alienate many of the Democrats implicitly helping Mr Johnson remain in power.

Will America's accidental speaker be leading House Republicans next year? Retaining the House won't be easy, and parties that lose their majorities tend to fire their leaders. The Republican Party will have to increase its majority to give Mr Johnson a chance, and the power of a Trump endorsement would depend largely on whether he wins the presidency. It doesn't help that House Republicans have a history of punishing their leaders for doing the right thing. ■

The energy transition

What the FERC

LOS ANGELES

The most important climate agency you've never heard of

THE CLEAN-ENERGY transition is doing wonders for energy nerds. Not because of any particular policy triumph, but because people beyond wonkdom are actually trying to understand what they are saying. Several times in the past two years "energy permitting", such as the approval of electricity-transmission lines, became one of the hottest legislative topics in America. Attempts at planning reform failed. But the nerds' moment in the sun is not over. Those newly captivated by provisional environmental-impact statements and land-use planning will soon turn their attention to the Federal Energy Regulatory Commission (FERC), an obscure, independent agency that regulates the interstate transmission of energy.

In 2022 Congress passed the Inflation Reduction Act (IRA), a climate law full of tax incentives for clean-energy infrastructure. President Joe Biden and Democrats won the support of Joe Manchin, a centrist senator for West Virginia, by promising that they would also seek to ease the cumbersome process of obtaining permits. It can take years for solar and wind farms to be approved, and even longer for interstate transmission lines. Speeding up planning is crucial. A study from Princeton University in 2023 found that America needs to expand electricity-transmission capacity 50% faster than its recent historical rate to reap the maximum decarbonisation benefits of the IRA.



Mission impossible?

One way to launch a building boom would be for Congress to grant FERC the power to permit interstate transmission lines as it does for natural-gas pipelines, which sail much quicker through planning processes. But progress there has stalled. Other good ideas are floating around. One bill, from John Hickenlooper, a Democratic senator for Colorado, would mandate that regions be able to transfer a certain amount of electricity between them. That could make it easier to move power around during extreme weather, reduce costs for consumers where energy is now scarce and help states meet their clean-energy-generation targets.

Yet progressive Democrats are wary of rushing projects through. And though Republicans have long favoured making permits easier to get, they would like to make it easier to build fossil-fuel infrastructure, too. The result is a stalemate. The lack of congressional action leaves agencies trying to speed things up themselves.

Enter FERC. The next few months could determine how effective the commission will prove to be for the foreseeable future, for two reasons.

First, a final rule is set to be released on May 13th that could require transmission developers to plan 20 years into the future and that works out who should pay for new interstate lines. The transmission-opposition-complex is waiting. Environmentalists and NIMBYs are suspicious of how such projects mar the landscape, and often sue to delay them. Many utilities are local monopolies, and building interstate transmission could introduce competition from power generators beyond their regions. "It's all about the control they have over where our power comes from, and transmission can disrupt that control," says Ari Peskoe, director of the Electricity Law Initiative at Harvard University.

Politics also threatens to get in the way. After FERC initially released its rule in 2022, 17 Republican attorneys-general argued that the commission wants to inflict renewable energy on states that resist it via new transmission lines, and that it does not have authority from Congress to do so. The Supreme Court may be amenable to this argument. In *West Virginia v Environmental Protection Agency*, in 2022, the court used the "major questions doctrine" to ▸▸

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strike down an EPA rule regulating greenhouse-gas emissions on similar grounds. It will also take time for transmission operators to comply with the new rule. Mr Peskoe reckons that compliance and legal challenges could delay the rule's implementation by several years.

The second factor that will affect FERC's power to change the energy landscape is the commission's size: it is shrinking. It is supposed to be made up of five members nominated by the president and confirmed by the Senate. But Mr Manchin blocked the renomination of the commission's chairman in 2022, another member's term expired last year and a third commissioner is scheduled to leave in June. If FERC goes down to two commissioners then it loses a quorum, notes Caitlin Marquis of Advanced Energy United, a clean-energy lobby group. In that case, "they can't function as a decision-making body," she adds.

In February Mr Biden announced three nominees who would bring the commission back to full strength—provided that they are indeed confirmed. Their nominations appear uncontroversial so far, but America's toxic politics have made even energy nerds superstitious. The common refrain from the cognoscenti when contemplating the nominees' prospects is: "I don't want to jinx it." ■

Less deadly

US cities, homicides, % change on a year earlier
Jan 1st-Apr 22nd 2024*



Sources: AH Datalytics; Census Bureau
*Or latest available
†Cities with at least 250,000 people

Crime and politics

Back to square one

CHICAGO

Will Joe Biden benefit from falling murder rates across America?

FEW POLITICIANS talk about violence as much as Donald Trump. In early April, when the former president held his first rally since wrapping up the Republican nomination in Grand Rapids, Michigan, he came onto the stage flanked by uniformed sheriffs. America, he argued, is being overwhelmed by murderous foreigners deliberately sent by hostile governments seeking to empty their prisons at home. Gang members, Mr Trump claimed, are "hiding in bushes, actually, they say". Overall, he argued, crime rates are "only going in one direction and it's going to be very bad".

Unfortunately for Mr Trump, but happily for most Americans, what data there are suggest that most crime is indeed only going in one direction—down. In March the FBI released (partial) national data showing that violent crime of all sorts dropped in cities, suburbs and rural areas alike in the final quarter of 2023. That confirmed what city-level data were already indicating by the middle of last year: that the wave of violence that started almost everywhere across America in the summer of 2020 (when Mr Trump was still president) had crested in most places in 2022. Murder, both the most damaging and the most reliably counted of all crimes, is now heading back towards pre-pandemic levels.

Last year, according to data published by the Major Cities Chiefs Association, which represents police chiefs in the United States and Canada, in the 69 American police departments covered, the total number of murders declined by roughly 10%. More recent data gathered from police departments by AH Datalytics, a private analysis firm, suggest that the total has continued to drop so far this year (see chart). In some big cities, such as Boston, Philadelphia and Baltimore, the size of the falls has been especially striking. The firm's figures also suggest that even the flood of car theft that swelled last year may have begun to ebb slightly.

Explaining why crime falls or rises is tricky. The best explanation for this fall, says Jeff Asher, of AH Datalytics, is simply the end of the pandemic. Most murders in America are the result of arguments that escalate to gunfights, typically between young men. When the virus was spreading, schools and other public services closed, and so more youngsters were pushed onto the streets. Higher levels of stress may have led to more arguments. Now things are somewhat back to normal. Added to that are a few policy changes. For example, many cities have invested plentiful federal money in "violence interrupters" who try to identify and de-escalate fights before they turn into shootings.

Will lower crime help Joe Biden win re-election? Certainly, it is better than the opposite. But the gains are likely to be limited. Polling suggests much of the public thinks crime is still rising. One of the bigger problems Mr Biden has is that police officers are generally conservative, and many are backing Mr Trump, who they think will let them continue to do their job the way they always have.

In the past few years, Republicans in general have enthusiastically hugged cops. For example, earlier this month Florida's governor, Ron DeSantis, signed a law that criminalises "harassment" of police officers and bans civilians from "carrying out extra-judicial investigations against law enforcement". Mr Biden, by contrast, is at least rhetorically committed to police reform. "It is a bit of a danger zone" for the president, says Neil Gross, a professor at Colby College in Maine.

The irony is that Mr Trump's approach seems more likely to generate crime. Under Mr Biden trust in the police has risen among Democrats. When police are trusted, crimes are solved, and crime rates tend to fall. When trust is destroyed—by, say, a police killing—crime rises.

Among the places that saw a rise in the murder rate last year was Memphis, Tennessee. That city was shaken up last January when a young, unarmed and innocent man, Tyre Nichols, was brutally beaten to death by plainclothes officers from a "tactical squad" who had stopped his car. Murders in Memphis have edged down this year. But last month Republicans in the state overturned a city-level ordinance intended to end such unwarranted stops. If Mr Trump wins the election, he may get more violence to talk about. ■

Abortion

Termination disputation

SAN DIEGO

In its latest abortion case the Supreme Court seems to back Idaho's restrictions

IN 2022, FIVE Supreme Court justices wrote that they were returning the issue of abortion to "legislative bodies". Two years on, that sounds like wishful thinking: the court finds itself right back in the middle of America's abortion battle. A month ago the issue was access to abortion pills—a fight opponents of abortion seem destined to lose. On April 24th the question was whether state bans that criminalise terminations are trumped by a federal law concerning emergency care.

The Emergency Medical Treatment and Labour Act (EMTALA), passed in 1986, requires hospitals receiving federal funding to offer "stabilising treatment" to people showing up in their emergency rooms (ERs). In 2022 the Biden administration notified hospitals that this duty includes offering abortion when a woman's pregnancy poses immediate risks to her health. But a law passed that year—the Idaho Defence of Life Act—prohibits abortion except in cases of rape or incest, or when "necessary

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to prevent the death of the pregnant woman". *Moyle v United States* concerns cases where a woman's health is at imminent risk but she is not at death's door.

Joshua Turner, defending Idaho's statute, faced a barrage from the three liberal justices. Idaho's law explicitly recognises abortion as the standard of medical care when a woman's "life is in peril", Justice Elana Kagan noted. So can't EMTALA extend that same standard to cases when her "health is in peril" and she could "lose her reproductive organs"? Well, Mr Turner said, that raises "tough medical questions that implicate deeply theological and moral questions" that states should answer. "That would be a good response if federal law did not take a position on what you characterise as a tough question," Justice Kagan retorted. But EMTALA "says that you don't have to wait until the person is on the verge of death".

Justice Sonia Sotomayor cited the case of "a real woman" in Florida who was sent home from hospital despite doctors believing she needed an abortion to avoid sepsis and uncontrolled haemorrhage. Doctors "refused to treat her because they couldn't say she would die." She later returned to the hospital, after bleeding at home and passing out, and an abortion saved her life. Would Idaho's law require a woman to endure a similar experience? Mr Turner could not give a clear answer. Justice Ketanji Brown Jackson walked Mr Turner through a discourse on the constitution's Supremacy Clause, which states that "what the federal government says takes precedence".

The court's conservative justices largely steered clear of questions of women's reproductive health. But they voiced three lines of attack on the Biden administration's position, suggesting that their sympathies lay with Idaho.

Justices Samuel Alito, Amy Coney Barrett, Neil Gorsuch and Clarence Thomas all noted that EMTALA was enacted under the constitution's Spending Clause and probed whether it was proper for the government to withhold Medicare funds unless emergency abortions are provided. Mr Turner argued that such conditions must be "clear and unambiguous" in the statute itself. Elizabeth Prelogar, the solicitor-general, suggested that the court should not consider this argument as the lower courts "did not address" it. Conservative justices raised the question of conscience exemptions—whether doctors who object to abortion would have to follow a federal mandate. But Ms Prelogar insisted that "individual doctors are never required to perform an abortion".

One objection to the Biden administration's position seemed to gain more traction: the worry that adding a health exception via EMTALA would invite a host of elective abortions via mental-health claims. Ms Prelogar strove to allay concerns: it would be "incredibly unethical" to treat a woman who comes to the ER "with some grave mental-health emergency" by terminating her pregnancy, she said.

Mary Ziegler, a law professor at the University of California, Davis, said that, though it "seems like Idaho will prevail", there is "a lot of ambiguity" about how the justices will justify such a ruling, as all of the pathways explored in the hearing are murky. By contrast, perhaps the starkest moment in the hearing was Justice Kagan's observation that six women have been airlifted out of state from one Idaho hospital since the law went into effect. "It can't be the right standard of care", she said, "to force somebody into a helicopter." ■



Seeing red

Courtroom dispatch

Spoiler alert

NEW YORK

Opening tales in the Trump trial

EVERY TRIAL involves two struggles, wrote Janet Malcolm, a shrewd observer of the American courtroom. One is engrossing, the other is stultifying, and both have been on full display at Donald Trump's trial in a Manhattan courtroom in this past week.

The first contest—the exciting one—is about the narrative itself. Who can tell it better: prosecutors or the defence? The charges against Mr Trump are minor: they concern whether he falsified business records to conceal a payment to a porn star so that she would keep quiet about an old tryst. As a story, that lacks gravitas. So prosecutors, keen to inflate their case, claim it is really about "election fraud, pure and simple", since the payment came on the eve of the 2016 presidential vote and denied information to voters. "Spoiler alert," retorted Todd Blanche, Mr Trump's lawyer. There was "nothing illegal" about the hush money; trying to influence an election is "called democracy".

First to testify was David Pecker, a former tabloid publisher and friend of Mr Trump who helped orchestrate the payment. During the campaign he bought stories from sources intent on embarrassing the candidate, though he had no intention of running them. "Chequebook journalism", Mr Pecker called this. Cue raised eyebrows from every journalist in the room.

So far, so engrossing. Yet your correspondent would be fibbing if he said the second contest described by Malcolm had not played out in court, too. She called this the "struggle of narrative itself against the constraints of the rules of evidence, which seek to arrest its flow and blunt its force". In other words, trials get tedious. Interruptions about procedure are constant. Objections, sidebars, the need to run to the toilet and ruminations about what to eat for lunch spoil the story that each side wants to tell.

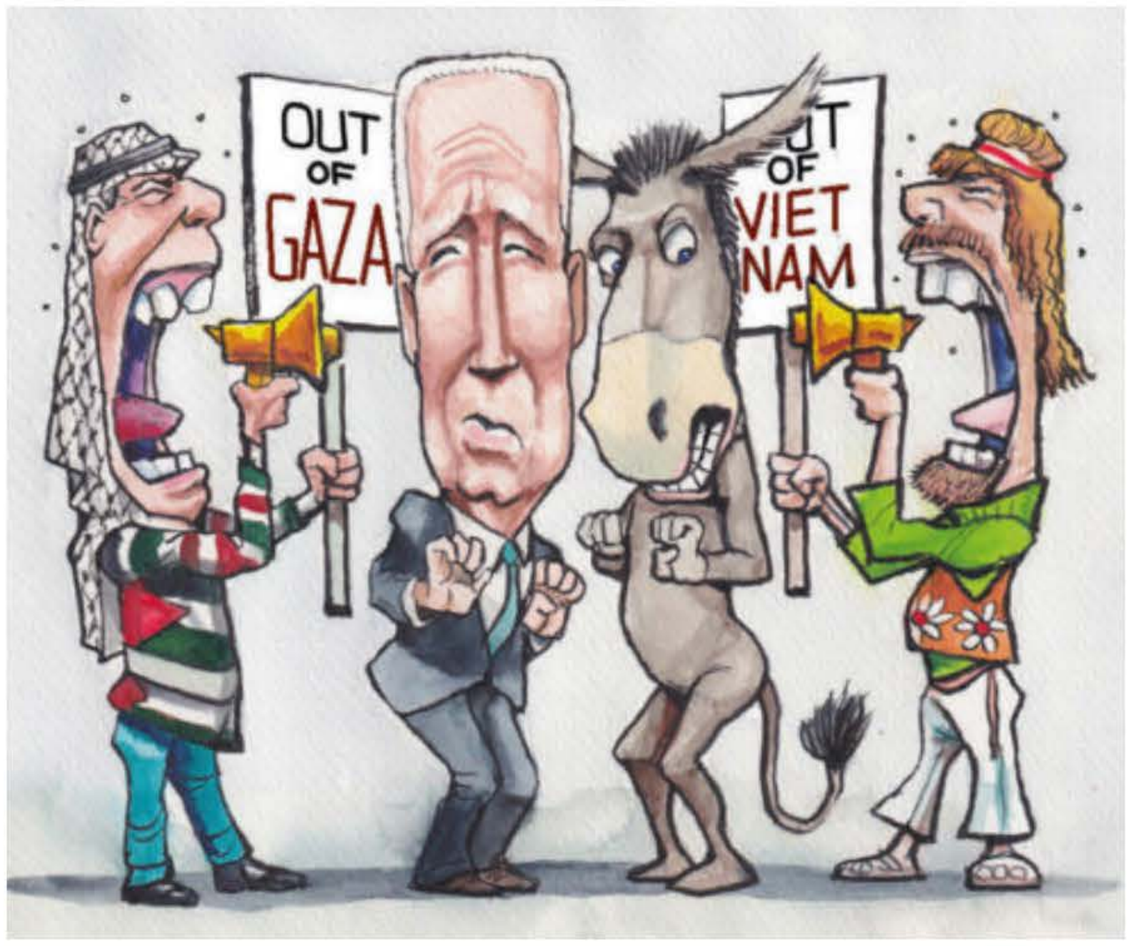
Everyone feels it—even the person with most at stake. Sure enough, towards the end of the trial's fifth day, there sat Mr Trump: twirling a pen and looking immensely bored. And the former president can look forward to about six more weeks of this.

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LEXINGTON

The campus is coming for Joe Biden

As in 1968, the Democrat risks being the candidate of chaos and war



A CONNOISSEUR OF radical chic can find plenty to catalogue these days while observing pro-Palestine protests on Ivy League campuses: the black or red *keffiyehs*, the conga drums, the folk songs, the kitschy signs ("Dykes 4 Divestment") and the showy Arabic pronunciations of "Gaza", so reminiscent of the Spanish-ish inflection given to "Nicaragua" by pro-Sandinista activists back in the 1980s.

And then there are the dainty intersectional gestures of the protesters: "We recognise our role as visitors and, for many of us, colonisers, on this land," reads the third of nine "community guidelines" scrawled on a whiteboard in the "Gaza Solidarity Encampment", the bivouac of domed tents on Columbia University's south lawn. Not only was the land once inhabited by native Americans, but Columbia was guilty of "complicity in the displacement of the Black and Brown Harlem community".

But such emblems of political taste are superficial. They might mislead the observer about the anger of many protesters, about how deeply it is felt and how deeply it is dividing universities, pitting some Arab-American students and their allies against some Jewish students and theirs. At elite institutions, years of uneven application of speech codes, of unequal attention to those offended by speech, have left students, alumni, faculty and even presidents seeming uncertain what the rules are and how to enforce them. This has doomed them to fighting about how to fight about what they are fighting about. At Columbia, a decision by the president, Minouche Shafik, to get New York City police to break up a previous encampment on April 18th, arresting more than 100 students, has touched off a faculty revolt.

On April 22nd faculty gathered on the granite steps of Low Memorial Library, the main administrative building, to demand an apology and amnesty for the students. One speaker, Christopher Brown, a professor of history, accused Dr Shafik of endangering the students and of failing to defend Columbia's excellence in testimony to a House committee the day before the police raid. "She has forfeited the privilege to lead this great university," Professor Brown declared, to raucous cheers and a chant of "Resign!" from hundreds of students. The university says it is negotiating with students over the new encampment, even as workers set up chairs nearby for next month's commencement.

All this outrage is closing in on another institution, the Democratic Party, and its leader, President Joe Biden. The touchstone for the Columbia protesters is the struggle on that campus in April 1968 for racial justice and against the Vietnam war, which culminated in a police crackdown and more than 700 arrests. For Democrats nationally, 1968 is also becoming a touchstone, an ominous one. The campus protests that year found a focus in the Democratic National Convention in August in Chicago, where the party plans to convene in the same month this year.

In 1968 pro- and anti-war delegates shouted and bickered over Vietnam. In the end the Democrats voted down an anti-war plank and nominated Hubert Humphrey, a Minnesota liberal who, as Lyndon Johnson's vice-president, was tarred as pro-war. A national television audience watched in horror as Chicago police attacked protesters outside the delegates' hotel with tear gas and clubs. More than 650 protesters were arrested and scores were hurt, as were many police officers.

Any chaos in Chicago would be bad for Mr Biden, who is running, as in 2020, as the candidate of normality. But the drama will almost certainly not be as intense as in 1968. Pro-Palestine groups want to rewrite the party's plank on Israel, yet such fights no longer play out on convention floors. Mr Biden's aides will control the platform, as they will the script of the convention, now just a particularly dull TV show. As in 1968, Chicago is being stingy with permits to protest, but the police superintendent, Larry Snelling, has said the department is preparing to respond to "large-scale First Amendment activity" with "constitutional policing". Many of the superficial parallels to 1968 will probably prove to be just that.

Still, "There is a parallel that's unavoidable," says Bill Ayers, who as a leader of Students for a Democratic Society was beaten and arrested in Chicago in 1968. "And that is that Hubert Humphrey, the great liberal from the Midwest, tried way too late to extract himself from being a cheerleader for Vietnam." Dogged by anti-war protesters, Humphrey struggled to unite Democrats and ultimately lost narrowly to Richard Nixon. "Irony of history," Dr Ayers says. "How could Richard Nixon be elected as a peace candidate? Here's a great anti-communist warmongering prick." Though as president Nixon would intensify the war, he claimed as a candidate to have a "secret plan" to end it. Donald Trump has said he would end the Ukraine war in a day and, referring to the war in Gaza, has told Israel to "get it over with".

They're more like guidelines, anyway

Maybe Mr Biden will succeed in brokering a ceasefire in Gaza, and the anger will dissipate. Maybe the protesters chanting today against "Genocide Joe" will nevertheless show up to vote for him. Dr Ayers, who went on to help found the militant Weather Underground and spent years as a fugitive, pulled the lever for Humphrey. "I always vote for the lesser of two evils," he says, "because they're less evil." He argues that voting is a practical rather than moral act, words other activists might take to heart.

The more thoughtful of Columbia's activists, by the way, may also have something to teach everyone else, on campus and off. "We commit to assuming best intentions, granting ourselves and others grace when mistakes are made," reads the eighth community guideline in the Gaza Solidarity Encampment, "and approaching conflict with the goal of addressing and repairing." ■

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The Americas



Public health

Dengue disaster

BUENOS AIRES

Cases of dengue have been rising for years in Latin America, driven by a warming climate. Now the disease is surging

FOR THE second time in five years, Brazil's army is building field hospitals in the capital, Brasília. The tents are accommodating a surge of patients from swamped emergency departments, as millions of Brazilians succumb to dengue fever that is spreading across the country. As with covid-19, the last disease to prompt the construction of field hospitals, many dengue infections are asymptomatic. The one-in-four people who do fall ill can suffer for several weeks with a painful condition known as break-bone fever. Unlike covid-19, the virus causing this wave of illness is carried by mosquitoes. As the climate warms, their range is expanding and the number of people they infect is increasing (see charts on next page).

Brasilía is a hotspot, but dengue is spiking across Brazil and Latin America. In 2023 the region hosted 80% of the world's confirmed dengue cases, according to the UN's World Health Organisation. Brazil's health ministry reckons that 3.8m people caught dengue in the country between the start of the year and April 23rd, about 1.7% of the population. Dengue is already spreading in Mexico and Central America too, places which do not usually see many cases until much later in the year.

The disease is even showing up in countries which have never previously been seriously affected, like Uruguay and Chile. Overall Latin America has seen three times as many cases this year as it did through the same period of 2023, itself a record-breaking year. The long-run trend is bad, too. Every year between 2000 and 2005 saw an average of 535,000 cases, according to the Pan American Health Organisation, another arm of the UN. In 2023 there were 4.5m. There have already been 5.9m cases in 2024.

People catch dengue when bitten by a female mosquito of the *Aedes* genus which is carrying a flavivirus pathogen. Around 5% of victims need hospital treatment. Some develop a form of the disease called dengue hemorrhagic fever, which can be fatal. At least 40,000 people die from it every year worldwide, a number that has doubled in the past two decades. Risk increases with each subsequent bout of dengue. The virus has four strains. While you cannot catch the same one twice, you can be reinfected with one of the other three.

Climate change explains much of this year's jump in dengue cases and the long-term increase in the disease over the past two decades. There are ever fewer places where temperatures drop below 15°C in winter, the level at which mosquitoes tend to die out, so there are more virus-carrying insects in circulation, ready to surge, once temperatures rise in the spring. Recent changes in a Pacific-ocean weather system called El Niño have raised temperatures even more across the region, meaning that more of Latin America is experiencing the kind of tropical weather that suits *Aedes*.

Emitting gases which raise the planet's temperature is not the only way that human behaviour is contributing to the rise in cases. Urbanisation trends are boosting the disease too, because densely populated areas offer a given mosquito more victims during its lifetime. Latin America's shantytowns are breeding grounds for mosquitoes because of the abundance of standing water, where the insects lay their eggs. Most houses have flat roofs, where water can make pools. Residents who lack basic plumbing often store water in open

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tanks. Patchy refuse-collection services leave piles of uncollected rubbish which also serve as a mosquito mecca.

Panic is making a bad situation worse. Videos of mosquito swarms in Buenos Aires went viral in February, prompting consumers to stockpile insect repellent. Supermarkets and chemists in Argentina have been sold out for weeks. Shelves are bare in Brazil, too, and it is unclear when new supplies will arrive. Retailers in Uruguay are also reporting panic buying. Venezuela's president, Nicolás Maduro, has charitably offered to help restock Argentina, not missing a chance to lambast the newly elected president, Javier Milei, whom he accuses of spectacularly mishandling the epidemic.

Dengue kills a small proportion of those it infects; the case fatality rate sits near 0.03%. But the virus is stretching already struggling public-health services and hampering economic output. The Federation of Industries, a manufacturing trade body based in Minas Gerais state in Brazil, reckons the combination of extra health spending and lost productivity through workers off sick thanks to *Aedes* will cost Brazil's economy 0.2% of GDP this year. When growth is already fairly feeble, that is quite a knock.

The suffering now

Governments have few short-term fixes available. Their efforts focus mainly on preventing mosquitoes from spreading. In badly affected areas, public-health workers are sent out with masks, white boiler suits and fumigation nozzles to spray insecticide where mosquitoes may lurk.

Public education also plays a role. Posters plastered across cities urge residents to empty containers that hold standing water, such as plant pots and buckets. In some Peruvian municipalities the authorities have prohibited putting saucers of water in graveyards. Mourners are tactfully advised to consider laying artificial flowers rather than real ones.

Part of the reason that dengue remains such a problem is that no useful vaccine has existed until now. A shot called Dengvaxia, manufactured by Sanofi Pasteur, a French pharmaceutical company, was first licensed in 2015. But it works only if recipients have had the virus before. For those who have not, it makes them more vulnerable to contracting dengue severely. Given that most infections are asymptomatic, and it is therefore hard to tell whether a recipient has had dengue before, it is too risky to roll out Dengvaxia en masse.

Second-generation vaccines look more promising. QDenga, produced by a Japanese firm, Takeda Pharmaceuticals, does not appear to have the same problems with secondary reactions as Dengvaxia does. QDenga seems to be effective across all four strains, though it is tricky to tell this for sure, as it is rare for all four to be circulating at the same time during trials. Brazil has snapped up available supplies, but the vaccine is new and is not currently being manufactured in large enough quantities to allow governments to buy in bulk.

QDenga is not the only new vaccine. The National Institutes of Health in the United States, Instituto Butantan (a public research institute in São Paulo) and Germany's Merck Group have developed a vaccine that is in the final phases of trials. But even assuming that it gets regulatory approval, it will not be available until 2025 at the earliest. Neither this vaccine nor QDenga will help curb the epidemic raging across Latin America.

Others pin their hopes on scientific trials of a different kind. Experiments to inject wolbachia (a type of bacteria found in some other insects) into *Aedes* eggs, before releasing these mosquitoes into the population, have found that it can reduce dengue significantly. Mosquitoes which hatch from those eggs struggle to pass the virus on. Studies indicate that transmission is reduced by 75%. The hope is that wolbachia-infected mosquitoes will eventually replace the population of regular, dengue-spreading ones, because females pass the bacteria on to their offspring, regardless of whether they mate with a wolbachia-carrying male or not. Pilot studies in Colombia and Brazil have been successful and programmes are starting to be rolled out more widely. Other countries are watching developments closely and will probably follow suit.

If that sounds too good to be true, it may well be. Tests have been run in cities but efficacy is probably weaker in rural areas, where dengue tends to be less acute. Trials have been successful across relatively small areas, but producing enough wolbachia-infected mosquitoes to have an impact across large swathes of Latin America will be a Herculean task. The required laboratory space vastly outstrips current capacity. Singapore, which has endemic dengue, has used wolbachia-release programmes to reduce case numbers; the authorities breed and release 5m mosquitoes every week. This is costly.

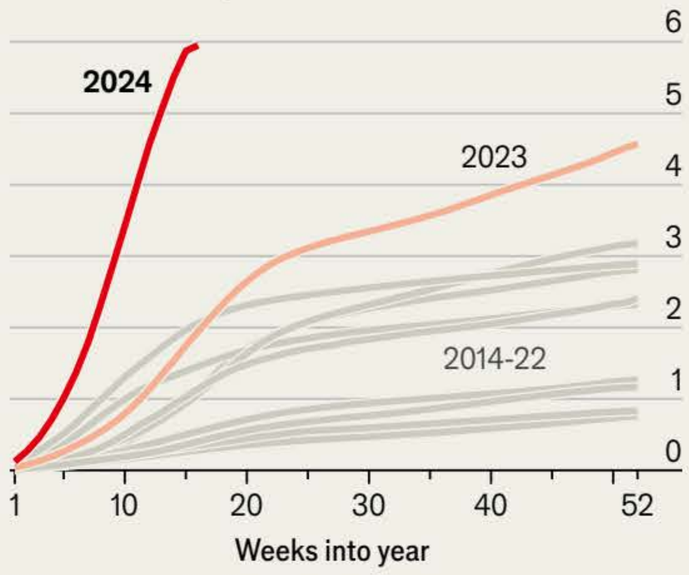
Don't be sloppy

Singapore offers other salutary lessons to Latin America. Professor Neil Ferguson of Imperial College in London calls the country's dengue-prevention efforts the world's "gold standard". Crucially, its approach is preventive rather than reactive. Surveillance and vector-control programmes run constantly, even when dengue is at a low ebb. Public-health officers traipse around houses and businesses, checking for receptacles that might collect water and imposing hefty fines on wrongdoers. Testing and reporting suspected cases happens quickly. Mosquito-collection devices known as Gravitraps are everywhere, gathering data on their distribution and density. The authorities feed all this information into forecasting models that provide an early warning of outbreaks. Copious amounts of insecticide-spraying then follow.

Latin America's challenge is that it is too poor to easily adopt the proactive approach. In response to a rapid growth of cases, governments give the impression that they are taking dengue seriously. Doctors are getting better training in diagnosing and treating the illness. Public awareness has begun to improve. Eventually a combination of vaccination and wolbachia programmes may make a dent. But before that happens, there is little evidence that the authorities have the tools to ease the current outbreak, or to nip future ones in the bud. The army should not be too quick to dismantle those field hospitals. They will be needed for some time to come. ■

The shape of things to come

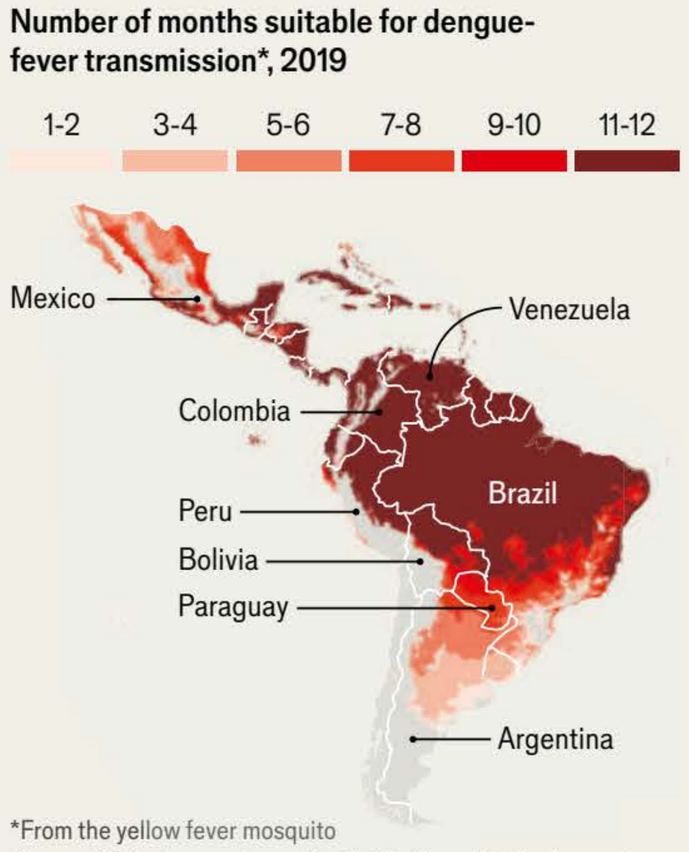
Latin America and the Caribbean, cumulative dengue cases*, m



*Including suspected, confirmed, ruled-out, severe cases & deaths
Source: PAHO

Aedesville

Number of months suitable for dengue-fever transmission*, 2019



*From the yellow fever mosquito
Source: "Global expansion and redistribution of *Aedes*-borne virus transmission risk with climate change", by S. Ryan et al., *PLoS*, 2019

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Mercado Libre's boss

The 70-billion-dollar choice

MONTEVIDEO

Argentina's richest man, Marcos Galperin, discusses Javier Milei, self-doubt and the dangers of wokery

EVEN BILLIONAIRES ponder the path not taken. At 17, Marcos Galperin had returned from a tour playing competitive rugby in Australia and New Zealand, two egg-chasing powerhouses, when he was offered a place at the University of Pennsylvania to study business. "I had to make a choice," recalls the 52-year-old founder of Mercado Libre, Latin America's dominant e-commerce and payments firm, from his office in Montevideo, Uruguay's capital. But old dreams die hard. "If I were to be born again I would definitely go for a sports career," says Mr Galperin. Still, being a billionaire has its compensations. Last year he bought the Miami Sharks, a rugby team in the United States.

Argentina's rugby team could have used a handy fly-half in the 1990s, but both Mr Galperin's home country and Latin America are much better off for his choice of business. It is hard to overstate Mercado Libre's impact. In a region of 670m people, the firm counted 218m active users last year. They buy and sell goods online, and use Mercado Pago, the firm's payments arm, to pay for everything from roadside snacks to football tickets. Mr Galperin is the mega-star of Latin America's technology scene. With a net worth of over $6bn he is one of the region's wealthiest men. Already powerful in business, he is increasingly outspoken on social media.

Mr Galperin was born into traditional Argentine wealth: a family-owned leather empire. Excited by the internet, he made the classic moves of an aspiring tech mogul, attending Stanford Business School and starting a business in a garage. That was in 1999. Today Mercado Libre has a market capitalisation of some $70bn, making it the second-most valuable publicly traded company in the region after Petrobras, a Brazilian oil giant. After battling sluggish service and frequent price rises from postal companies, Mercado Libre built its own vast delivery network, boasting planes and the continent's biggest fleet of electric vehicles. Mercado Pago processed payments worth $183bn last year and provides credit cards and loans to some 15m people, 60% of whom had never had a loan before, says Mr Galperin.

As a young man he had lashings of self-confidence. "To be honest, we thought we were going to get here much faster," he quips. Yet he also admits to having doubts about whether Mercado Libre would make it, and underlines luck as an element of his success. "All these years I had all this anxiety...You have your balance in the bank coming down every month. It's a horrible feeling." Breaking even in 2005 was not a moment of celebration, but of relief.

In keeping with this, in 2014 he complained about bosses using their firms as a route to fame. Mercado Libre was different, he said. "We want the company to be famous. The lower our personal profile, the better." This, however, has changed.

Today he is outspoken, particularly about Argentina, where his social-media posts regularly make waves. The Argentine economy is like a sports player who was once the best in the world, he says. "Now he's obese, a drug addict, has cancer, AIDS and is an alcoholic." Like many Argentines, Mr Galperin has been radicalised by years of economic chaos. In 2019 he called himself a Bill Clinton Democrat. Today he backs Argentina's president, Javier Milei, a self-described "anarcho-capitalist". When Mr Milei was elected in November, Mr Galperin posted a photo of doves breaking out of chains with one word: "Free."

Mr Milei has had an impressive start, he says, pointing to monthly budget surpluses, falling inflation and growing market confidence. "They took away the alcohol and drugs, but that's also very painful," he says, referring to the recession prompted by deep spending cuts. There is a long way to go: "The patient still has cancer and AIDS and is obese because for that to change you need to reform a lot of things." Despite this bleak analysis, Mr Galperin reckons the odds of Mr Milei succeeding at reforming the economy are improving.

Argentina's story shapes his other views, too. He is bullish about bitcoin, which can be bought and sold on Mercado Pago, because he claims it is a better store of value than dollars, euros or yen. "Coming from Argentina, I know what happens when you have permanent deficits: your currencies devalue," he says, skating over bitcoin's own gyrations.

His scepticism of government runs wider. "There is no innovation in Europe," he claims, blaming excessive regulation. He loves Israel, by contrast, because it shows "the triumph of capitalism". In Argentina too many people argue about capitalism rather than doing it, he suggests. And he frets about the influence of woke thinking, a prominent feature of Argentina's last Peronist government; he draws a straight line from wokery to socialism and dictatorship. "It all starts with a really nice speech about equality and it ends up in authoritarianism and poverty," he says.

Success is the best revenge

Mr Galperin is at his most strident on X, a social-media platform, where he tangles with public figures and random accounts, mocking critics with memes, kiss emojis and questions about whether they own shares in Mercado Libre. A secular Jew, he is vociferous in his support of Israel in its war in Gaza. He waves away the possibility that his outspokenness might pose a risk to Mercado Libre. Few outside Argentina care what he says, he argues, before insisting that he is in fact not that outspoken.

Mercado Libre is certainly booming. On April 17th it said it would hire another 18,000 people, taking its total workforce to 76,000. That is perhaps the most telling riposte to his leftist online critics. ■

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SPECIAL REPORT

India's economy

→ **APRIL 27TH 2024**

3 The next phase

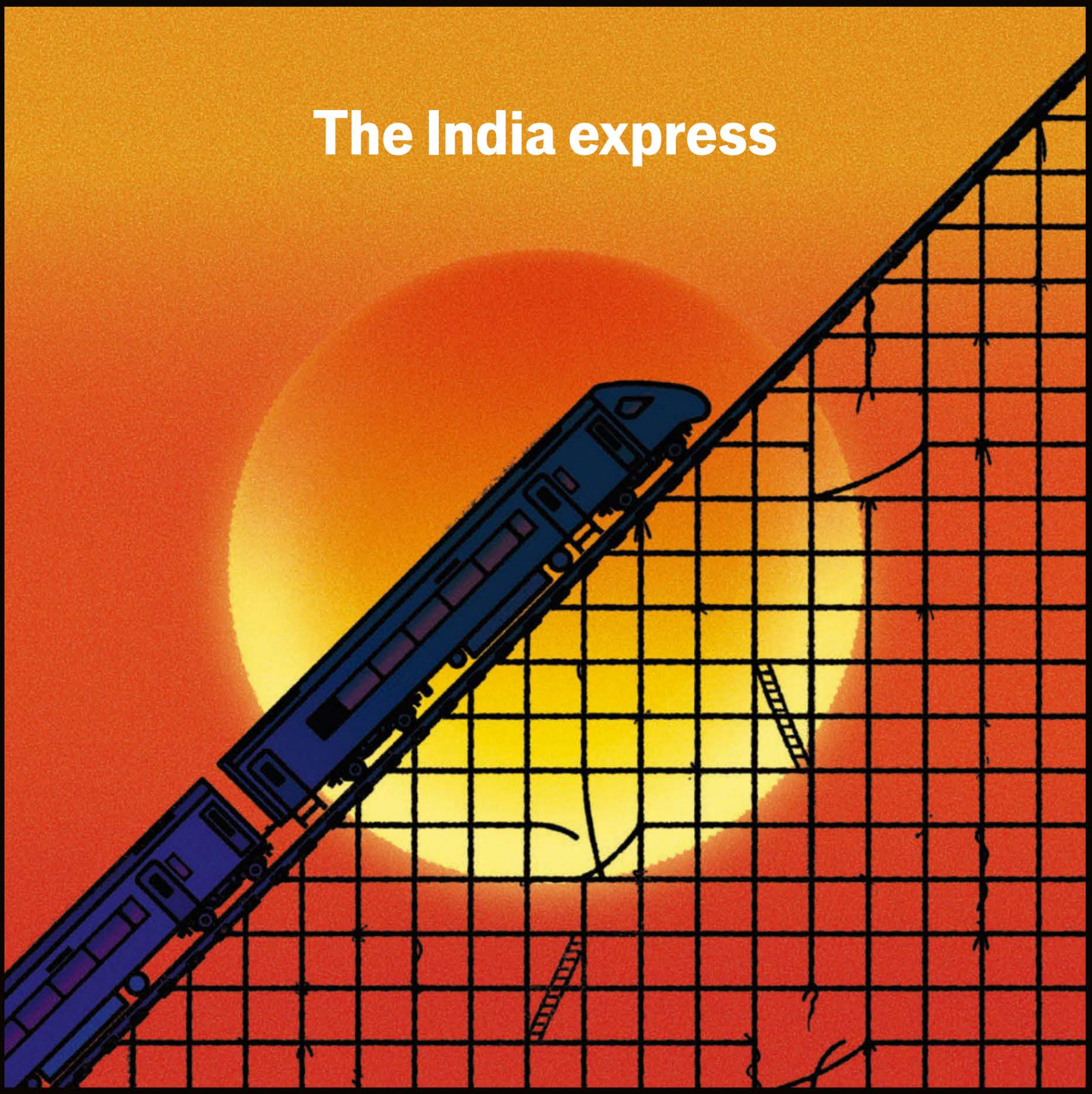
5 Financial markets

6 Doing business

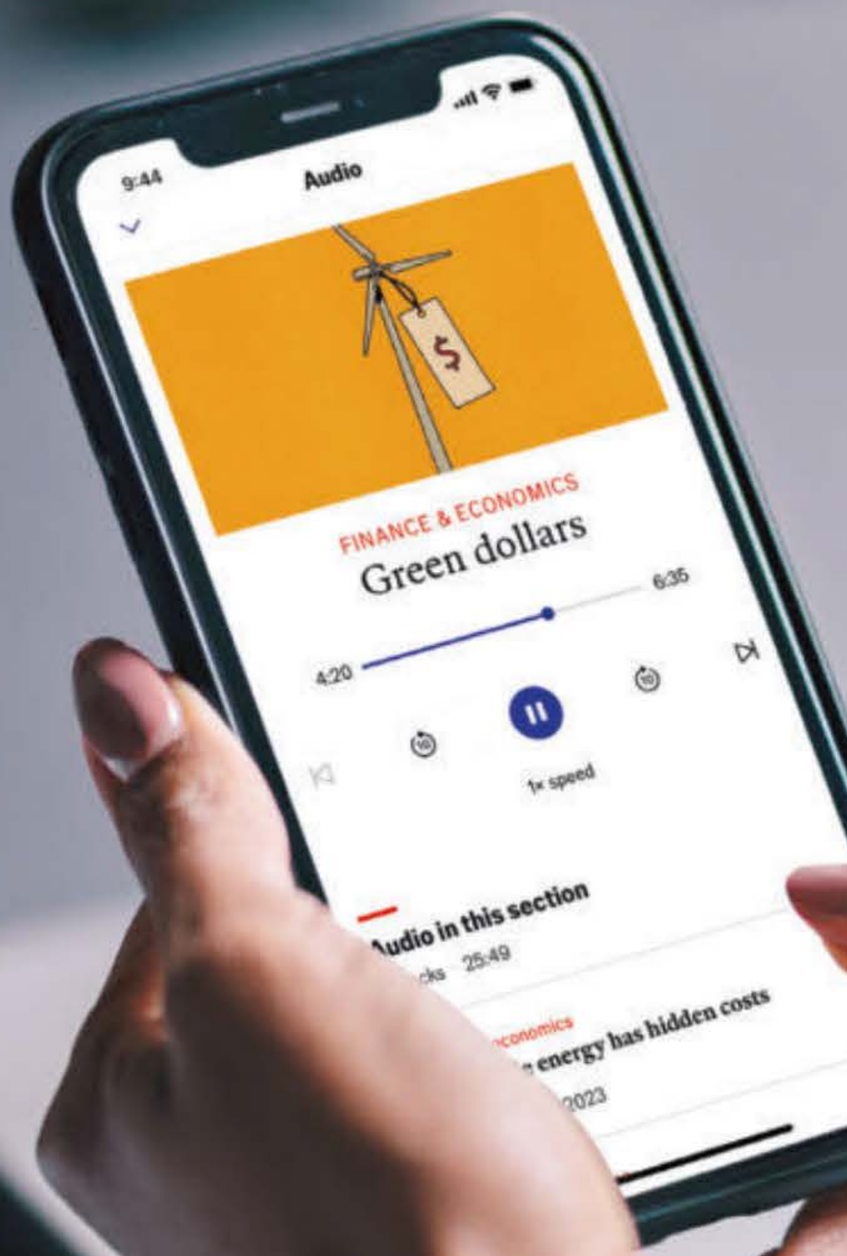
8 Three weaknesses

10 Building the future

11 A green economy



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The India express

Over 30 years, India has laid the foundations for growth. For its next phase, a new reform agenda is needed, say Arjun Ramani and Thomas Easton

THE CONSECRATION of the Ram temple in Ayodhya, a city in Uttar Pradesh, in January was a matter of supreme importance to Narendra Modi, India's prime minister; attendance was thus *de rigueur* for those seeking his approval. The attendant courtiers included not just politicians, officials and foreign dignitaries but also India's biggest corporate bosses. Uttar Pradesh is not their normal stamping ground, and Ayodhya has not until recently been much of a destination for tycoons. Now it has 115 hotels under construction, and some of those January visitors may soon be finding reasons to return.

Uttar Pradesh, known as UP, is India's most populous state and also one of its poorest. With 240m people, it would be the world's sixth-largest country. Its nominal GDP per person is $1,000, less than half the national average; on that basis it would rank around 174th in the world, alongside Tajikistan and Togo.

But over the past five years it has been growing at an annual rate of 5.3%—a percentage point faster than the national average—and, since 2021, at 9.2%. The state government's investment, as a percentage of output, is the highest in India, at 6.6%, says HDFC Bank. New roads crisscross the state. UP's chief minister, Yogi Adityanath, a keen follower of Mr Modi, is clearing red tape and cracking down on crime to attract business. One vivid example: the liquor trade, long a source of financing for criminals, is becoming part of the formal economy, as shown by rising tax receipts.

Talk of India's economic prospects often focus on Bangalore, the tech hub, or Mumbai, the financial centre. But Mr Modi's ambition of *viksit Bharat*, or developed-country status, by 2047 (in the form of a GDP per head of $14,000) needs a broader perspective. It is one in which all the 28 states are capable of competing against each other economically, giving business leaders opportunities beyond the prosperous south.

There are signs that this is happening. In February Tata Electronics said it would invest $3bn in a chip plant in Assam, creating 27,000 jobs in the remote state. In May, what will be India's biggest vaccine plant will open in Odisha, a middling state on the rise. But the needed change is only just getting under way.

The almost 7% solution

The idea that Mr Modi is a strong economic manager is one reason Indians, who go to the polls this month and in May, are likely to give him a third five-year term in office. GDP grew at a blistering 8.4% in the year to the fourth quarter of 2023 (though the underlying trend is closer to 6.5% because of quirks in how India measures GDP). But overall growth during Mr Modi's tenure has not been remarkable by the country's standards since it embarked on a path of liberalisation in the early 1990s. That was when India's elites decid- ▸▸

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ed that the highly regulated socialist system (the "licence raj") of the decades following independence needed wholesale reform, a process which has played out with remarkable continuity, despite changing political tides. Over three decades of reform, growth has averaged 6.4% a year. Though it has averaged 5.6% during the decade of Mr Modi's rule, that has been in line with a broader slowdown in global growth.

Yet robust growth since the pandemic and a strong outlook ahead has pleased voters and impressed outside observers, not least because it is measured against a world where growth remains sluggish. Since 2021 India has been the world's fastest-growing large economy, and 6.5% growth would be more than twice the global average. If that average stays around 3%, India would account for 15% or more of the total this decade. But compared with other countries in the recent past, the rate might seem disappointing. East Asian countries grew at rates above 10% in their heyday. China and India had similar incomes per person in the 1980s. China is now five times richer.

Few in India believe the country can achieve double-digit growth. The East Asian countries benefited from huge inflows of foreign investment and the exports of a job-rich low-skill manufacturing sector. That helped them deepen their links to global value chains at a time of rampant globalisation. India's rise began later and followed a different path. That is hardly a surprise; in its size, religious and linguistic variety, it is unique. Governmental responsibilities are divided between the centre and the states in ways that make rapid reform tricky.

India's path has, therefore, been singular: its exports have been led not by manufacturing but by a productive yet job-poor IT and services sector, and its companies are led by a handful of sprawling conglomerates along with a long tail of small informal businesses. Sustaining growth rates of 6% or more would be consequential. Goldman Sachs, a bank, expects India to become the world's third-largest national economy this decade. Bump growth rates up just half a percentage point, cross your fingers and extrapolate wildly and it could even reach the number-one spot by 2070 (see chart 1), though it would still only be half as rich as China and a quarter as rich as America per person (see chart 2).

Since 2021 India has been the world's fastest-growing large economy

To achieve that growth, and have a fighting chance of boosting it, the future must look different. Because of the country's remarkable diversity, there is no simple national nostrum. It will need everything from increasing competitiveness in labour-intensive sectors like textiles to growing prowess in high-tech sectors that blend services and manufacturing. That will require a deeper single market to boost domestic business, more innovation to export at the global frontier, and a stronger state that delivers on basic services to ensure India's copious young talent is unleashed.

Cleaning up

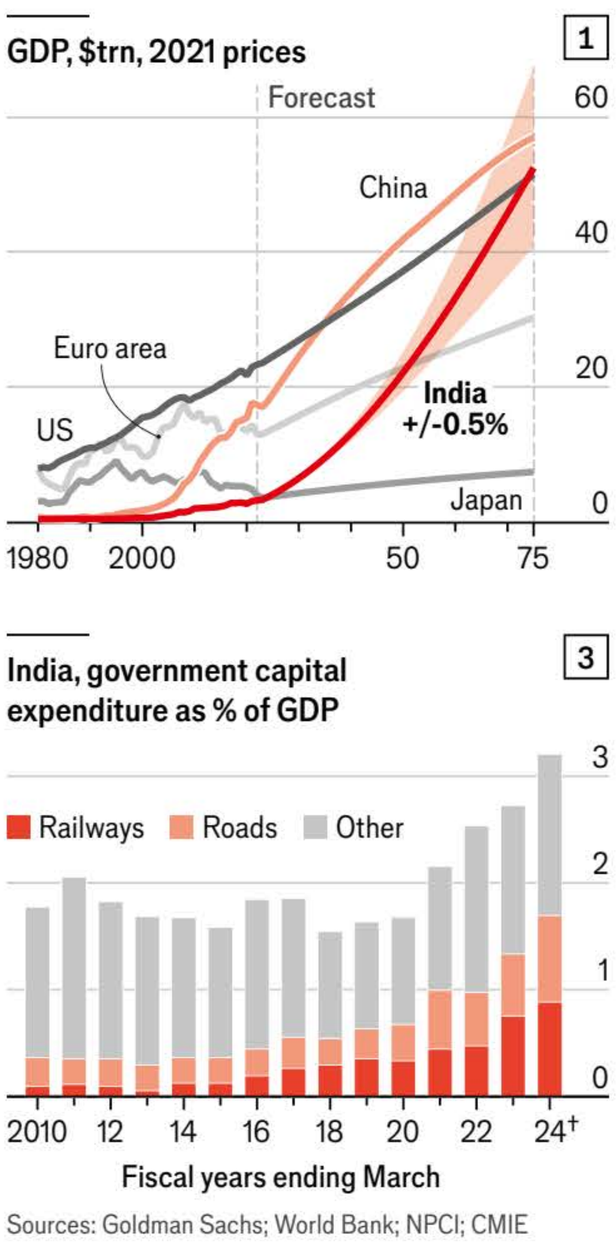
Mr Modi's two terms have seen progress on some of this. The financial sector has been cleaned up and enjoys growing global credibility. The corporate sector has a return on equity above the global average. That reflects a healthier business environment, including a national goods-and-services tax, introduced in 2017, that works across state lines and creates revenues which exceed those of the old state-based system. Public-infrastructure investment is surging (see chart 3); the national road network has grown by 60% over ten years, double the rate of the previous decade.

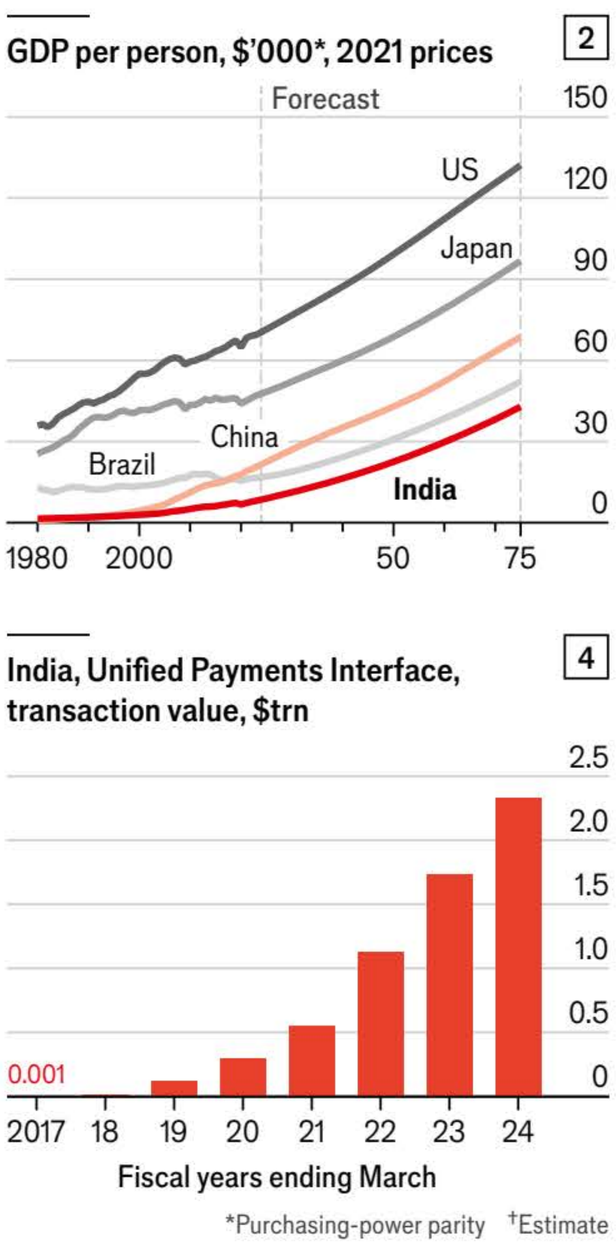
Digital infrastructure has become even more impressive. Building up the national identity system called Aadhaar, begun by the previous government, has laid the foundation for a payment system that 300m Indians use every month (see chart 4). It has also enabled most households to get a bank account. Welfare payments are now paid electronically and credit is easier to access. The number of new business registrations in India has tripled since 2015.

But there is no avoiding the economy's shortcomings. The labour market is weak, with a majority of Indians underemployed or out of the labour force altogether. That limits consumption, and exports do not make up the shortfall. Indian education is partly to blame and cities lack the governance needed to accommodate vast shifts of people from rural to urban areas, a potential boon for productivity. Tackling these issues needs a lot more co-operation between central and state governments than financial reform does, and better relations with state governments have not been Mr Modi's strong suit. Some, like UP's, are led by politicians of the prime minister's stamp. Many are not.

Mr Modi's muscular management style has had some benefits, not least pushing through some big national projects. It has also strayed into bullying and an increasingly authoritarian approach. Yet the country's basic political structure is still democratic, so consensus-building will be needed. Thirty years of reform have laid a foundation for India to reach scale. To achieve its potential, a new agenda just as ambitious as that of 1991 is needed. In surveying the landscape to ascertain where India is heading, a good place to start is where it has turned weakness into strength: the financial sector. ■

Revving up





Sources: Goldman Sachs; World Bank; NPCI; CMIE

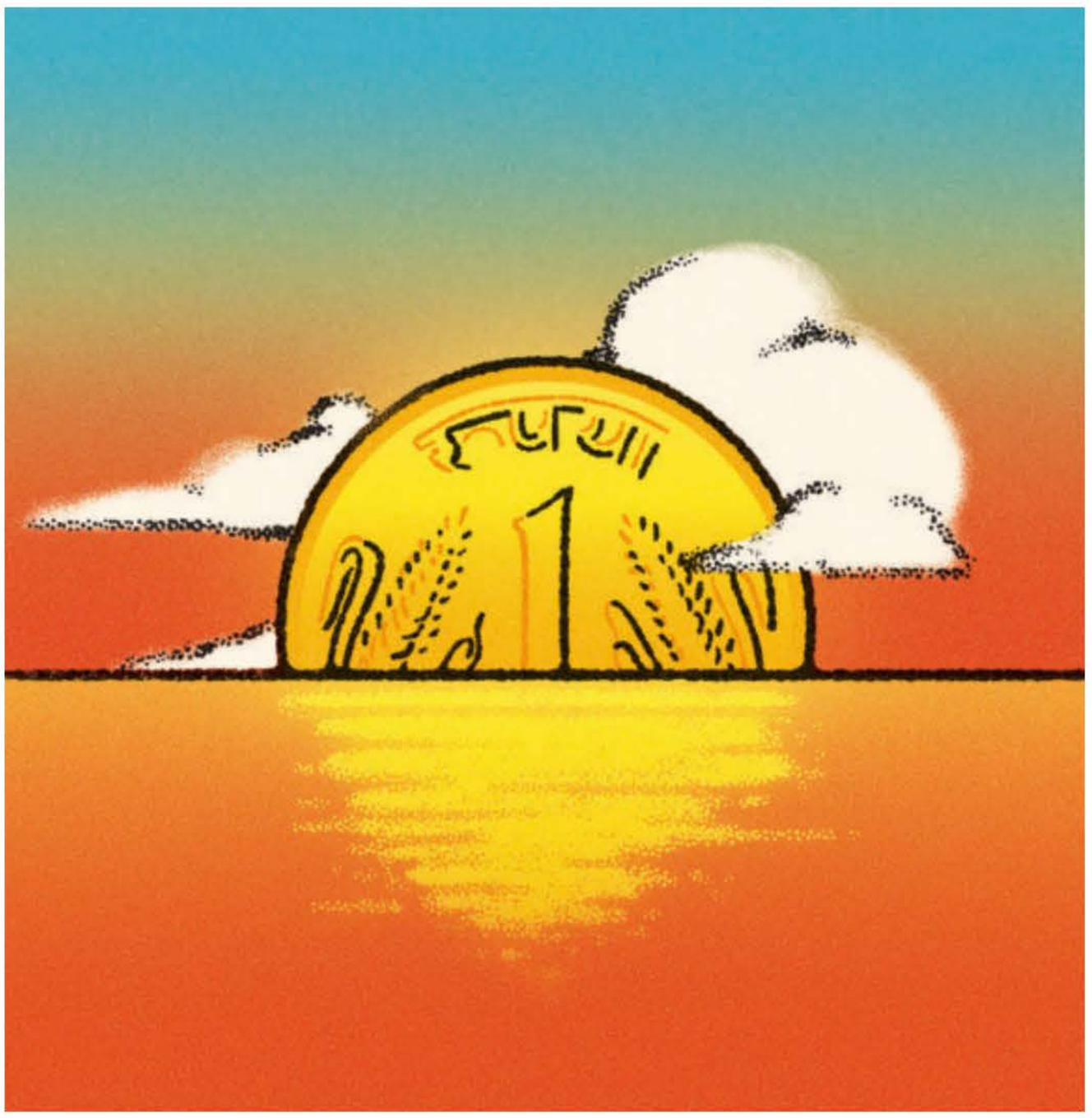
*Purchasing-power parity †Estimate

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Financial markets

Surprise winner

India's financial system has changed dramatically in the past decade. There is much more to come



IN "LOMBARD STREET", published in 1873, Walter Bagehot, then editor of *The Economist,* wrote that the City of London's success was based on taking funds that elsewhere were kept under floorboards, and putting them to use. He might have found what is unfolding in modern India to his liking.

But for those dormant funds to be used, the system first had to be repaired. In 2013, the year before Narendra Modi became prime minister, Morgan Stanley, a bank, had grouped India with other financially troubled countries—Brazil, Indonesia, South Africa and Turkey—into what it called the "fragile five". India's weak capital markets were contributing to three big problems: financial and balance-of-payments instability; no way for ordinary people to save; and a high cost of capital for business. There was also high inflation and a growing problem of non-performing loans at state-run banks.

Ten years on, inflation is stable (if a little high) and India is less dependent on capital flows from abroad. It has large foreign-exchange reserves, strong domestic savings, and adequate exchange-rate management. More change is needed. But reforms have moved it to a position of comparative strength. Indian finance, and thus India itself, is becoming more credible.

In 2010 state-run banks, then the largest component of the financial system, were rotten and threatened to drag down the rest. But in 2013, the previous government brought in a professor from the University of Chicago, Raghuram Rajan, to run the Reserve Bank of India (RBI). He initiated an "asset quality review" that put an official stamp on the country's "twin-balance-sheet problem", the holes on both bank and corporate balance sheets. In 2016 a new bankruptcy code was introduced. Bad loans worth $106bn were written off, and there was an injection of government money, forced financial consolidation and new rules.

Between 2017 and 2019, the government merged 27 government-run banks into 12. Rules were changed to allow DBS, a Singaporean bank, to acquire Lakshmi Vilas bank in 2020, allowing an outsider to have a large branch network for the first time. The tighter reporting regime brought revelations which led to the failure of five major Indian financial institutions.

Cliff edge

It looked like India might fall off a financial cliff. In retrospect, an inflection point had been reached. Non-performing loans at state-controlled banks have since declined from 15% in 2018 to 4% of assets.

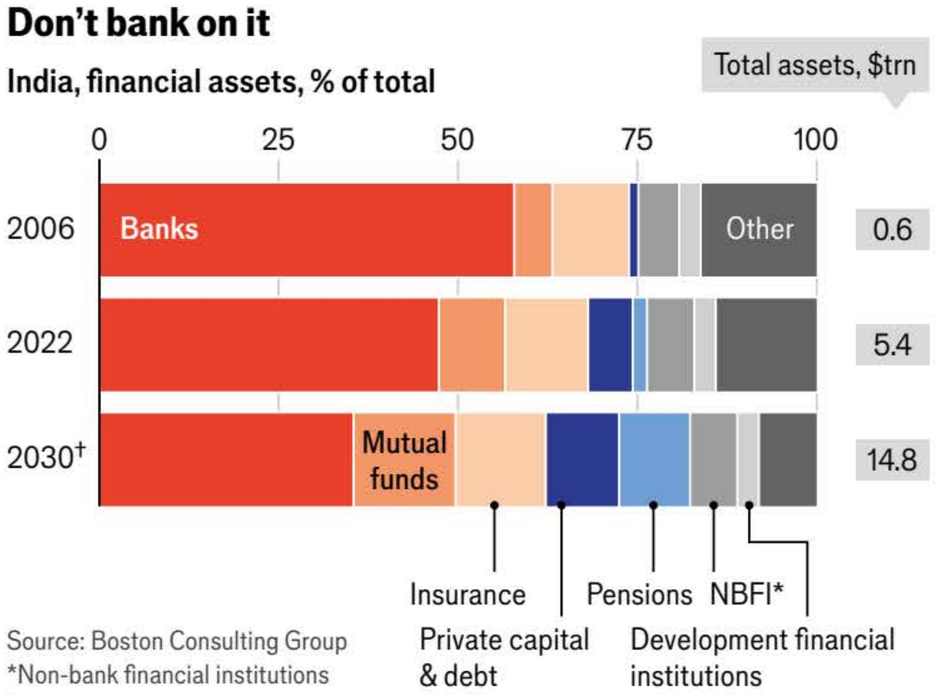
As the weakest components of the system were strengthened, other aspects that had been seeded decades before came into their own, starting with a handful of new private banks. HDFC Bank, founded in 1994, is now the world's tenth-most valuable bank by market capitalisation. It returns 16% on equity. JPMorgan, America's leading bank, returns 12%; European banks, on average, just over half that.

The new healthier system has enabled credit to be available for consumption, housing and industry. The private banks have boosted the number of branches by 60% since 2015 to 163,000 (America has 78,000). This has had a huge effect in villages, as consumer finance has shifted from local lenders charging 10% per week to bank loans at annual rates of 15% or below.

The big push to help poor people open basic bank accounts—520m have been opened since 2014, and they now hold $28bn—has been crucial, helping to transform India's masses into savers, providers of capital and, possibly, entrepreneurs. Since the ac- ▸▸

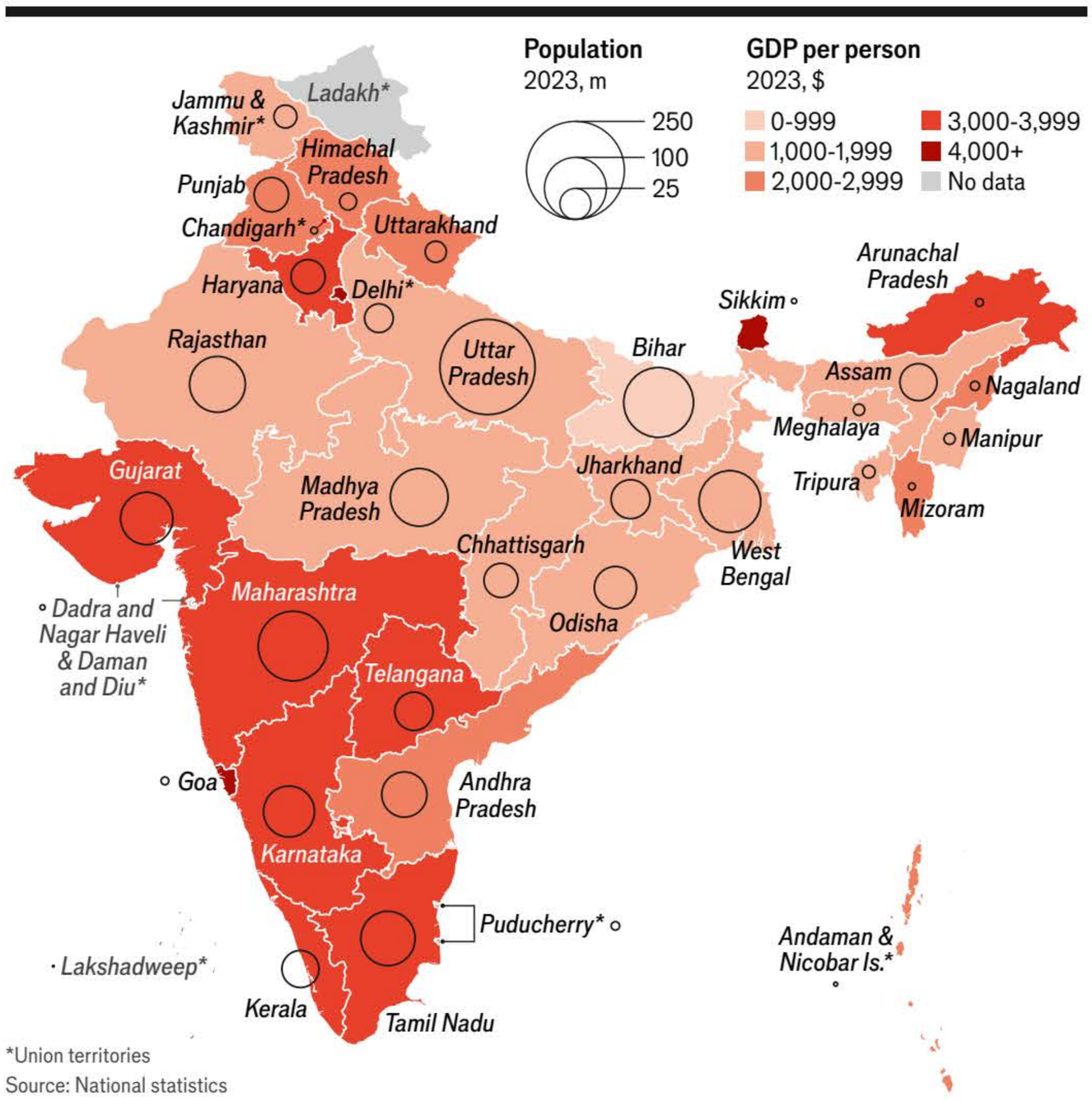
Don't bank on it

India, financial assets, % of total



Source: Boston Consulting Group
*Non-bank financial institutions
†Forecast

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*Union territories
Source: National statistics

counts are linked to India's new digital payment and identification system, they are records that can be used to evaluate and grant credit. This may explain a recent increase in lending to small businesses.

Stockmarkets, too, are booming, reflecting the success of Indian business and the expansion of available capital. Ten years ago, capitalisation of India's stockmarkets was smaller than Spain's. Now neck and neck with Hong Kong's, only America's, China's and Japan's surpass them. Based on long-term growth rates, BCG, a consultancy, says India's will become the second-largest in 2036. The proportion of the population owning shares of some sort has risen from 7% to 20% since 2019. Small monthly payments into mutual funds through "systematic investment plans" have risen sharply. From 2013 to 2023, fund assets under management rose by over 600%. They now account for 9% of equity holdings in the Indian market. Money flowing into the stockmarket is not idle. A record number of firms has gone public already in 2024.

In developed markets, this kind of growth could seem like a bubble, and that may be part of the story. It may also just be catch-up. A study by Deepak Parekh, one of the architects of India's private financial system, found that fund assets equate to only 17% of GDP, compared with an average of 80% in developed markets. This "under-penetration" is clear in other areas such as consumer credit, totalling 37% of GDP compared with 62% in China and 80% in America.

The Indian financial system is slowly reconfiguring itself to deal with these imbalances. In 2006, 56% of assets were in the banking system. In 2022 the proportion was 48% and BCG predicts that will shrink to 36% by 2030 (see chart on previous page). In place of the banks will come components of more mature capital markets: funds, pensions, insurance companies, private equity and more venture capital. Life Insurance Company of India, listed by the government in 2022, was the world's fourth-largest life insurer in 2023 by market value. A common theme in these expanding sectors is their desire to use capital to foster growth.

Not everything is rosy. A surge of foreign venture capital starting in 2020 has imploded as a result of some big tech startup failures, from a record $42bn in 2021 to $2.5bn in the first quarter of 2024. Commonly published valuations of private firms are being written down; many will crash. But none of this seems to affect the general public or the domestic stockmarket.

The bond market, too, is still in an early stage of development. It has grown and become more free, but it is still run to finance the government and is largely unavailable for all but the largest firms. Even for them, the long-term debt that is best suited for the big capital investments that India needs is often unavailable, and must be obtained overseas, with additional costs. However, a healthier system creates its own opportunities. India has asked all the big global ratings agencies to upgrade its borderline junk status, which has been left unchanged since the mid 2000s.

An upgrade would signal India's rising stature. It would also help to lower the capital costs which impede investment and growth. The most solvent companies pay 8% or more on bank loans, compared with under 6% in Singapore or America and under 2% in Japan. What is more, a high sovereign rating would provide an underpinning for the issuance of long-term corporate debt.

In September, JPMorgan will be adding India to a government-bond index, in January Bloomberg indicated it will do the same. Foreign portfolio investment hit a record $40bn in the year to March. Money is being put to better use. Bagehot might applaud. ■

Business

Functioning anarchy

A difficult business environment is improving, allowing Indian firms to become more dynamic

RAMESH MUTHURAMALINGAM founded Alphacraft, a manufacturing firm, 25 years ago in a small workshop in the southern city of Coimbatore. It now operates out of a 4,500 square-metre (50,000 square-foot) factory, piled with aluminium cast parts. It employs 400 people and will soon open a second facility of similar size. Customers include Indian startups, notably Ola Electric, a fast-growing local scooter manufacturer, and global companies including Britain's Aston Martin and America's John Deere.

Foreign firms are newly interested in companies like Alphacraft because of three shifts: a desire to lessen their dependence on China; a belief that Indian production can now meet global standards; and the fact that India itself is a fast growing market that ▸▸

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favours local production for its own products.

In the past, the biggest block to growth was not customers, but financing, says Mr Muthuramalingam. For most of the firm's existence, interest rates over 15% were common, if money was available at all. Over the past year, the rate it pays has fallen to 10%. Availability has improved, though the long-term debt best suited to capital investment remains scarce. The shift to a single goods-and-services tax, electronically filed, has made sales in other states easier.

The growth and diversification of firms like Alphacraft suggest India is becoming more open. A spate of pro-business policies, some of which began under previous governments but have been pursued by the current one, have been crucial for this. That is why most of corporate India backs a third term for Mr Modi.

The reforms also reflect a broader change going on within Indian business. A century ago the American corporate world, after a period of frenetic growth, underwent profound structural change as owners gave way to professional managers, and companies reconfigured themselves in accordance with shareholder demands. Some of that is now happening in India.

Professional eyes

Based on the market value of holdings, what are known in India as "promoters" (that is, those who have a controlling stake in the company, usually the founders or their descendants) still own slightly more than half of the value of companies trading on the Indian exchange. A study by the National Stock Exchange has found that control of companies by promoters declined between 2009 and 2019; though that trend has since levelled off, other evidence suggests that non-promoter management is increasingly valued. A survey by EMA Partners, an executive-search firm, on million-dollar compensation packages showed the number of outsiders who have reported salaries which put them in that bracket has risen from 61 in 2016 to 119 in 2023.

The difficulties of doing business in India and the lack of broadly available finance are two reasons why large conglomerates have dominated the economy—they have been able both to obtain finance and handle a prickly state. But there are hints of change. A study by Marcellus, a money-management firm, concluded that in 2019 the top 20 companies in India earned 79% of all profits. The figure fell to just 38% in the fiscal year ending in March 2023. The share of the BSE500's market capitalisation held by the top 10 firms has fallen from 33% to 26% in the same period. The shift is being driven by the expanding breadth of successful companies. The number of listed firms valued at more than $1bn has increased 20-fold since 2000.

That said, the big conglomerates are still influential. Reliance Industries dominates telecoms and refining, and is expanding into entertainment. The Adani Group is the largest manager of airports and seaports and the second-largest producer of cement and power. Though broader corporate concentration may be weakening, these firms have seen continually increasing market shares. The recent data could turn out to be a post-covid blip. Tata Sons is, through subsidiaries, the biggest of all, owning the largest IT consultancy and interests in cars, hotels and steel. The Bajaj Group owns the largest non-banking finance company and builds appliances, motorcycles and rickshaws.

State-controlled firms also continue to play a big role. The collective valuation of those listed on India's stock exchanges is $804bn. Hindustan Aeronautics (defence), PFC (financing of energy projects) and the State Bank of India all dominate their sectors.

In 2019 the top 20 companies in India earned 79% of all profits

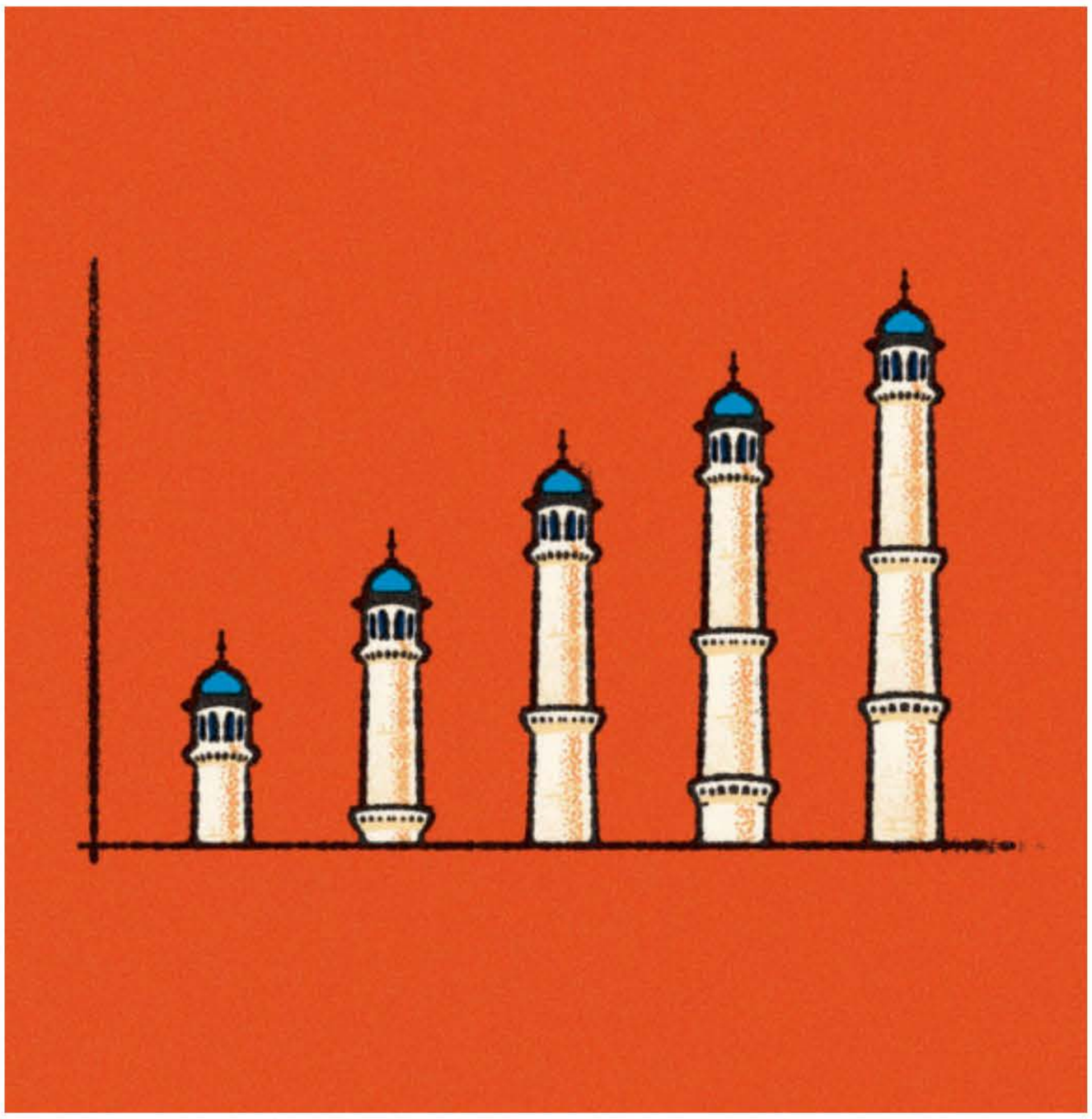
A handful of foreign-controlled firms remain important, including Hindustan Unilever and Nestlé in consumer products, Maruti Suzuki and Honda in vehicles, and Google and Amazon in tech. And some global supply chains have shifted as India has become the "+1" in an increasing number of China+1 strategies.

But other foreign consumer-product companies, such as Whirlpool, and giant pharmaceutical companies, such as AstraZeneca, as well as cultural icons such as Disney, are reducing their stakes or teaming up with a local partner, having found that India is a tough place to go it alone. Foreign-direct-investment flows into India, which surged in 2020 to 6.2% of the world's total, have since fallen to a decadal low (1.1% of the world in the third quarter of 2023). This is partly due to higher interest rates, but also because of the tough operating environment for foreign firms.

Formal eyes

Many Indian companies are now doing well. Leverage has been declining since 2015, such that the finance minister recently said India has swung from the weakness of overleveraged banks and firms to the strength of healthy banks and underleveraged firms. Return on equity for listed companies has been improving since 2019 and exceeds the global average. Profits, lockdown excepted, have been rising strongly since March 2018. The economy has been boosted as informal activities like village money-lending and pushcart sales shift to banks and stores.

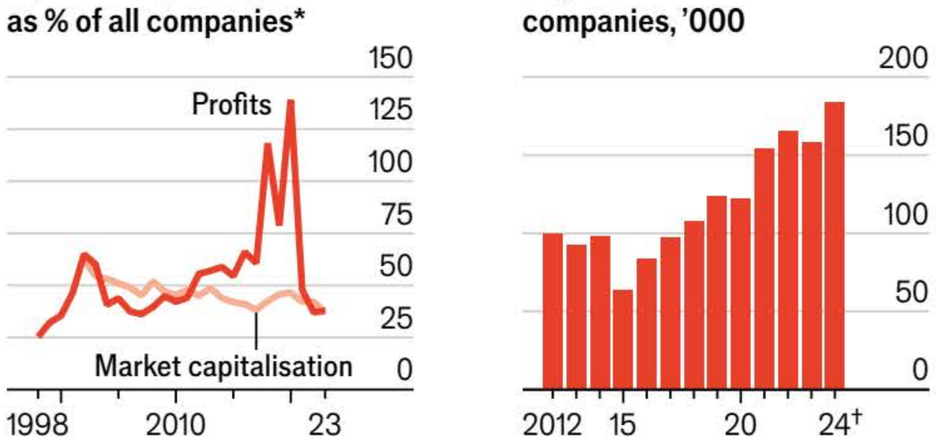
There have been pockets of disaster. Byju's, an ed-tech firm that was once India's highest-valued startup, at $22bn, is now almost insolvent. PayTM, another ▸▸



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No more billionaire raj

India, financial years ending March



*BSE 500 index for market capitalisation †April-February annualised
Sources: Marcellus Investment Managers; Ministry of Corporate Affairs; Bloomberg

star of the short-lived venture-capital boom of a few years ago, played a critical role in spreading electronic payments in India. It was valued at $20bn at the time of its IPO in 2021. Its share price has fallen 73% from the post-offering peak, a reflection of how hard it is to turn a valuable service into a profitable business.

But smaller manufacturing firms are growing. States such as Tamil Nadu, home of Alphacraft, are being transformed by them. Along the new roads there, a vast electronics-assembly industry has emerged, led by local firms like Tata and foreign ones like Foxconn and Pegatron. There are new factories for electric vehicles, green-energy products, shoes and clothing. Since 2021, $10bn has been invested in 130 new projects in the state, with another 48 under way.

One important new development is "global capability centres"—tech centres used by the world's biggest firms. Unlike the outsourced call centres of old, these also provide engineering, semiconductor design and R&D automation, as well as product development. In Tamil Nadu new entrants include UPS and Roche Pharma. Some 1,600 others across the country serve firms such as HSBC, Target and Tesco. These centres are, in some ways, like the Chinese factories manufacturing for foreign firms, but more important. They do not just take orders; increasingly they give them, too.

Since their product is data, they are immune from much of the craziness of doing business in India, from bad traffic to obstructive customs procedures. A new study by Wizmatic, a consultancy based in Pune, says they employ 3.2m people, generating $121bn in revenues including $102bn in foreign currency from exports, making them one of the biggest sectors in India.

Stable eyes

The government has become increasingly pro-active in helping all of these changes. It has done much to clean up and stabilise the financial sector (see previous article). Administrative changes have led to a surge in business creation. A central-government department has been created to remove obstacles to doing business. In 2020 it became possible to set up a company entirely online. In the same year the government introduced "production-linked incentives" (PLI) in 14 sectors, which involve direct payments of at least 4% of revenues, to help firms get established and then phase them out once scale has been achieved. In 2019 corporate taxes were reduced from 35% to 25%.

Against this background, India is becoming more innovative. A study by PatentVector, an analytics firm, showed the valuation of Indian patents has more than tripled over the past five years, as the filing process has been simplified. A private space industry has emerged, with more than 200 firms filling the sector. Two are on the verge of launching rockets.

Many problems remain. Ease of doing business has not improved enough. Legal disputes are backlogged—as of December, there were 50m cases pending in the courts. It remains hard to obtain usable land, to initiate redundancies, and to hire on the basis of merit. New projects can still require dozens of permits. Too much still revolves around finding, and buttering up, the person who can get things done.

All this may explain why the government's capital investment push has yet to "crowd in" the private sector to the degree Mr Modi would like. *The Economist*'s analysis of firms in the BSE500 index of listed firms, using data from Bloomberg, shows that investment as a share of revenues was 6.3% in the financial year to March 2023, down from 7% before covid. Optimists hope that announcements of new projects, which rose to decadal highs in 2022, indicate an impending surge.

There is also policy uncertainty. Taxes and tariffs on imports and exports change frequently. The demonetisation of the two-largest banknotes in 2016 crushed small businesses and startled large ones. Firms worry about political interference, and whether the rule of law is reliable in India. According to data collected by Henley and Partners, a consultancy, India had a net outflow of 14,000 millionaires in 2022 and 2023, the highest after China and just beating Russia.

Much change still needs to happen. But that the government is even being talked about as a growing part of the solution, rather than the biggest part of the problem, makes it clear how far India has come. ■

Three weaknesses

Unstable geometry

For growth to become more sustainable, it needs to be broader based

WHEN SHASHI THAROOR, a stalwart member of parliament for the opposition Congress Party, criticises the current growth model as "trickle-down economics" that doesn't trickle down, he has a partial point. Estimates of this nature are fuzzy, but from 2000 to 2022, the wealth share of the top 1% of Indians grew from 33% to 41%, making India the second-most unequal major country in the world, after Brazil. In other ways, though, the problem is a lack of trickle up. The economy is not allowing those with low incomes to become a source of growth.

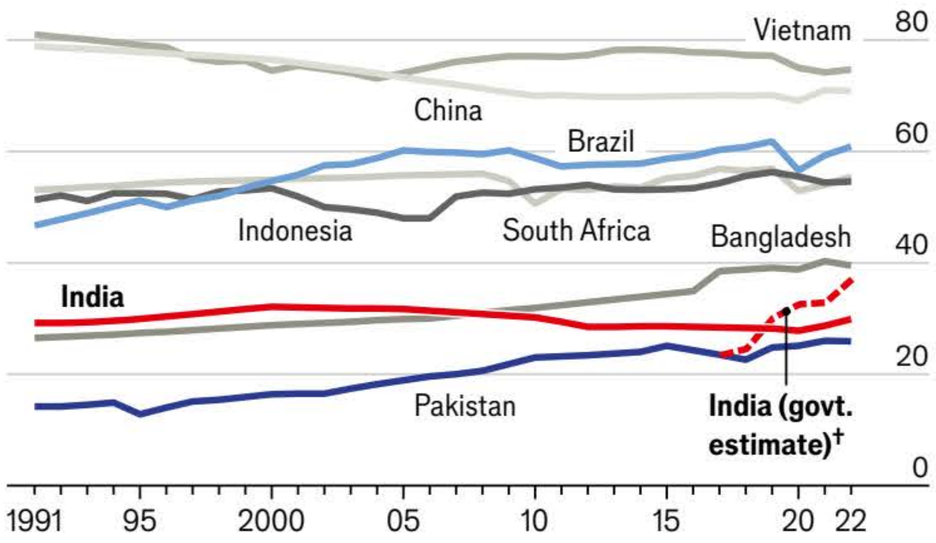
India's economy has three intertwined deficiencies: its poverty means there is not enough demand; there are not enough people in the workforce; and there is not enough geographical spread in the benefits of ▸▸

It is now possible to set up a company entirely online

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Girls allowed

Female labour-force* participation rate, %



Sources: World Bank; Indian Ministry of Women and Child Development

*Aged 15-64
†Aged 15 and over

growth. The progress that the country has made in reducing the effects of poverty through redistribution goes some way to minimising the pain of these deficiencies; the standard of living is improving (see charts on next page). But if economic growth is to last, these deep-seated deficiencies must be addressed.

Start with the lack of demand. Though India's GDP is $3.7trn, just 60m of its people earn over $10,000 a year. That is less than 5%. Over the past decade consumption per head grew by just 2.5-3% a year.

When domestic demand is insufficient, the obvious answer is to tap into foreign demand through exports. A casual comparison to the rise of China might suggest that, blessed with the largest pool of cheap labour in a single market that the world has ever seen, India should be a manufacturing giant exporting to all and sundry. Part of the reason that it is not is that too much of that cheap labour is unskilled. But there are other factors at play.

Bhuvana Anand of Prosperiti, a Delhi-based think-tank, points out that the Indian reforms of the 1990s were restricted to the national level; regulations on land and labour, which are state matters, went mostly untouched. That is in stark contrast to the reforms which were turning China into an export powerhouse at the same time: there land and labour markets were very flexible. Even today, India has laws that require factories to get state permission to fire workers if they have over 100 employees on the books. One reason the tech sector has so outperformed manufacturing is that it has been far less regulated, says Poonam Gupta of Mr Modi's Economic Advisory Council.

What is more, as Raghuram Rajan and Rohit Lamba observe in "Breaking the Mould", a recent book, China's growth created a world where following in its path is no longer an option. China already serves the world as a workshop, and manufacturing has become more automated. The power China has derived from its growth at a time of rapid globalisation is one of the reasons why the world is now de-globalising, a development that helps India in as much as "China+1" policies may favour it but which is also a big challenge.

Pawan Goenka, a retired businessman who heads a government committee on advanced manufacturing, says that today Indian exporters are at a big cost disadvantage compared with those in China. He breaks the gap down into logistics costs, high factor costs (such as for power), the tariffs other countries put on Indian exports and a lack of scale on the part of the firms involved—"All of which", he says, "are being worked on."

Infrastructure investment can help with logistics, and the government can do something about trade. Having fought shy of trade agreements for some time, Mr Modi's government is now pursuing a number of them in the hope of cutting tariffs on its exports of agricultural goods, cars and textiles.

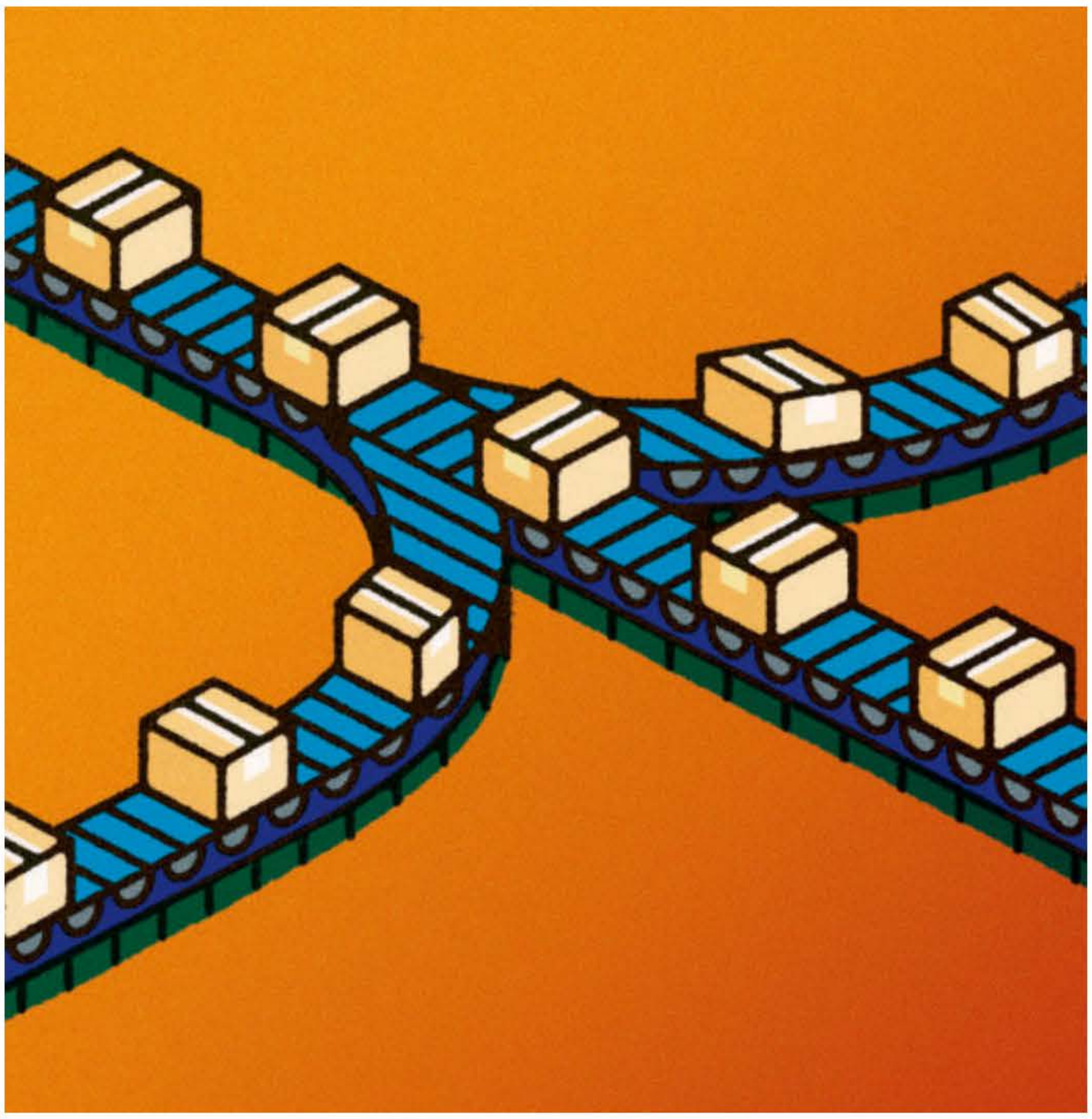
On the basis that these and other measures will take time to have their desired effects, the government is also offering subsidies to encourage exporters: a $26bn pot of production-linked incentives (PLI) for firms (including foreign ones) in 14 industries. With only $1bn disbursed to date, some have doubts about the government's commitment to the scheme.

Churn out those e-widgets

Electronics have emerged as a bright spot. In 2023 came the news that Apple planned to increase its production of iPhones in India, then around 7% of global supply, to 20% by 2026; it is reported to have already reached 14%. Google will soon begin making Pixel phones in India. Apple's confidence suggests that, with openness to foreign companies, India can compete in high-tech products. But that has yet to change the overall trajectory. India's share of global manufactured exports is flat. Corporate investment and foreign direct investment have yet to take off.

Not cracking the export market limits the demand for labour, contributing to a sluggish job market: the second deficiency, and one that is being exacerbated by demographics. Over half India's population is under 25. Every year 10m people join the workforce. That should be a boon for the economy. Unfortunately it is not creating productive jobs at a commensurate rate.

Getting a handle on the true size of the problem is hard, particularly when it comes to women, whose



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labour-force participation is particularly low. Anantha Nageswaran, the government's chief economic adviser, noted in a recent column that one should expect women to drop out of market-based work as families shift away from agriculture and incomes increase. Indeed, the Nobel prize in economics in 2023 was awarded partly for work showing that female labour-force participation follows a "U-curve" as countries develop, dropping and then rising again. Yet this phenomenon should apply broadly, and India's rate seems to be well below that in other countries (see chart on previous page). There are many complex factors behind this. But there are also simple ones like restrictive labour laws; in many states, for example, women are not allowed to work night shifts.

What is more, the shift away from agriculture which might drive such a change is hard to see. The share of Indian employment in agriculture remains high at 43%, up from 41% in 2019. Data for 2022-23 suggest that real consumption grew only about 3% a year in rural areas and 2.4% a year in urban areas, on average, since the last survey in 2012.

The third deficiency is variation in performance across regions. Southern cities like Bangalore are as rich as southern Europe. Parts of the north are like sub-Saharan Africa. The government in Delhi is trying hard to help poor regions, much to the annoyance of rich ones which contribute the bulk of tax revenue. Some poor states, like UP, are attracting investment. Yet over the past decade, the gap in income per person between the southernmost seven states and the 21 others has grown from 35% to 50%. Five states in the south are home to 66% of IT-services exports and 30% of foreign direct investment despite having less than 20% of the population.

Move it, move it

There are signs that interstate competition is spurring investment in some poor states. But large-scale migration is also needed. India has 100m temporary migrants who work in rich areas and send remittances back home. Yet permanent movement, where migrants bring their families, appears too small to compensate for higher birth rates in poor states.

India has found ways to alleviate some of this. The government has given most poor households bank accounts to which it sends welfare payments directly. In the fiscal year to March 2023, it sent $45bn in cash (1.2% of GDP) this way.

There are countless other programmes. "We've built 40m houses, enough for every person living in Australia; 110m toilets, one for every German; and piped water for 253m citizens, that would cover everyone in Brazil," says Amitabh Kant, Mr Modi's sherpa to the G20. Include numerous state-level programmes and you have a system in which part of India grows and compensates the rest. Poverty rates (at a threshold of $2.15 a day in 2017) have fallen from 40% in 2000 to just 13% today. Life expectancy is up, and infant mortality down.

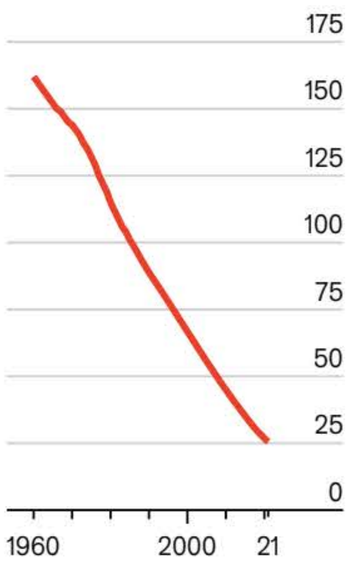
Arvind Subramanian, the government's chief economic adviser in 2014-18, notes the new welfare set-up involves the "public provision of private goods". In a healthy market economy, citizens would buy their own cooking gas. Governments would focus on public goods like education; private consumption and exports would fuel growth. In the light of the three deficiencies, the government has stepped in. ■

Better on all counts
India

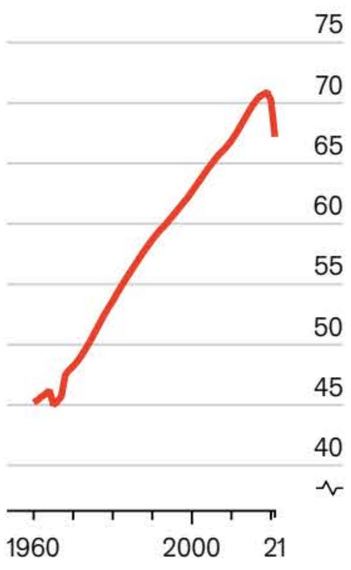
People living on less than $2.15 a day*, %



Infant mortality per 1,000 live births



Average life expectancy, years



*At 2017 purchasing-power parity
Source: World Bank

The road ahead

Building for the future

To achieve its potential, India needs a new reform agenda

AT THE START of the 18th century India was one of the world's two largest economies, with China the other. Part of that came down to sheer population and, in India's case, being colonised by the country which led the Industrial Revolution put paid to that. When it achieved independence from Britain in 1947, India made up just 3% of the world economy (adjusted for purchasing power). In 1991, when its great liberalisation started, the figure was 1.1% (at market exchange rates). Today it is 3.6%, spread between 18% of the world's population. If it can keep growing at 6% or more, as it has for the past 30 years, then by the time of the modern country's 100th birthday, it will represent 10% or more of the world economy. And depending on assumptions about growth elsewhere, it could be back in the top rank by the 2070s.

But 30 more years of such growth is a tall order, and it will need a wider and deeper national consensus than that which drove the past 30 years of liberalisation. It will require a new compact between central government, state government and the cities where growth will be concentrated. And, India being India, it will require flexibility. There is no simple one size fits all for the world's most populous and diverse country.

Some of this can be achieved by deepening the liberalisation which has been supported by most of India's elites so far and which can be achieved by central government on its own, electoral politics permitting. An obvious part of this agenda is trade.

For much of his tenure, Mr Modi has been ambivalent about trade deals, reflecting a belief that past deals hurt India. The country "signed FTAs with all the wrong countries...for all the wrong reasons," says an industrialist who advises Mr Modi. The industrialist adds, though, that there is growing recognition that growth requires exports, and exports require deals. The exact contours of the new strategy are unclear but, since 2021, India has done deals with Australia, the UAE and, in March, four small European states. Britain could follow. The biggest prizes are the markets of America, the European Union and Asia. Though America is off the table because of its own domestic politics, negotiations with the EU are ongoing.

A side-benefit of liberalisation would be that India could step back from the subsidies it currently offers exporters. A recent analysis by researchers at ICRIER, a think-tank, suggests the subsidies and tariffs are partly cancelling each other out. Average tariff levels have grown from 13% to 18% in the past decade, driving up the prices of imported goods which exporters need, as India's domestic suppliers are too meagre to be an adequate substitute. The fact that the government has its feet on both accelerator and brake may explain ▸▸

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why the subsidies have not yet borne much fruit.

There is also much the central government can do to boost the tax base. India's tax-to-GDP ratio is a middling 18% and has barely budged over the past decade. Just 0.3% of Indians pay 76% of income tax, suggesting the base needs to expand. One impact is an 80% debt-to-GDP ratio, the third largest among big emerging economies, which brings with it interest payments which eat up 20% of the annual budget. The introduction of the goods-and-service tax (GST) shows that tax reform is possible and can increase revenues. Further simplifying the tax system would boost compliance and returns.

One of the things more revenue might be used for is R&D. India's R&D spending is 0.7% of GDP. In China it is 2.4%, in OECD countries, on average 2.7%. Companies are especially lagging in India. Naushad Forbes, a boss in Maharashtra, says that Samsung, a South Korean firm, spends more on R&D than all of India combined. More money would keep top researchers in India. Cutting bureaucracy would, too. International collaboration remains mired in red tape.

There are other ways to improve the government's budget. Divestment from state-owned entities would cut overall debts as well as opening more of the economy up to competition. An obvious place to cut spending is on agricultural subsidies, which make up nearly 10% of the budget. But these are a political minefield into which the prime minister has made only a few forays, none of them successful.

The centrifugal and the centripetal

One of the things which might help him do so is a new relationship with the states. The division of power between the centre and the states is one of the things which makes India possible—and also one of the things that can make governing it feel impossible. Many of the reforms which seem obvious to outsiders but remain undone are in domains where the Indian constitution divides power between centre and ▸▸

Exporting to the global frontier requires innovation

Stellar solar

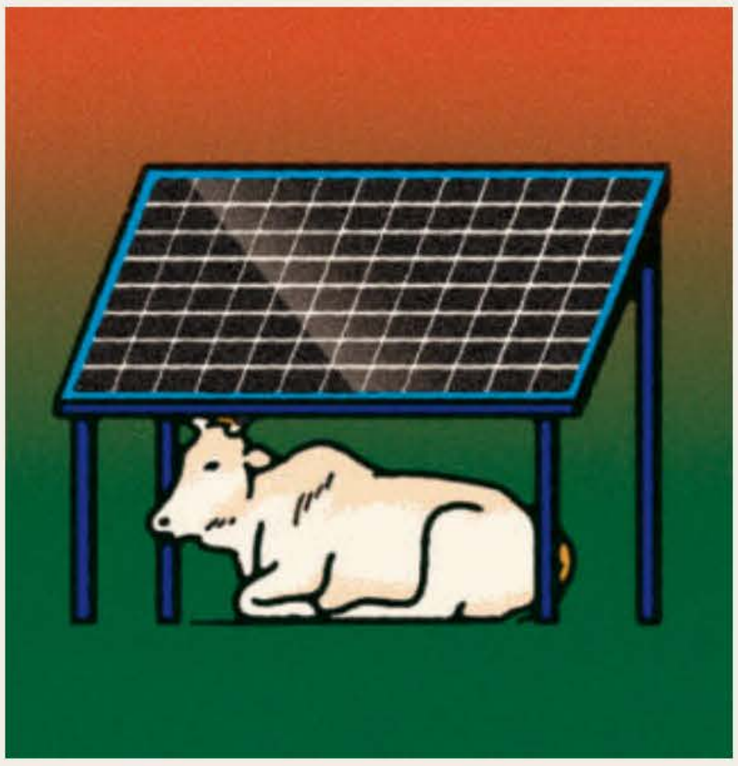
Going green offers huge benefits, but also brings tensions

EVERY DAY 1,000 trucks jostle along a single-lane road to Khavda, near India's border with Pakistan, to build the Adani Group's 730 square kilometre solar and wind farm. When completed, the project, with 30 gigawatts (GW) of capacity, could provide 4% of India's current electricity consumption.

In all, Gautam Adani plans to build 45GW of renewable-energy capacity by 2030. Between them, he and Mukesh Ambani, India's biggest tycoon, will together invest $150bn over the next decade in renewables. Over the past five years, over 80% of the newly installed generating capacity in India has been in the renewable sector. Narendra Modi, the prime minister, wants to increase renewable capacity to 500GW by 2030.

Impressive stuff; also sorely needed. India's coal-fired power plants are a major contributor to the atrocious outdoor air quality that killed around 1m Indians in 2019; add this burden to the indoor air pollution which kills around 600,000 and the total effect is calculated to be costing India 1.4% of annual output, according to a study in the *Lancet*. The power stations also pump out a lot of carbon dioxide: 1.8 gigatonnes in 2022, 12% of all the world's emissions from coal, and rising. India's share of the world's cumulative emissions from fossil fuels and industry is very low: just 3%. But as a country which will be very badly affected by a hotter climate, it has a powerful interest in future emissions being as low as possible, and that will mean cleaning up at home.

Despite all this, India's emissions continue to rise. Coal-fired power stations have allowed a tripling in the country's electrical power consumption in the past 20 years. Even if its renewable goals are reached, which would require the pace of the build-out to increase from today's 15GW a year to almost 60GW a year, the rate at which consumption is growing leads the government to think more will be needed: 80GW of new coal capacity by 2031, according to R.K. Singh, the minister for power.



There are clear incentives for doing more. Solar panels are cheap and getting cheaper, and India is a sun-drenched place, making them even better value than they are elsewhere; what is more, roof-top solar is heavily subsidised. Solar installations which allow businesses to reduce their reliance on the state-owned power-distribution commissions offer the potential for big savings: the "discomms" have long charged industry extra to subsidise agriculture.

There are also barriers to bring down. The government is slashing red tape to get renewable projects connected to transmission systems faster and using reverse auctions to prioritise the most cost-effective ones.

If solar power brings with it electric vehicles, there are more big wins. Electric scooters and cars will not just further reduce air pollution and reduce the economy's exposure to global oil prices, a chronic source of vulnerability. Those manufactured in India, or using Indian batteries (Ola Electric is building a battery gigafactory in Tamil Nadu which it says will be the largest in the world), could also, with the right trade deals in place, offer an exciting export market, offering the world an alternative to those exported from China.

It will not be plain sailing. Among other things, China does not want a rival. Sumant Sinha, the boss of ReNew, a clean-energy firm, says the country is blocking the export of equipment to make solar wafers so as to prevent India gaining a foothold in green supply-chains. Indian diplomats accuse China of "dumping" batteries , electric vehicles and other clean-tech goods on global markets. Green ambitions have put India in the middle of a trade war.

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states (as with labour, energy or schooling) or invests it in the states alone (as with land).

Building consensus is thus a necessity, not just among elites, as has been done with the case for liberalisation since the 1990s, but among groups nationwide whose interests are often only partially aligned. India's late finance minister, Arun Jaitley, was crucial to the passage of the GST because he helped convince state governments to sacrifice autonomy for the sake of the national market. No one has taken on that role.

The need for more such bridge-builders is great; only by securing active participation between all levels of government will the reforms of tomorrow be achieved. Take the deepening of the internal market, which is vital to providing jobs and new scope for growth. At the national level a new labour code is still restrictive, but it has at least shortened a list of rules. The obstacles are even greater at the state and local levels. Contract enforcement remains weak. One study found that filling judge vacancies in district courts would produce economic gains 30 times the costs. Land-use restrictions and highly indebted state-run energy-distribution companies raise costs for firms.

Or take schooling. Any serious plan to boost Indian growth also requires far deeper human capital beyond the elites. This is true even if you think India should focus on manufacturing. The boss of a global manufacturer that is planning to double its rate of investment in south India this decade, says he faces bigger talent bottlenecks hiring for roles like design and marketing than for factory workers.

India now has near universal enrolment in primary school. But ASER, a nationwide survey, suggests that outcomes plateaued in the 2010s and then fell during the pandemic. In 2022 only two-fifths of students leaving primary school in rural India could read a text intended for second-years. Teacher pay is not bad, yet teacher absentee rates are often 20-30%, suggesting poor governance. And teaching is parochial, too. One of the barriers to internal migration is that schools often teach in regional languages, not national ones. Much as central government might like to drive reform, it cannot; the machinery of education operates at a state and local level to which it has no access.

Leaders within the BJP do not deny this. They suggest the fact that states are increasingly competing with each other for investment, as Mr Modi did when he ran Gujarat, is a reason for optimism. Some think the central government should use its control over most tax revenues as a stick and a carrot to incentivise more states to follow national priorities. Still others argue that if only the BJP had control over more states, as it does through leaders like Yogi Adityanath in Uttar Pradesh, and a whacking majority in the centre, the country's problems would be solved. But there are reasons to think something deeper and subtler is needed.

Softly, softly

Much of what India needs—from making courts efficient to shoring up education—depends on improved capacity, especially at the local level. In 1992 India amended its constitution to shift many functions of government to the local level. But the amendment stayed on paper. As N.K. Singh, the chairman of the 15th Finance Commission observes, "the three F's—funds, functionaries and functions" did not follow. Just 15% of government employees work at the local level: in China and America the figure is 60%. Local



government spending accounts for a paltry 3% of resources, compared with 50% in China.

Local does not necessarily mean small-scale. The problems of "governance mismatch" are acute in big cities, where elected mayors are ceremonial and control sits with state-appointed bureaucrats less responsive to local concerns. Much of India still sees itself as fundamentally agrarian, and so governance often ignores the needs of cities. "The joke is that you become the chief minister of Maharashtra in order to gain control of Bombay," says an adviser to the government. Since most growth comes from the cities this matters a lot. The increasing need for cities to become centres of innovation, with well-run universities surrounded by entrepreneurs, makes the issue particularly pressing.

Broadly speaking, the quality of Indian government is proportional to the scale on which it is exercised. This makes the idea of delegating power down the chain of governance seem fraught to central and state governments alike. But for a really large country to develop quickly some such restructuring is necessary. Chinese reformers under Deng Xiaoping realised this early on. India has yet to grasp the nettle.

A national conversation is needed to obtain the buy-in of groups that stand to lose from reform. Mr Modi has made progress extending his party's support among lower-class groups, but there is still a big divide between urban and rural areas and between the centre and the southern states, and Mr Modi has stirred up animosity towards Muslims and other minorities. In 2020 he tried to reform agriculture, but pushed through the changes without consulting anyone, causing massive protests, and ended up backing down. Bolstering city governance has stalled because no one wants to give up power.

India is a diverse democracy, in which no party has ever won more than half the vote, and a federal one made up of 36 diverse states and territories. Leaders cannot bulldoze everything through. That is why building a lasting consensus around reform is essential to sustaining India's rise, a consensus as enduring as that on liberalisation in the early 1990s but far wider based. If that can be done, not only will 1.4bn people be better served, but the world at large could have a new engine of growth. ■

Acknowledgments A list of acknowledgments and sources is included in the online version of this special report

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Middle East & Africa



State v non-state

Militia mayhem

BEIRUT

The Middle East has a persistent problem with violent militias

TO BE LEBANESE is to see, in every event, the seeds of a new civil war. Recent months have provided ample cause for worry. In March residents of Rmeish, a Christian village in the south, confronted members of Hizbullah, a Shia militia and political party, as they tried to set up a rocket launcher in the town centre. Then on April 7th Pascal Sleiman, an official from the Lebanese Forces (LF), a right-wing Christian party, was abducted near the northern city of Byblos and murdered. The party's leader was quick to hint at a Hizbullah role (it denied responsibility).

Both incidents raised fears of Christian-Shia fighting. They also spoke to the same underlying problem: the state's inability to control militias, specifically Hizbullah. The villagers in Rmeish could not seek help from the army, which has little authority in the south. And if Hizbullah was behind the murder in Byblos, it would never be held to account: the group has enjoyed impunity for decades of killings.

The Middle East has a militia problem. Of the 400m people in the Arab world, more than a quarter live in countries where the state is too weak to rein in armed groups (see map on next page). Lebanon has Hizbullah. Yemen has the Houthis, a Shia faction that controls the country's most populous regions. Iraq has a constellation of militias. So do Libya and Syria.

Such groups are not unique to the Middle East. What makes its militias distinct is their symbiosis with the state. In theory Hizbullah is like any other party in Lebanon's sectarian democracy: its members sit in parliament and run ministries. It is also the only party better equipped than the army—and with the power to decide whether to drag the country into a foreign war.

The results are profound. Militias bring internecine warfare at home. But since October 7th they have also helped pull four Arab countries into an escalating battle with Israel, serving as proxies for Iran, which until recently refrained from fighting directly. Militias murder and intimidate their countrymen, loot billions of dollars from treasuries and scare off foreign investors. They are increasingly hated—yet devilishly hard to uproot.

The use or threat of violence is the first factor. Hizbullah is widely blamed for a string of assassinations that picked off its foes, from Rafik Hariri, a former prime minister, in 2005, to Mohamad Chatah, an ex-finance minister, in 2013. "They knew exactly who to kill," says a victim's relative. "Their opposition never recovered."

Money plays a role, too: many militias control vast economic empires. Ali Allawi, a former Iraqi finance minister, once said the treasury received less than $1bn of the

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$7bn in customs duties levied each year. Militias siphoned off much of the rest. In 2022 they formed a construction conglomerate and convinced the state to award it an area half the size of Cyprus. They issue loans to pensioners and collect hundreds of thousands of dollars a day taxing lorries at checkpoints.

There are many violent and corrupt rebel groups worldwide, but few control 12% of parliament's seats and run the labour ministry, as Hizbullah does in Lebanon. Other factors explain their primacy in the Middle East. Weak, illegitimate states are the first ingredient. The region's militias draw from deep wells of popular anger. The Shias of Lebanon, who form Hizbullah's base, were for centuries a poor underclass; those in Iraq were viciously repressed during Saddam Hussein's 24-year reign. Libya lacks deep sectarian splits but has regional divisions that stem from long misrule by Muammar Qaddafi, the dictator overthrown in 2011.

Next add a war that serves as the militias' raison d'être and makes them useful to the state. For decades the Assad regime controlled Syria tightly. Then came the popular uprising in 2011 that turned into a civil war when troops began killing protesters. The Syrian army needed help from a multitude of militias to squash the revolt.

Similarly, many of Iraq's militias emerged in the 2000s, fighting against American-led occupiers. They cemented their role in 2014 in a struggle against the jihadists' Islamic State when Iraq's army fled and surrendered the city of Mosul.

When militias share the state

That points to a third ingredient. Rebels by definition fight the state. In the Middle East, though, the state often confers a degree of legitimacy on such groups, then finds it impossible to reverse. The accord that ended Lebanon's civil war in 1989 called on all militias to disarm. But it made an exception for Hizbullah, which argued it was a resistance group fighting Israel.

The Houthis had long been an insurgency in northern Yemen, the poorest region of a poor country. In 2014, amid post-revolutionary chaos, they swept south and captured the capital and other big cities. The Yemeni army did not block them, hailing the Houthis as revolutionaries. All three ingredients were in place: a weak state, a conflict and a dollop of credibility.

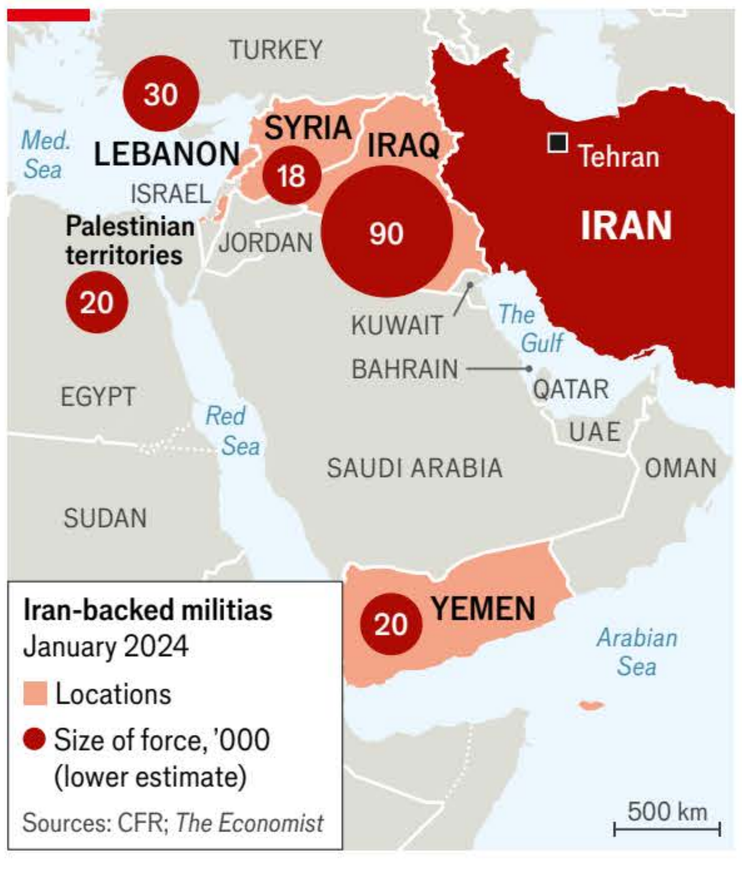
This is where the Middle East's militias diverge into two categories. Today they are the state in much of Yemen. But by seizing power the Houthis have galvanised opposition. Many Yemenis now blame them for poverty, famine and disease. As rebels, the Houthis railed against official corruption; in power, they embraced it.

Those in Iraq, Lebanon and Syria followed a different script. Instead of taking over the government they have sought to co-opt it. Hizbullah doles out contracts through ministries, hires supporters for civil-service jobs and skims money from customs. Most of Lebanon's parties do the same. But Hizbullah also controls its land border with Syria and several security and intelligence agencies, which other parties do not. Its formidable arsenal gives it a veto: its gunmen occupied Beirut in 2008 to force the cabinet to reverse decisions the party disagreed with. It is simultaneously part of the state and above it. Lina Khatib of Chatham House, a British think-tank, calls it "power without responsibility".

During Lebanon's civil war, most of its sectarian militias sought help from abroad. The LF received arms and funding from Israel, along with several Western and Arab states. When the war ended, though, formal support dried up. Only Hizbullah still gets sturdy help from a foreign state: Iran, which has sent tens of billions of dollars and an arsenal of modern weapons over more than 40 years.

That helps to explain the about-face by Samir Geagea, the LF's leader. One of the most vicious commanders in the civil war, in recent years he has seemed bent on conflict with Hizbullah. Yet on April 22nd, after two weeks of hinting at its role in Mr Sleiman's murder, Mr Geagea announced that there was no evidence to implicate the group. He might want a battle—but is in no position to wage one.

More than anything, it is external support that explains the stubborn strength of the Middle East's militias. Iran has been the main culprit, backing not just Hizbullah but also groups in Iraq, Syria and Yemen (other donors do the job in Libya). America has tried to block such aid through sanctions, with little success. Western policymakers and the UN have pursued schemes to convince militias to disarm. But as long as they have a pipeline of money and weapons from abroad they have little incentive to go along. ■



Iran and Israel

Now you see it

How Iran's switcheroo helped calm a crisis

WHEN IRAN and Israel exchanged drone and missile strikes earlier this month, the world was braced for a fully-fledged war in the Middle East. In the end both sides, having violently made their point, let matters rest. New satellite images now show how Iran saved face and backed down: it simply swapped one destroyed air-defence radar for a fresh one.

On April 19th, in response to an Iranian barrage days earlier, Israeli jets are thought to have fired several air-launched ballistic missiles towards an air base near the Natanz nuclear complex south of Tehran. The site has been key to Iran's nuclear programme since it was publicly exposed 22 years ago and is heavily defended with its Russian-made S-300 air-defence system.

Israeli missiles appear to have scored a direct hit. They struck a 30N6E2 "Tombstone" radar, which is designed to track incoming air and missile threats, allowing interceptor missiles to take them out, according to analysis by Chris Biggers, an imagery expert who used to work for America's National Geospatial-Intelligence Agency. The rest of the battery had been moved away, presumably in case Israel were to strike again.

New images acquired by Mr Biggers and shared exclusively with *The Economist* now show that Iran, by the next day, had pulled a switcheroo. It replaced the Tombstone radar with a different 96L6E "Cheese board" radar, placing it on the same spot. It also kept the launcher canisters, which fire interceptors, in an upright position, as though ready to fire. "It's a case of denial and deception," concludes Mr Biggers, "to suggest the site is still operational." It almost certainly is not. The two radars are not interchangeable and the battery will not work with a damaged Tombstone.

Iran is unlikely to fool America or Israel, both of which have high-end satellites and will know that the battery is kaput. But the kabuki radar allows the country's propagandists to claim that all is well. That may have averted a broader crisis.

One lesson is that Israel can strike Iranian air-defence systems—and the valuable sites they protect—without even entering Iranian air space. Another is that commercially available satellite images, once the preserve of a few big states, can expose the obfuscation of governments.

The third and final lesson is that this transparency is still patchy. American sat- ▸▸

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ellite firms have long been subject to legal restrictions on publishing high-resolution images of Israel. Though the rules were eased a few years ago, most providers are still nervous about releasing sharp images of sensitive Israeli sites. That can have perverse consequences. Iran's supporters have circulated low- and medium-resolution images to suggest their attacks on April 13th were highly accurate.

Decker Eveleth of the Middlebury Institute of International Studies has studied private high-resolution images of those strikes. He says they were, in fact, possibly less precise than Iran's attack on an American air base in Iraq four years ago, either because of Israel's GPS jamming or the distance the missiles had to travel.

Still, the absence of clear-cut evidence lets Iran claim the win. Much like the radar switch, that may suit all concerned. ■

Escaping Gaza

Your money or your life

How much do Palestinians pay to get out of Gaza?

ON A CLEAR night in March, Ahmed sat on a rooftop in Rafah, in southern Gaza. It was the only place he could get a phone signal in the crumbling and crowded city. Two weeks earlier, Ahmed had paid $5,000 to Hala Consulting and Tourism Services, a travel agency in Cairo, to get him onto a register of those allowed to cross into Egypt. New lists are published each day on Telegram and Facebook. Ahmed's contact had assured him that his name would appear soon. At last, at 10pm, it popped up. Early the next day, he went to the border. Getting across was a confusing process. The Egyptian officials, he said, treated Palestinians "like animals". But he made it into Egypt and then on to Cairo.

Until October 7th, Palestinians who wanted to leave Gaza had in theory two choices: a few could use the Erez crossing, in the north of the strip, monitored by Israel, or they could try the southern one at Rafah, overseen by Egypt. Erez is now closed to those leaving Gaza. The cost of getting through Rafah, the city to which around 1.4m Gazans have fled, is extortionate.

Even before the war, leaving Gaza via Rafah was not easy. Gazans could put in a formal request through the enclave's interior ministry, but that did not guarantee they would get out on the day. Or they could pay a middleman for a place on lists co-ordinated by Egyptian authorities.

Prices for such crossings for Palestinians have soared since the war. In January 2022, Human Rights Watch (HRW), an international monitor, put them at around $700 per person. Today they cost at least $5,000 for an adult and $2,500 for a child. Some report paying up to $15,000. With fears about an impending Israeli invasion of Rafah growing, prices show no sign of going down.

For most Gazans, finding money for even the most basic food is difficult at the moment. Sourcing thousands of dollars for a border crossing is unimaginable. So family and friends in the West are helping, raising money on platforms such as GoFundMe. Mahmoud Algharabli, a doctor in Ohio, moved from Gaza to America eight years ago. "I feel disgusted that I have to beg people for money so I can save my family," he says. But he has managed to raise enough money to get 16 members of his family into Egypt.

He paid more than $50,000 in fees to Hala to register them on the entry lists. The company has a monopoly on getting people out of Gaza and into Egypt, says Amr Magdi, a researcher at HRW. Hala's boss is "a guy who is very close to the Egyptian military and the intelligence agencies", he continues. (Hala did not respond to a request for comment.)

The United Nations Office for the Coordination of Humanitarian Affairs has documented allegations of bribery at the Rafah crossing for years. Mr Magdi says Hala could not operate without the say-so of the Egyptian authorities, though the government denies any accusation of profiteering. The money, says Mr Magdi, goes to corrupt officials and officers in Egypt's army who decide whether those who make it on the lists can actually leave Gaza. The exploitation does not put people off, however. Demand for services is so great that even those who can find the money have to wait in a long queue. ■



Where do they go next?

Iran

Cyrus the beloved

Why Iranian dissidents adore an ancient Persian king

THE CYRUS CYLINDER is, at first glance, an unremarkable chunk of clay, the size of a rugby ball. And yet it is one of Iran's most treasured antiquities. The cuneiform script that covers its surface recounts the capture of Babylon, in modern-day Iraq, by Cyrus the Great, a Persian emperor. One of its most striking claims is that Cyrus allowed those who had been deported to Babylon to go home. That included the Jews. Cyrus, the only non-Jew in the Hebrew Bible deemed to be a messiah, or anointed one, even paid for the restoration of the Jewish temple in Jerusalem, according to the Book of Ezra.

The cylinder is owned by the British Museum which is due to send it to Jerusalem on loan later this year. This has outraged Iran's rulers. In January Hadi Mirzaei, head of the General Office for Museums in Tehran, threatened the British Museum with legal action. An object of such cultural significance to Iran could not, Mr Mirzaei suggested, be trusted to Israel, a country against which the Islamic Republic has recently carried out air strikes.

Today Cyrus has become a symbol of leaders, particularly American ones, who are friendly towards Israel. Binyamin Netanyahu (and many conservative Christians) likened Donald Trump to the Persian king after he moved the American embassy from Tel Aviv to Jerusalem in 2018. Harry Truman, the first world leader to recognise the state of Israel in 1948, had gone

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Read the rune

further, declaring, "I am Cyrus!"

The Iranian government is more circumspect about the emperor. Its religious leaders prefer to venerate Muslims. The Cyrus cylinder is seen as the first articulation of human rights, which are not highly valued by the Islamic Republic. Neither is Cyrus's support for a Jewish return to Zion.

And yet Iran's leaders are willing to co-opt his memory when it suits. Mahmoud Ahmadinejad, then president, made a great show of the cylinder's visit to Iran in 2010 in an effort to rally nationalist sentiment and fend off his foes. "They pick and choose," says Narguess Farzad of London's School of Oriental and African Studies.

Other regime hands, however, are less keen on Cyrus. His tomb in Pasargad, a city in ancient Persia, has become a gathering point for its opponents. Thousands of Iranians circumambulated it in 2016. Police arrested about 70 of them. "Cyrus Day" has become an unofficial holiday. Celebrating Cyrus allows Iranians to show their disdain for the regime without outright protests, says Ammar Maleki of Tilburg University in the Netherlands.

The image of Cyrus as a figure of enlightened kingship grates with the mullahs. Iran's last shah, Mohammad Reza Pahlavi, liked to think of himself as a modern-day Cyrus. "Rest in peace, for we are awake," he assured the old king at a gathering of world leaders to celebrate 2,500 years of Iranian monarchy in 1971. That year, his sister presented the UN with a replica of the cylinder, which has been described as a precursor to its human-rights charter. His son, Reza Pahlavi, styles himself as Cyrus's successor, too.

Cyrus's reputation as a defender of human rights is questionable; he was an emperor, after all. But amid tensions with Israel and the threat of war, the memory of warmer relations—and a different kind of leader—appeals to many Iranians. ■

Addis Ababa

Deconstructing the city

ADDIS ABABA

The historic heart of Addis Ababa is being demolished

THE HISTORIC neighbourhood of Piassa, at the old heart of Addis Ababa, is being taken apart. Workmen are uprooting pipes, felling lampposts and chiselling at façades. One building is being dismantled brick by brick, as though a video of its construction is being wound backwards. Shops are being smashed through with sledgehammers. Homes have been bulldozed.

The demolitions in Ethiopia's capital are among the most dramatic that its residents can remember. "Unless we change Addis Ababa, we cannot bring in as much foreign wealth as we desire," said Abiy Ahmed, the country's restless prime minister. He plans to lift a ban on foreigners owning property, hoping to attract the same glitzy money that has poured into Dubai. The city administration talks of beautifying road corridors and developing cycle lanes. But it is not just buildings that are being dismantled: it is also an idea of what the city might be, and who it is for.

Addis Ababa (which means "new flower" in Amharic) was founded in 1886, when the emperor's wife gazed down from the surrounding hilltops upon the hot springs on the valley floor. Piassa became its cosmopolitan hub, drawing Greeks, Armenians and Italians, artists and traders, aristocrats and hustlers. In its streets generations of Ethiopians "experimented with ways and meanings of being urban", says Marco Di Nunzio of the University of Birmingham, who has written a book about the area. It was a place of commerce and conviviality, retaining something of that spirit to this day, even as many of its buildings fell into disrepair.

But Mr Abiy dreams of a city of tourism and technology, of grand parks and gleaming museums, overlooked by a planned multibillion-dollar complex which will include a national palace and a grand hotel. In February, in Piassa itself, he opened the Adwa Victory Memorial, which commemorates the victory of Ethiopian soldiers over Italian invaders in 1896. Visitors walk past tinkling fountains into cavernous exhibition rooms, where the country's history is displayed in glass cabinets or on LCD screens. The thick walls muffle the sound of the demolitions outside.

As many as 11,000 people have been evicted from Piassa, without any say in the matter. One man says he was given two weeks to leave his home. He has been promised a condominium on the edge of the city, but it is unfinished; in the meantime he is renting a room at three times the cost of his old place. Like other people interviewed, he asks for his name to be withheld. The prowling police brook no criticism of the project. One of the saddest things, he says, was the frightened silence of his neighbours on the day the bulldozers came.

Some residents say that redevelopment is necessary: in the words of a stoical mechanic, similar changes have happened in cities all over the world. But the upshot is that many residents are being driven out of the heart of the capital. Historically, rich and poor lived closer together in Addis Ababa than in cities like Nairobi or Cape Town, says Biruk Terrefe of Oxford University, but that urban fabric is now being unstitched by "a turbocharged sanitisation of the city centre".

The thud of sledgehammers can be heard on roadsides all over the city. A shopkeeper in another part of town says he spent 300,000 birr ($5,300) to refurbish his premises last year. Now it is threatened with demolition to make way for a cycle lane. "I have no hope here in Addis any more," he says. "Unless you are rich, you can't survive."



Soon to be a cycle lane

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South African politics

Long walk to nowhere

JOHANNESBURG

Why the ANC's likely losses are not the official opposition's gain

FOR THE Democratic Alliance (DA), South Africa's largest opposition party, the election on May 29th should be a golden opportunity. For the first time since it came to power in 1994 the African National Congress (ANC) may lose its national majority. After 30 years many voters are fed up with some of the world's highest rates of unemployment, inequality and murder. But the DA is still struggling to persuade them that it is a better alternative.

That makes the party an interesting case study of how race and politics interact in South Africa three decades after apartheid. In most countries the main opposition party might benefit from a fall in support for the ruling party: the ANC, which won 57.5% of the vote in 2019, may get 40% this time, according to some polls. Yet John Steenhuisen, the DA's leader, says that for his party to win 22%, as it did ten years ago, would be a major achievement.

This is a curiously modest ambition for a party which, on paper at least, has a lot going for it. The DA boasts a strong nationwide presence, having been the largest opposition party since 1999, and a stellar track record in the places where it has been elected to govern. On the campaign trail, Mr Steenhuisen rightly emphasises that the party controls South Africa's best-run metropolitan area (the city of Cape Town); the best-run secondary city (Drakenstein); and the best-run small town (Swartland); as rated by Good Governance Africa, a think-tank. All these are in the Western Cape province, also run by the DA.

It enjoys another major advantage: a level playing field. South Africa is renowned for the strength of its democracy. Elections are free and fair. Opposition parties are able to campaign without harassment or intimidation.

The DA's problem is mathematically obvious. In a country that is 81% black you will remain an opposition party if you cannot win over much of the majority. It draws most of its support from the country's minorities: whites, mixed-race "coloured" people and those of Asian descent.

But why is this so? There are three reasons: pedigree, personalities and policies. The DA traces its roots to liberal parties that opposed the National Party, the architects of apartheid. It argues, with some justification, that it has the most diverse candidates of any party in South Africa today. Yet in a country with a history of white supremacy, most black voters have historically leaned towards the party of Nelson Mandela or its offshoots. "Of course I'm not naive," says Mr Steenhuisen. "Race will play a role. But I take great heart from experiences in other democracies. Barack Obama was a minority in America, and he was able to get elected."

To put it mildly, Mr Steenhuisen, a white man, is no Barack Obama. The DA leader is a pugnacious parliamentary campaigner, but has a tendency to annoy black voters with comments that may sound amusing in Cape Town but go down poorly elsewhere. Helen Zille, a former DA leader, caused outrage when she suggested in a tweet that colonialism was not all bad.

Bye bye bye

The DA's personality problem has been compounded by the loss of senior black figures. Herman Mashaba, a former DA mayor of Johannesburg, quit in 2019, three days before the resignation of Mmusi Maimane, the first and only black party leader of the DA or its predecessor organisations, dating back to 1959. They have both since formed their own parties. Others also left: a local tabloid called it "Blaxit".

Carlos Amato, a political cartoonist, lampoons the DA as a bar of Top Deck, referring to a local Cadbury's product with white chocolate on top of dark. "Something is wrong when an allegedly liberal party in SA loses so many black leaders so prodigiously," wrote Justice Malala, a prominent analyst, in a column last month. Publicly, Mr Steenhuisen dismisses these criticisms as sour grapes from party members who have lost internal contests.

That may be true. Neither Mr Maimane nor Mr Mashaba is famed for a small ego. But both also disagreed with white leaders in the DA over policy. A particular issue is the DA's decision in 2020, both internally and in its public documents, to oppose policies that use either race or gender as a criterion for addressing inequality. This position represented a return to the DA's classically liberal roots, but alienated some of its senior black figures.

Mr Steenhuisen compares the DA to Britain's Conservative Party and cites Margaret Thatcher as its inspiration. Its centre-right, economically liberal views are a tough sell, however. It has a good case that ANC efforts to distribute wealth to black South Africans have been corrupt and ineffective. It reasonably argues that social policies should target individuals based on whether they are in poverty, not groups of different races. But in a country where nearly all poor people are black, that can be a difficult argument to win.

Pedigree, personalities and policies can all come together in the voters' eyes. Focus groups are said to like the sound of policies championed by the DA—until they learn it was the DA that came up with them.

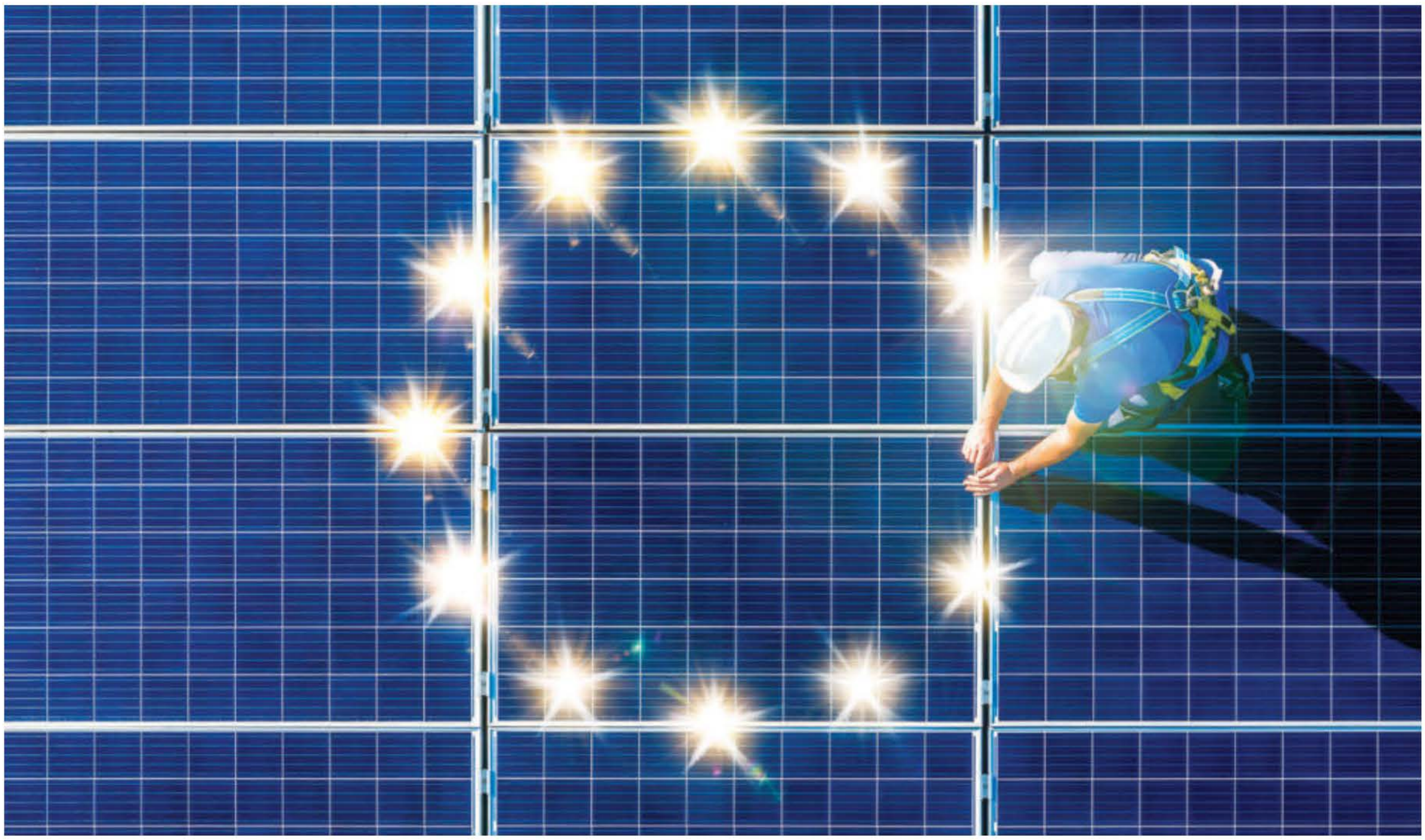
Some in the DA fear it may never get more than 20-25% of the vote, given the country's inequalities and demography. That may be a failure of imagination. But that share could still give it a powerful say in South Africa's future. The ANC is adamant that it will do better than polls suggest, but if its support does fall precipitously, it will need a big opposition party to form a coalition government. Mr Steenhuisen has left the door open for such a possibility. It would be a government of national unity for a divided country. ■



It's gonna be me

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Europe



Climate change in Europe

Getting greener

Thanks to a price mechanism that actually works

"OUR MOST pressing challenge is keeping our planet healthy," declared Ursula von der Leyen on the day she was elected president of the European Commission in July 2019. Five years on, it still ought to be. Global surface temperatures were 1.48°C higher in 2023 than pre-industrial levels, and 2024 is on course to be hotter still. But Russia's war in Ukraine and the prospect of another Trump presidency get more attention these days.

Good news, then, that the greening of the continent is making progress anyway. Emissions fell by a steep 15.5% in 2023, largely driven by reductions in carbon from electricity generation and industry. EU countries added 17 gigawatts (GW)-worth of windmills and covered roofs and fields with 56GW of new solar panels. (For comparison, nuclear-power capacity in the EU was roughly 100GW, though it can run 24 hours a day.) Officials reckon 2024 will be another record year for renewables. The commission's modelling suggests that current policies should get the bloc to an 88% reduction of overall emissions by 2040, compared with 1990 levels. With the 2030 target of a 55% reduction within reach, the EU should be able to agree to a target for 2040 of 90%. The main target, to get to net zero by 2050, is unchanged.

Three factors explain the new target and the reduction in emissions. The first is Europe's biggest climate achievement: its carbon price. By 2023 sectors covered by the EU's emissions-trading system (ETS), such as industry and electricity generation, had jointly reduced emissions by 47%, compared with 2005 when the scheme was launched (see chart 1 on next page).

Crucially, the scheme was toughened in 2023. Its sectors still need to reduce emissions a lot by 2030, meaning that from this year onwards the amount of emission permits issued will fall by 4.3% each year, compared with 2.2% in previous years. There will be no new permits at all after 2040. The price of a permit to emit a tonne of carbon dioxide stands at around €70 ($75) a tonne, compared with around €20 before the pandemic (see chart 2). Futures markets currently trade permits for the early 2030s at over €80 per tonne..

Last year the EU set up a second ETS to bring in some previously excluded sectors, such as road transport and domestic heating, by 2027. For fear of a political backlash, this "ETS2" has a clause to suppress its carbon price, should it rise above €45 a tonne in the first three years. Still, the aim is to reduce these sectors' emissions by 42% by 2030, compared with 2005, and to issue no new permits for them after 2044.

These carbon prices should be enough to bring about the lion's share of the 90% reduction envisaged for 2040, provided that politicians have the courage to avoid interfering if higher carbon prices become too painful for consumers and industry.

The second factor that may help is Russia's war in Ukraine. When gas prices jumped in 2022, firms were forced to cut their energy use or close production lines.

→ ALSO IN THIS SECTION

41 Meloni and the media

42 Russia and San Marino

43 Political drama in Spain

44 Charlemagne: Ursula von der Leyen

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This lowered emissions from ETS-covered industries by 5% in 2022 and another 7% in 2023. Although gas prices have now fallen, the disadvantage in fossil-fuel costs compared with America will continue to force firms to adjust, though the EU's carbon border tax (CBAM) will apply in full from 2026, protecting EU industry somewhat by taxing imports based on their carbon content. Renewable energy and grid extensions have also become an easier political sell, as green energy makes Europe depend less on autocratic providers of fossil fuels.

The third factor is low-cost green kit from China that will cheapen the transition. In Spain, Europe's sunniest country, electricity is practically free during the day. As the solar boom continues, power generation will become emissions-free much faster than previously thought. At the same time, cheap Chinese electric vehicles (EVs) are entering the market, lowering costs for drivers wishing to go green.

If things are going so well, though, why is Europe still introducing a raft of other climate policies? A bad reason is a desire to be better safe than sorry. Take cars. EVs in combination with cheap solar energy will make electric driving the more economical option for a large share of drivers. But, apparently not trusting its own carbon price, the solar boom or technological progress, the EU has added emissions standards for vehicles that drop to zero by 2035, and is mulling something similar for lorries. These regulations are not just unnecessary. They create perverse incentives, such as gaming the emissions tests. A study found that 65% of the supposed gains in fuel economy of cars since the introduction of the standards turned out to be false when tested under road conditions.

A better reason for further rules is to drive network effects. On April 13th a regulation came into force to ensure that Europe has a network of fast-charging stations. That removes part of the chicken-and-egg problem of building charging infrastructure. Such regulations can help the market work better and complement the carbon price.

The final reason for EU rule-making is to improve market integration. The best way to decarbonise is to electrify as much as possible. But the share of electricity in total energy consumption in Europe has been moving sideways at around 21% for the past decade—unlike in China, where it has risen steeply to 27% now.

An efficient renewable-energy system requires deep European integration. French nuclear, Danish wind, Spanish solar and Norwegian hydropower work best if they all feed into one European system. Otherwise, Spanish power prices will be zero for much of the day, just as Danish power prices are when it is windy, while France is stuck with too much nuclear power during the night. As a rough number, a fully connected European electricity market could reduce investment needs for storage and back-up capacity by 20-30%, according to recent studies summarised by Bruegel, a Brussels-based think-tank.

Such integration requires common policies. The EU's electricity-market reform, passed on April 11th by the European Parliament, is one attempt to harmonise the rules of the game. But countries are still free to set all kinds of policies on top of that; if these are not co-ordinated, they will make the system less efficient.

Another problem is cost. A renewable-energy system requires large investment along the whole grid: high-voltage transport across long distances, strong regional distribution lines and smart local delivery. For fear of local resistance, cables are buried underground, increasing the outlay. Now that much of Europe needs to get its budget deficits down, investment in grids could be stalled. That would be a mistake. With an effective carbon-price system in place, an integrated electricity market has a good chance of meeting even the new ambitious targets. That would be healthy for the planet indeed. ■

Polluter pays 2

EU emissions trading system, carbon price, € per tonne of CO_2



Source: LSEG Workspace

It's the carbon price, stupid! 1

EU greenhouse-gas emissions*, m tonnes of CO_2 equivalent

*Four-quarter moving average †Excluding transportation & storage

Source: Eurostat

Italy

Meloni and the media

ROME

Italy's government is trying to influence the state-owned broadcaster

ANTONIO SCURATI is one of Italy's leading authors. His historical novel "M: Son of the Century" won the Strega prize, Italy's most prestigious literary award, and has been widely translated. It was the first in a series that chronicles the rise and fall of Italy's fascist dictator, Benito Mussolini. So Mr Scurati was an obvious choice to give a talk on RAI, Italy's public broadcasting network, ahead of April 25th, the public holiday that marks the country's liberation from fascism in 1945.

But Mr Scurati never got to read it on air. RAI withdrew its commission. Mr Scurati said it was because it was critical of Giorgia Meloni and her refusal to disown the fascist past. RAI said that the reason was that he had demanded too high a fee. Ms Meloni responded with her usual deftness, claiming she did not know who was right and publishing the text of Mr Scurati's talk on her Facebook page. Not that that was necessary: it had already been published in the press, from where it went viral on social media.

The controversy erupted against the background of a campaign by Ms Meloni's supporters to redress what they see as RAI's leftist bias. The neo-fascist fore-runners of her Brothers of Italy (FdI) party were long treated as political outcasts. "Many of them hold the view that now it's revenge time," says Gianni Riotta, who teaches media studies at LUISS, a leading university in Rome. For her critics, their activities show that Ms Meloni, who has so far pursued a generally pragmatic course, is a wolf in sheep's clothing: that her long-term aim is to take Italy down a road already trodden by her friend the Hungarian prime minister, Viktor Orban, who has virtually excluded criticism of his government from public media. Reacting to an earlier controversy over the rules for coverage of the European election, the main trade union representing the RAI journalists declared that the government was bent on using it as its "megaphone".

Italy's public broadcaster has never achieved the independence of Britain's BBC or America's PBS. Until the 1990s, each of its three TV channels was earmarked for one of the main parties. Since then, every incoming government has tried to pack the corporation with its supporters. The consequences have always been more drastic if the government of the day leans to the right, as it does now: since the three big- ▸▸

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gest private channels form part of the Mediaset network, founded by the conservative Silvio Berlusconi, the right then attains a near-monopoly of what the nation sees on its small screens.

Ms Meloni's followers, however, seem bent on exploiting that advantage to an unprecedented degree. The European Parliament election guidelines for RAI will allow more time on air to ministers than to representatives of the opposition. The text approved by the parliamentary committee that oversees the corporation says that the usual proportional allocation of time can be overridden in the name of "guaranteeing the public timely information on institutional and governmental activities". It has even been suggested that this means that ministers might be able to talk for as long as they like on RAI discussion shows.

That said, at least two factors stand in the way of a Hungarian-style monopolisation of the narrative. The first is the need to show programmes the public will watch. Several leading TV personalities have already left RAI for private channels not beholden to the Berlusconi family, of which there are a growing number.

A second challenge is presented by the sheer volume of contemporary media. Young Italians in particular are more likely to be tapping into TikTok or Instagram than switching on RAI or Mediaset. And in any case, the influence of the two giants of the Italian airwaves was always debatable. "Silvio Berlusconi lost two elections," notes Mr Riotta. "And on each occasion he controlled both Mediaset and RAI." ■



San Marino and Russia

A weak link

LONDON AND SAN MARINO

The tiny republic, surrounded by Italy, is alarmingly friendly to Russia. Intelligence sources are concerned

EMMANUEL GOÛT has a long record of involvement with Vladimir Putin's Russia. The 65-year-old Frenchman has acted for some of Russia's leading energy groups and helped set up the French-language service of the Russian state-controlled television channel, RT. In 2020 he was awarded Russian citizenship by means of a special decree issued by the president.

Yet, for the past two years, and despite his history of close relations with Mr Putin's Russia, Mr Goût has been the diplomatic representative of a western European state, albeit one of the tiniest. On February 7th 2022, with Russian soldiers massing on Ukraine's borders ahead of the invasion that came 17 days later, the republic of San Marino named him as an ambassador-at-large. According to Luca Beccari, the microstate's foreign minister, Mr Goût was appointed because of his "experience over many years in numerous sectors of interest to the Republic". Yet his name does not appear on San Marino's own list of its envoys available to the public through its website. His appointment was announced only on a government portal reserved for diplomats, but left unsecured.

On July 18th 2023 San Marino gave Mr Goût more specific responsibilities, as its ambassador to Algeria. Mr Beccari said in written answers to questions from *The Economist* that at the time of the Frenchman's appointments "no other citizenships were declared, nor did other citizenships emerge from checks made internally". The decree granting Mr Goût his additional Russian citizenship can be viewed on a Russian government website.

This late-blossoming career as a diplomat is a manifestation of San Marino's unusual foreign policy, one that has provided Russia—and also China—with a little-known backdoor into western Europe, and especially Italy. It raises questions about the European Union's plans for closer ties with the republic. Last December the EU announced that it had successfully concluded negotiations for an association agreement with San Marino. The deal has yet to be formally approved in Brussels or ratified by the European Parliament.

An independent enclave in the north of Italy, San Marino has long had close ties to Russia, which it has explained by reference to its traditional neutrality. It did not join other Western nations in imposing sanctions after the annexation of Crimea in 2014. On the contrary, five years later, by which time Kremlin-backed separatists had occupied large parts of eastern Ukraine, the microstate's then foreign minister invited his Russian counterpart, Sergei Lavrov, to make an official visit. In 2021 it bought Russia's Sputnik vaccine, giving Moscow a propaganda boost, and later that year the two countries signed an agreement to scrap visa restrictions. In 2022, however, after the full-scale invasion of Ukraine, the tiny republic did implement sanctions against Russia, thereby abandoning centuries of formal neutrality.

That San Marino may still have an ambivalent policy towards Russia comes as no surprise to intelligence sources in Rome. San Marino has long provided a haven for espionage, says a former senior Italian intelligence officer. Russian, and to a lesser degree Chinese, intelligence services have made use of San Marino as a place to meet agents and conduct financial transactions "out of sight", the former official says. "It is a logistics base where you can meet calmly to discuss what you are up to in Italy."

The source suggests that recent opposition within San Marino to improving its policing equipment may have been motivated by factions wanting to keep prying eyes out. San Marino stands to benefit economically from its friendly relations with Russia, from where hundreds of thousands of much-needed tourists have come to the tiny republic.

Mr Goût first became involved with Russia in 1989, the year the Berlin Wall came down. Fininvest, a group controlled by Italy's former prime minister and TV magnate, the late Silvio Berlusconi, gave him the task of identifying business opportunities in the collapsing Soviet bloc. The ▸▸

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Frenchman later founded a PR firm that worked for the state-owned nuclear-energy corporation, Rosatom, lobbying other countries to buy Russian nuclear-power plants. His consultancy, Stratinvest, also listed among its clients the petroleum giants Rosneft and Gazprom.

In 2015, having turned his attention back to France, Mr Goût was reported by a French newspaper to have introduced the future far-right politician Eric Zemmour to the Kremlin. Two years later he played a key role in setting up RT France. Mr Goût is said by Ukrainian intelligence sources to have helped organise meetings with foreign politicians and journalists for Mr Lavrov, and to have consulted on negotiations regarding arms sales. Mr Goût did not reply to a request for comment.

Not that he is the only envoy of San Marino to have a history of close ties to Russia. Professor Igor Pellicciari, the republic's ambassador to Jordan, who is Italian, was appointed in 2019. Yet, from 2014 until 2017, he represented Russia as its honorary consul in Bologna, the most accessible big city to San Marino. Honorary consuls must reside in designated territories and, according to Italian diplomatic sources, his credentials were revoked after he notified authorities that he had moved to Russia. In response to *The Economist* Mr Pellicciari says that he "never received financial compensation of any kind—not even in the form of reimbursement of expenses" for his activities as honorary consul.

Landlocked San Marino has a population of less than 34,000 and occupies an area of barely 60 sq km. That makes it one of the smallest countries in the world. Yet until February 29th this year its honorary consul in Moscow was among Russia's most powerful men. Vladimir Lisin had held the post since 2002. Mr Lisin, a steel magnate, is Russia's third-richest citizen, according to *Forbes*, a business magazine. He has publicly criticised the invasion of Ukraine, but is subject to sanction by Australia, which placed him on its list in 2022 for "engaging in an activity or performing a function that is of economic or strategic significance to Russia". San Marino removed Mr Lisin from its consular corps only after he tendered his resignation; Mr Lisin's office told *The Economist* that this was "due to his inability to be present in the regions of consular activity on a regular basis". Mr Beccari says San Marino had not acted earlier "since Mr Lisin's name does not feature in the European Union's sanctions, to which San Marino adheres".

San Marino has been independent since 1291. It was not united with the rest of Italy in the 19th century—a reward, according to some versions, for having given refuge to Giuseppe Garibaldi and his wife during the struggle for Italian unification. Once a tax haven, San Marino's economy has suffered in recent years from the stricter control of offshore financial centres. Its citizens are nevertheless among the richest in the world.

Peter Stano, the European Commission's spokesperson for foreign affairs and security policy, said: "San Marino is an EU like-minded partner and regularly supports EU foreign-policy positions in international organisations." He also noted that San Marino had voted for the UN General Assembly motion demanding Russia withdraw from Ukraine. But a senior Ukrainian intelligence official said that although San Marino's continued ties to Russia were "not a surprise", the apparent lack of attention being paid to San Marino's foreign policies by its European neighbours was "a cause for concern". ■

Spain

Drama king

MADRID

Pedro Sánchez announces a surprise "reflection" over whether to quit

PEDRO SÁNCHEZ knows drama. When he was clobbered at last May's regional and local elections, Spain's prime minister promptly called national ones. To bet it all at his weakest moment might have seemed crazy, yet Mr Sánchez overperformed, assembled a rickety majority and came back as prime minister.

Drama has returned with his surprise decision, on April 24th, to clear his calendar until Monday the 29th when he will announce whether he plans to stay on the job. The cause of his "reflection", he said, was an attack on his wife, Begoña Gómez. A group called Manos Limpias ("Clean Hands"), founded by former a far-right political activist, has brought an influence-peddling complaint against her, and a court is making preliminary inquiries.



The reflective Mr Sánchez

Ms Gómez worked at IE University, a private institution, for four years directing its Africa Centre. Globalia, a tourism company, gave her and the centre's director round-trip tickets to a London conference and considered a €40,000 ($42,800) sponsorship for scholarships and events. That proposal was scuppered by the pandemic. Then Air Europa, an airline owned by Globalia, was bailed out with a €475m loan. Not a bad return on the cost of two aeroplane seats, if true. IE says not a cent was received directly from Globalia, nor will be. (Spain also bailed out other airlines.)

Ms Gómez later went on to Complutense University, to run a master's programme which Carlos Barrabés, an entrepreneur, was also involved in. He later formed a joint venture asking for public money to help young unemployed people. Ms Gómez signed two short letters of support. The joint venture submitted them (with dozens of others) and won its bid.

The pillars of the case against Ms Gómez (and Mr Sánchez) look flimsy so far. So why his announcement? Perhaps he really plans to leave. He has long been said to covet an international job. The most plausible would be the presidency of the European Council, the regular gathering of European national leaders. It is said to be reserved for a senior centre-left politician when top posts roll over after European Parliament elections in June. The frontrunner has been António Costa, who resigned as Portugal's prime minister last year (to fight corruption accusations which have since looked weaker by the day). Mr Sánchez hails from a heftier country, but last year ran an underwhelming six-month Spanish presidency of the Council of the European Union (its policymaking gathering of ministers). He has also put many backs up in Brussels with his unusually harsh criticism of Israel's war in Gaza.

Another reason to quit might be that more details about his wife's affairs will emerge and he knows it; better to walk than to be pushed. Yet another reason to go is the fragility of his governing coalition, which relies on regional nationalists who have already provided endless headaches. Passing budgets will be excruciatingly difficult, and he has already been through six years of withering criticism from the centre-right opposition. Almost any other job might seem more attractive.

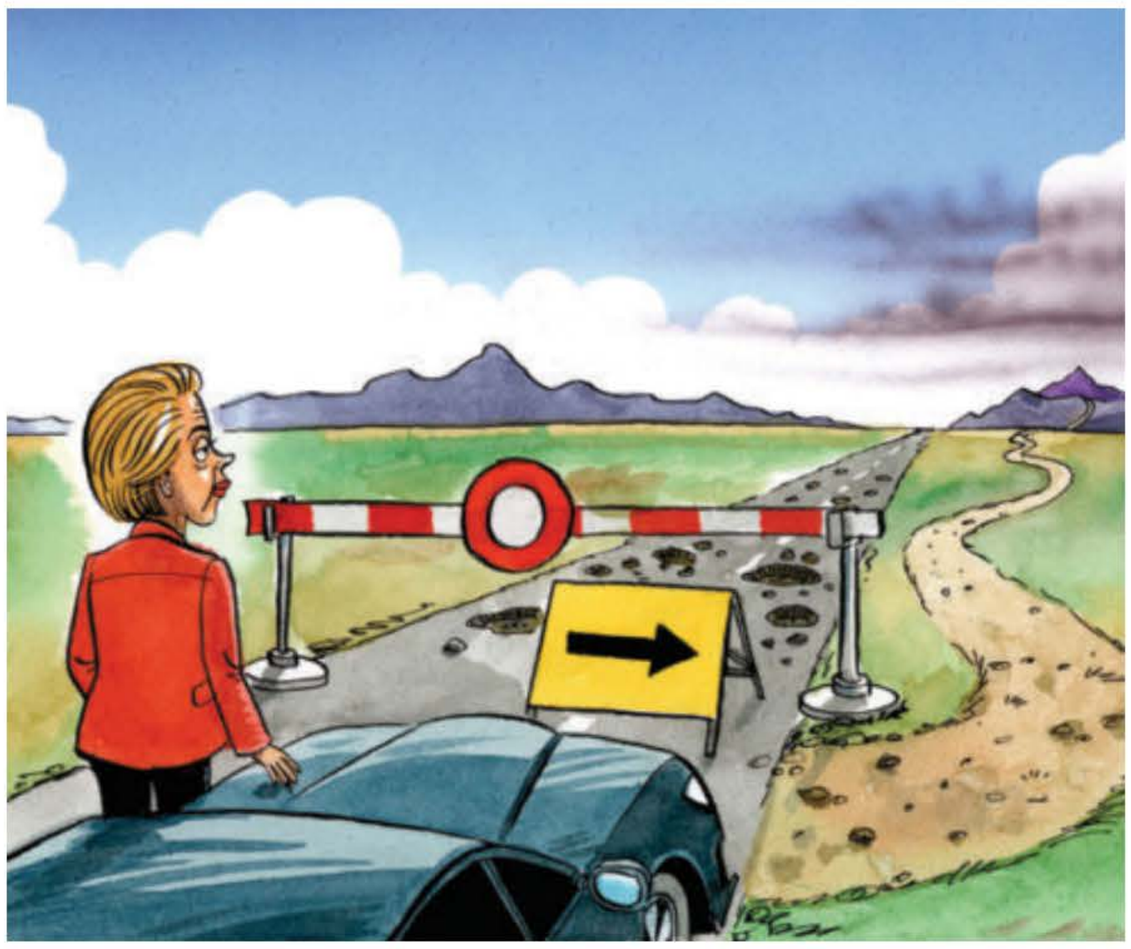
The reason to stay? He could snatch the limelight ahead of the European elections (and crucial Catalonia ones in May), and perhaps embarrass the opposition. Maybe a snap motion of confidence will energise his supporters. Only the dramatic Mr Sánchez knows. ■

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CHARLEMAGNE

Ursula's potholed road to a second term

Ursula von der Leyen is the favourite to keep leading the EU—right?



IF A POLITICIAN gives a speech but no one is around to hear it, does it make a sound? Ursula von der Leyen, president of the European Commission since 2019, might have pondered this as she addressed the largely empty chamber of the European Parliament in Strasbourg on April 23rd. Despite grandiloquent claims of holding the European Union's powerful executive arm to account, a mere handful of the over 700 MEPs showed up. Granted, those lawmakers who deigned to attend were treated to little more than a platitudinous account of an unremarkable meeting of European leaders the previous week. But the lack of cheering—the lack of *anything*—for Mrs von der Leyen among her fellow denizens of the EU bubble is enough to raise eyebrows. For soon the head of the 30,000-strong Brussels machine will have to persuade a majority of those MEPs to back her for a second five-year stint. The aura of inevitability of a von der Leyen second term has dimmed of late.

The 65-year-old German is hardly the first commission president to address a largely empty parliament (MEPs are often said to be busy with some other vital business). She is, however, the first to run for a second term since a new constitution-like treaty changed the way the EU was run in 2009. An attempt to make the top brass in Brussels seem more accountable to the public, by linking their appointment to the results of European Parliament elections, was well-intentioned, but has the capacity to kick up unpredictable results. As the incumbent, and only credible, candidate, Mrs von der Leyen remains odds-on to stick around after the elections on June 6th-9th. But her path to reappointment is more difficult than it once looked. At worst, a mishap could leave the EU ditching a competent and experienced leader at a time of war, economic torpor and potential Trumpism.

In theory, two things must happen for Mrs von der Leyen to get her extension to 2029. The first is that the EU's 27 national leaders must nominate her for the job, probably in the immediate aftermath of the vote in June. Then a majority of the 720 new MEPs must "elect" the president of the commission, in the odd parlance of Brussels (even in Russia's sham democracy, an election pits several candidates against each other). In practice, a third condition must be fulfilled: only a politician from the political group that won most seats in the chamber is likely to be nominated by leaders or approved by parliament. As the figurehead for the centre-right European People's Party (EPP), which is far ahead in the polls, Mrs von der Leyen is likely to go into the process in an ironclad position. But then comes the politics.

In theory most national leaders should love her. Mrs von der Leyen has pleased southern Europeans by setting up a post-pandemic recovery fund backed by joint borrowing; northern Europeans have seen their concerns about climate change addressed; eastern Europeans appreciate her staunch support of Ukraine. The only leader to campaign openly against Mrs von der Leyen is Viktor Orban, the cantankerous Hungarian prime minister, but he has no veto to wield; if the leaders cannot reach a consensus they can simply outvote him. Olaf Scholz of Germany is likely to back his compatriot even if they are not of the same party. Some leaders have gripes, like Poland's Donald Tusk, who is of the same group as Mrs von der Leyen but dislikes a recent migration deal she championed. Pedro Sánchez in Spain is no fan of her unflappably pro-Israel stance. Having announced he is considering his position as prime minister, he may have aspirations to a top Euro-job of his own, possibly chairing meetings of EU leaders.

Perhaps the biggest obstacle to a von der Leyen second term is Emmanuel Macron. France's president helped get her the job, but seems less enthused now. Mindful that his political career will end after the next presidential election in three years, he would like a more deeply federalised EU as his legacy, for example funded with more joint borrowing. Could a new top Euro-wallah push further, faster? Promoting a fresh face in Europe would help him distract attention from what looks likely to be an electoral battering in France in June: Marine Le Pen's hard-right National Rally is polling at twice Mr Macron's party in what is the last nationwide ballot before the presidential vote.

The parliament will prove trickier still. A coalition of at least three groups will be needed to reach a majority. The centrist alliance that backed Mrs von der Leyen in 2019 controlled 444 seats. This was 70 more than she needed, yet she scraped through with only nine votes to spare. This time her groups are predicted by the polls to be heading for a buffer of only 34 seats. Already some of her supposed EPP allies, like the French Republican party, have announced they will not back her. Broadening her coalition by bringing in the hard-right acolytes of Giorgia Meloni, say, would get her over the line. But that might compromise her appeal to liberals whose votes she also needs. The German is a technocrat at heart, with little experience of backroom politicking; the parliament enjoys flexing its muscles to remind the world it matters (or exists). That makes for unpredictable outcomes.

Leyen down the law

A failure for a candidate put forward by EU leaders to secure a majority in the parliament would result in gridlock. If not Mrs von der Leyen, then who? Mario Draghi, the former Italian prime minister and boss of the European Central Bank, will soon unveil a report on the future of the European economy that is likely to chime with Mr Macron's federalist vision, and would dazzle MEPs looking for a figurehead. But he is 76 and has played no part in the EU election campaign. Others on the centre-right, like Greece's Kyriakos Mitsotakis, would face as many questions as the incumbent. For that reason, Mrs von der Leyen is still likely to bag the prize. But the road to a second term is likely to prove tortuous. ■

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Britain



The ECHR

Rights and flights

LONDON AND STRASBOURG

An esoteric European issue preoccupies a wing of Tory party. Sound familiar?

"BEWARE! I AM going to speak in French!" So said Winston Churchill as he stood in Place Kléber, a square in central Strasbourg, on August 12th 1949. In the speech that followed, Britain's former prime minister set out his vision of a "united Europe" that would stand against tyranny. Central to it, he said, was the declaration of human rights by the United Nations in Geneva. Two years later, Britain became the first country to ratify the European Convention on Human Rights (ECHR), which was based on that declaration and largely drafted by British lawyers.

This is a history many Conservatives would like to forget. Facing an election drubbing and threatened on their right flank by Reform UK, a party that is polling well, some Tories are coalescing around the idea of abandoning the convention. Two potential leadership candidates, Suella Braverman and Robert Jenrick, have called for Britain to leave. Liz Truss, a former prime minister, has done the same. Rishi Sunak, her successor, has suggested he is prepared to countenance leaving. The grassroots of the party are in favour of quitting. Why has the ECHR become such a bugbear? And are there grounds to leave?

The ostensible reason why the ECHR is in the cross-hairs of disgruntled Tories is its role in impeding the government's plan to dispatch asylum-seekers to Rwanda. In June 2022, shortly before a plane carrying asylum seekers was due to fly to Kigali, the European Court of Human Rights (ECtHR) in Strasbourg, which enforces the convention, issued a "rule 39" order. This is an urgent injunction used when applicants are deemed at risk of harm. It was not clear asylum seekers would be fairly treated in Rwanda, it said; they risked *refoulement*, being returned to dangerous countries.

This angered the government, which believes the threat of deportation will deter rising numbers of small boats from crossing the English Channel (see chart on next page). Yet in November it became clear that the ECtHR had been right: Rwanda was not a safe destination for asylum-seekers, the Supreme Court ruled.

On April 22nd, after weeks of wrangling, Parliament finally passed a law declaring Rwanda to be safe. Mr Sunak wants the first Kigali-bound planes to take off in the next few weeks, and is in no mood to be thwarted by anyone, let alone a bunch of human-rights champions in Strasbourg. As well as telling domestic decision-makers to "conclusively treat the Republic of Rwanda as a safe country", the law allows ministers to ignore interim orders from the ECtHR (though that risks the court deciding that Britain is in full breach of the convention). "No foreign court will stop us from getting flights off," said Mr Sunak.

Further confrontation with the ECtHR over the Rwanda policy is not inevitable. Research by academics at the University of Oslo suggests that the court is more politi-

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46 The ECtHR's climate ruling

47 Bagehot: Reform UK

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cal than might be assumed. That may help explain why in March it tightened the rules on rule-39 orders to underline that they may be granted only exceptionally and where there is clear risk of irreparable harm. The court also issued guidance explaining that applicants facing extradition or expulsion must have exhausted their cases in domestic courts first. Judges who issue injunctions must now be named.

But even if the ECtHR does not get heavily involved in the Rwanda plan, it is not going away as a Tory neurosis. For the convention combines two elements most calculated to trigger right-wing politicians and voters: restraints on parliamentary sovereignty and progressive tendencies.

Some of the rights set out by the ECHR are uncontentious. But the interpretation of others is more controversial. On April 9th the ECtHR ruled in favour of a group of Swiss women who said their government's failure to combat climate change had violated their right to privacy and family life (see next story). And a gender ideology that Britain is now trying to roll back has some of its origins in Strasbourg. In 2002 the court ruled that Britain's refusal to allow a transgender woman (biological man) to change her birth certificate violated her right to privacy. That ruling led to Britain's Gender Recognition Act, the first national law letting people change their birth certificates without genital surgery.

None of which adds up to coherent grounds for walking out of the ECHR. It is possible to reform the convention and the court without leaving. Since 1951 its members have agreed on 16 amending "protocols". One introduced by Britain in 2013 underlined that national authorities are often in a better position to make decisions and made it easier for the court to reject trivial applications. Britain, like other members, can make arguments about specific cases as well as pushing for new guidance on things like emergency injunctions.

Stephanos Stavros, a human-rights lawyer in Strasbourg who has worked for the Council of Europe, observes that other countries are subtler at pushing at the boundaries of international asylum law. They also sometimes just break it. Late last year France deported an alleged radical Islamist to Uzbekistan although the court had issued an injunction. (There will be no punishment; the price of disobeying the court is reputational damage.)

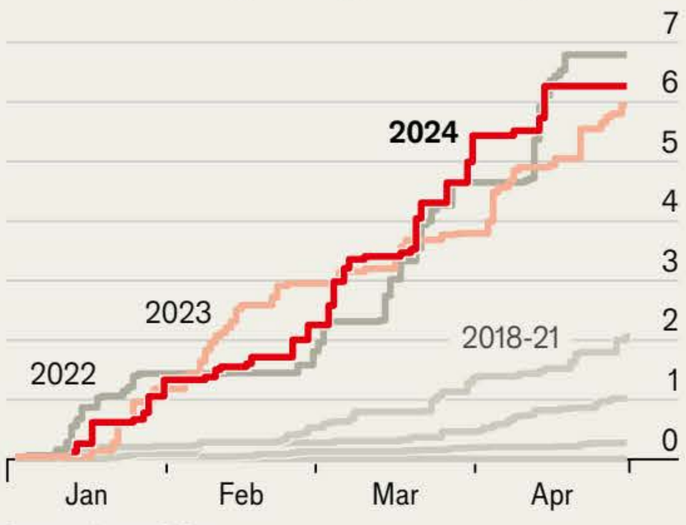
Any serious analysis of the ECHR would also take into account past rulings that are now widely considered crucial. The ECtHR has helped ensure that children are not hit at school, for example, and that gay people can serve in the army. It has also been "an important protector of journalistic sources and press freedom", says Adam Wagner, a human-rights lawyer. "This would be lost if we left the ECHR, along with the ability to influence international human-rights law across Europe, for no obvious benefit."

Such an analysis would also weigh up the costs of withdrawal. It is unclear what would happen to the Good Friday Agreement on Northern Ireland, which refers to the ECHR repeatedly. The UK-EU Trade and Co-operation Agreement of 2021 also stipulates that post-Brexit co-operation depends on adherence to the ECHR.

The Labour Party, which is odds-on to win the next general election, has no plans to leave. A poll by More in Common, a think-tank, found that only 25% of people think Britain should do so. That ought to be a clear signal to the Tories to focus their attention on more important issues. It seems not to be getting through. ■

Undeterred

Britain, cumulative number of migrants detected crossing the English Channel, '000



Source: Home Office

Climate law

The best marigold climate tribunal

Backing Swiss pensioners does not mean the ECtHR has gone rogue

IT COULD BE the plot of a kitschy tear-jerker: a group of elderly Swiss ladies sue their government in an international court over greenhouse-gas emissions, and win. On April 9th the European Court of Human Rights (ECtHR) upheld the claim of the Verein KlimaSeniorinnen (Climate Seniors' Association), an organisation of some 2,000 older women, that Switzerland had failed to protect them from climate change. The country's Greens celebrated the verdict. Others were less impressed. The populist Swiss People's Party (SVP) attacked "interference by foreign judges" and called for quitting the Council of Europe, the court's parent body. In Britain the judgment confirmed the scepticism of many Tories about the court: "complete overreach" was the verdict of Rishi Sunak, the prime minister.

In fact, the decision was less striking than it seemed. The court held that Switzerland had violated Article 8 of the European Convention on Human Rights (ECHR), which protects private and family life. This may seem odd grounds for a climate-change decision but Article 8 has long been the standard vehicle for environmental cases, since pollution almost always affects private life. Switzerland has signed the Paris accords and committed to curbing emissions so as to hold global warming to 1.5°C above pre-industrial levels. But it missed its target for 2020 and had no clear plan to meet its aim of a 50% cut by 2030. The ruling holds that Switzerland must implement regulations that achieve these goals. That is similar to recent decisions by the Dutch and German courts.

The ECtHR dismissed two other climate suits on the same day, against France and Portugal, and in the Swiss case it ruled that four individual plaintiffs lacked standing; only the Verein could proceed. The court is deferential to governments, says Jorge Viñuales, a law professor at Cambridge University, and among lawyers in human rights and the environment "nine out of ten are comfortable" with the ruling. The vote among the court's judges was 16 to 1.

Opponents claim the court is usurping the prerogatives of Switzerland's lawmakers and people. "It's an activist court," says Thomas Aeschi, an MP for the SVP. But the ruling does not specify how the country should cut emissions, only that it needs a plan. (It will, however, have to submit that plan to a body of the Council of Europe for approval.) Switzerland's environment minister, also an SVP member, has mellowed on the verdict: he thinks regulations that the Swiss government was already developing will satisfy the court's conditions.

Other European countries with flimsy climate plans are right to worry about the precedent set by the decision. The decision's biggest innovation was to grant a group like the Verein standing to sue. A case against Norway is pending. The kitschy tear-jerker may soon have a sequel, and with it, more ammunition for the court's critics.

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BAGEHOT

Reform UK does not exist

But it is all the more powerful as a result



REFORM UK MAY have an address at 83 Victoria Street in London. The right-wing challenger party may be registered with the Electoral Commission, a bit below Putting Crewe First and a few spots above Revolutionary Communist Party Britain (Marxist-Leninist). Courtesy of Nigel Farage, its honorary president, the party may attract reams of media coverage. It may well be, according to the polls, the third-largest party in Britain.

But it does not exist. The trappings of a political party are there; the content is not. From its voters to its candidates to its leader to its sole MP, nothing is real about Reform UK.

Its voters, for instance, exist everywhere except at the ballot box. They appear in polls, some of which now put the party only a few points behind the Conservatives. They appear in focus groups, with their concerns—Stop the boats!—taken as a proxy for what "real Britons" are thinking. They appear in the minds of Conservative politicians, who worry far too much about their right flank and not enough about their left.

When it comes to elections, however, Reform UK votes go missing. Wellingborough, a Leave-voting seat that held a by-election in February, should have been prime territory for the party. It mustered only 13%, a smidgen above its national number in a seat that should have been stuffed with Reformers. At every by-election so far, Reform UK voters have been similarly absent.

Perhaps in a by-election on May 2nd in Blackpool South, a constituency in the north-west of England, Reform UK voters will turn from a number on a pollster's spreadsheet to actual voters. Maybe they will pip the Tories to second. So what? Labour is still expected to win the seat at a canter. A real party could challenge it for victory—Blackpool, a struggling seaside town, should be fertile ground for populists. A fake one cannot.

Organisationally, Reform UK is a void. It struggles to muster candidates. In the forthcoming local elections, also on May 2nd, it will field candidates in barely 12% of contests. Finding people willing to be MPs has been tricky. Individuals have been criticised for being insane (one likened eating meat to cannibalism) or bigots (one said brown people come from "bum sex"). Another candidate was removed for "inactivity". He had stopped responding to calls or letters from the party. The reason? He had died weeks before.

Even the leader is a ghost. On paper the leader is Richard Tice, a smooth Brexity businessman. In practice it is the spectre of Mr Farage. When Mr Tice speaks, it is Mr Farage who haunts the stage. "Three years ago when we launched Reform UK everyone laughed at me," said Mr Tice at a recent rally. "They're not laughing now." The lines felt familiar because they were. It was the same gag Mr Farage used during a gloating speech in the European Parliament after the Brexit vote. Mr Farage himself appears only to flirt with a comeback. "Do I stick with this really very comfortable life?" he teased guests at his 60th birthday party, attended by a ragbag of friendly journalists, fringe Conservative politicians and Liz Truss, and breathlessly reported in the press. "I have genuinely not made up my mind."

Reform UK 's only MP comes in the form of Lee Anderson, who defected from the Tories in March. But he is best understood not as a real politician but as an absurd character in an on-the-nose satire. A reactionary former miner turned Labour councillor who joins the Tory party, becomes its vice-chairman and quits after a race row, only to become the first MP of a party that did not exist until 2021? Pull the other one. Mr Anderson was briefly portrayed as a voice of the forgotten voter. In reality he was a chancer, enjoying a few months of celebrity and a £100,000 ($124,000) salary for appearing on GB News, a right-wing news channel. No one is more fake than someone who claims to be authentic.

Being a void has advantages. Existence is suffering. Just ask the Liberal Democrats, who are the inverse of Reform UK. Where Reform UK is hollow, the Lib Dems are dense. They have 15 MPs in the Commons and 80 peers in the House of Lords. Almost 75,000 people pay to be part of an organisation they all know has next to no chance of reaching power. When by-elections come round, this yellow mob regularly descends to overturn vast majorities in once-impregnable Conservative seats.

The Lib Dems exist, then, but they might as well not. The party's influence on British politics is close to naught. The most likely path for the Lib Dems is to turtle along at 10% in the polls and win 40 seats at the next election, with barely anyone noticing. The Lib Dems are a benign tumour in the body politic: noticeable at first, but then easily ignored.

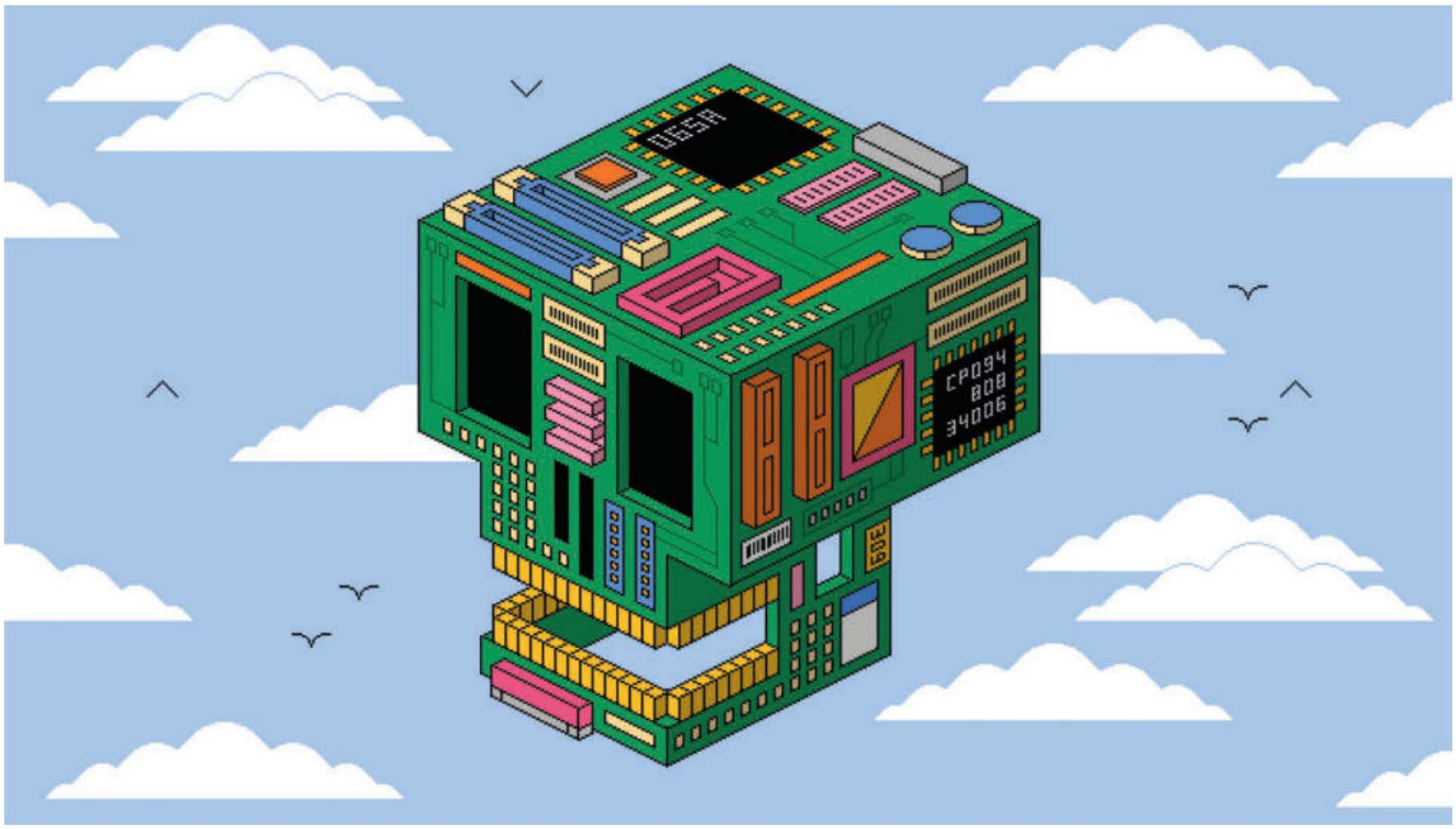
Ceci n'est pas un parti

In contrast Reform UK will probably win zero seats in the most chaotic way possible. Newspapers will feast on tales of dead candidates and vegan cannibals. Mr Farage, a willing pantomime villain in British politics, will stroll onstage. Voters in general may grimace, but Conservative Party members—an increasingly swivel-eyed yet worryingly influential bunch—will swoon. As a result a party with few candidates, an absent leader and a voting base conjured up by incessant polling is still able to panic the Conservatives. Reform UK may not exist but it will still shape politics.

That makes Reform UK something more powerful than a small political party: it is a nightmare. A normal party, with candidates and policies, can be crushed or ignored. Reform UK is a spectre that can be summoned by right-wing Conservative MPs at will, whenever the party threatens to edge towards the centre. It has what Mark Fisher, a leftie writer, called the "agency of the virtual"—the ability to affect things merely by polluting the minds of others, rather than by altering reality directly. Reform UK does not exist. But in British politics, existence is overrated. ■

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International



The next stage in the tech wars

Rage against the machines

WASHINGTON, DC

America, China and the competition to control the world's most important tech

FLOWS OF INFORMATION and energy underpin all economic activity, and advanced technologies support both. Hence the sky-high stakes in the tech wars between America and China. Started during Donald Trump's first term in office, between 2017 and 2021, they have continued under Joe Biden. China's leader, Xi Jinping, bridles at America's export controls on "chokehold technologies". The struggle is reshaping relationships and supply chains the world over. And its costs are mounting. Estimates vary, but the IMF reckons that the elimination of high-tech trade across rival blocs could cost as much as 1.2% of global GDP each year—about $1trn.

Whether China or America controls energy and information technologies is an "ethno-civilisational question", says Evan Ellis of the Army War College. The temperature of the confrontation is likely to rise over the coming years. Neither Mr Biden nor Mr Trump will shrink from challenging China, perhaps the issue which enjoys the highest level of bipartisan support in Washington. And for China to back down from what it sees as its rightful place in the global order is unthinkable for Mr Xi.

The next stage of the tech wars will play out in two major arenas. One is chipmaking, which creates the world's information-processing infrastructure, including the one that trains and runs artificially intelligent software. Any degree of Chinese control over the production of chips is intolerable to America. The other is green technology, as its components may become the backbone of the entire global economy. For China the strength of its companies in this arena is not just a natural consequence of two decades of focused industrial policy, but a confirmation of its important role as a global leader.

At the moment the battle is over apps. On April 23rd Congress passed a bill asking the Chinese owners of TikTok, a video platform used by 170m Americans, to sell up in 270 days or face a ban. Days before Chinese authorities forced Apple to drop WhatsApp and Threads, platforms owned by Meta, from its Chinese app store. But despite the outcries, apps are a second-order concern as they require chips and energy to run—not the reverse.

Consider the current positions of the two countries. America is pushing chipmakers to expand cutting-edge production on its shores. On April 8th the government announced $6.6bn in subsidies for Taiwan's TSMC for three new fabs in Arizona. On April 15th came $6.4bn for South Korea's Samsung to build fabs in Texas. The moves fall under its $280bn CHIPS and Science Act, an industrial policy introduced in 2022, which incentivises the creation of fabs and the training of staff for them. Also in America's toolkit is the Inflation Reduction Act (IRA), a $369bn green-subsidy package passed in 2022. It supports domestic production of green gear through tax credits. Meanwhile, America maintains high tariffs on Chinese solar panels and EVs, of 14.25% and 25% respectively.

China has nonetheless raced ahead in green tech. Longi is the world's largest solar-panel manufacturer; CATL is the largest battery maker and BYD is wrestling with Tesla for the title of the world's largest maker of EVs (see Schumpeter). Chinese chipmaking has not panned out so spectacularly, however, despite government subsidies of about $150bn over the past ten years. That is to some degree a measure of America's success in blocking the flow of chipmaking technology into the country

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over the past two years.

So what next when it comes to chipmaking? The first casualty in the tech wars was Huawei. It was the company on which the Trump administration honed the export controls that are now used on China as a whole. The question is what comes after America's election in November. Whoever wins, the next president will almost certainly launch a new, Huawei-style campaign against other Chinese tech firms. This is partly because China hawks will pack any new American cabinet.

Under a Trump presidency, foreign companies may have extra reasons to fret. TSMC is one such: in July last year Mr Trump grumbled that Taiwan had taken away America's chip business. But it is South Korean chip firms, SK Hynix and Samsung, that stand out most, having invested some $35bn in China since 2020. "Trump 2.0 is going to play a lot more hardball with the Koreans," says one congressional staffer who works on Chinese tech policy. Under Mr Trump, he says, American subsidies will come with a requirement not to invest in China at all.

Firms in related industries are on alert. MGI Tech, a spin-off of the Chinese giant BGI which makes genome-sequencing equipment, is likely to be a target. Republicans, in particular, are upset that MGI's machines have been installed in European hospitals. "Major multilateral controls on quantum technology" being exported to China are also likely, says a Republican staffer. That may be intended to deny China access to quantum computing and sensing technologies which may become important in the future, rather than waiting until they prove themselves in the market.

American corporations are not entirely relaxed, either. Although advisers and lawyers believe the CHIPS Act will remain in force, some big companies, such as Intel, may be keen to know that the contracts governing their disbursements under it are ironclad. "We want to make sure that is legally binding," says a chip executive.

Tech bosses may also dislike discussions about reforming the Bureau of Industry and Security (BIS). This is the agency in charge of the export controls which have been used extensively over the past six years to attack Chinese technology firms. Many Republicans and some Democrats believe that BIS staff have been slow-pedalling the controls. But chip firms rely on the bureau's machinery, according to one tech boss. Some would consider moving some operations abroad and altering supply chains if BIS comes under fire, so as to be freer of Washington's control.

If America acts against Chinese chipmakers, China lacks responses which are not obviously self-destructive. It found one last year: placing export controls on gallium and germanium, two materials which are small but important ingredients in the chipmaking process. China could do so because it supplied 98% and 60% of global output in 2022. Commodity-export controls are weak, however, compared with America's grip on intellectual property.

More powerful are Chinese efforts to dominate the production of less technologically advanced chips. One open question in the tech wars is the extent to which growing Chinese control of less advanced chip manufacturing can satisfy global demand for the sort of computation that is found in EVs and smart grids.

What about green technologies? America has little it could deny China, and so its plan over the coming years is to withhold access to its market, the world's second-largest, and to persuade allies to do the same. Mr Biden will probably continue down the climate-friendly path he has followed in office. He will reinforce links with allies and use public money to accelerate America's decarbonisation while blocking many, if not all, Chinese imports. Mr Trump is a different story. Talk of the more aggressive, climate-agnostic approach that he is likely to adopt is already rattling executives in America and around the world.

The IRA should survive either man. "No Republican is going to say 'I support it', but I think they're OK with the IRA continuing to exist," says one Republican insider. That may be because $74bn of the $106bn IRA-stimulated investment to date has gone to Republican counties. An extreme aim may be to remove any and all Chinese components from the supply chains whose creation the IRA is encouraging. "The ability for Chinese companies to receive a single dime from the IRA is going to go," says the same insider. It's possible that the act morphs from a climate initiative into one exclusively supporting high-tech manufacturing in America.

The automotive industry could be among those which struggle most amid an anti-green onslaught. Mr Trump has called EVs a "hoax" and says Chinese-made EVs will destroy America's car industry. That leaves car firms in a bind. The biggest, says one lobbyist, have developed plans to establish joint ventures with Chinese battery companies on American soil. So far only Ford has spoken publicly about its plans to license technology from CATL; Republican attacks followed. "I know that companies have negotiated these things. I suspect they're waiting, because if Trump gets elected these [deals] will disintegrate," explains the lobbyist.

Chinese solar, EV and battery firms will keep trying to find ways into the American and European markets. That could be through joint ventures with domestic companies, or through factories built in countries such as Mexico with which America has a free-trade agreement. But China's domestic market, and that of the world outside the West, provides plenty of opportunity; China installed more solar in 2023 than America has in total. In chips China has market power, but not technological dominance. With green tech it has both.

Staying in the shade

China, solar-panel exports by destination, $bn



Source: Ember

Uncovering the costs

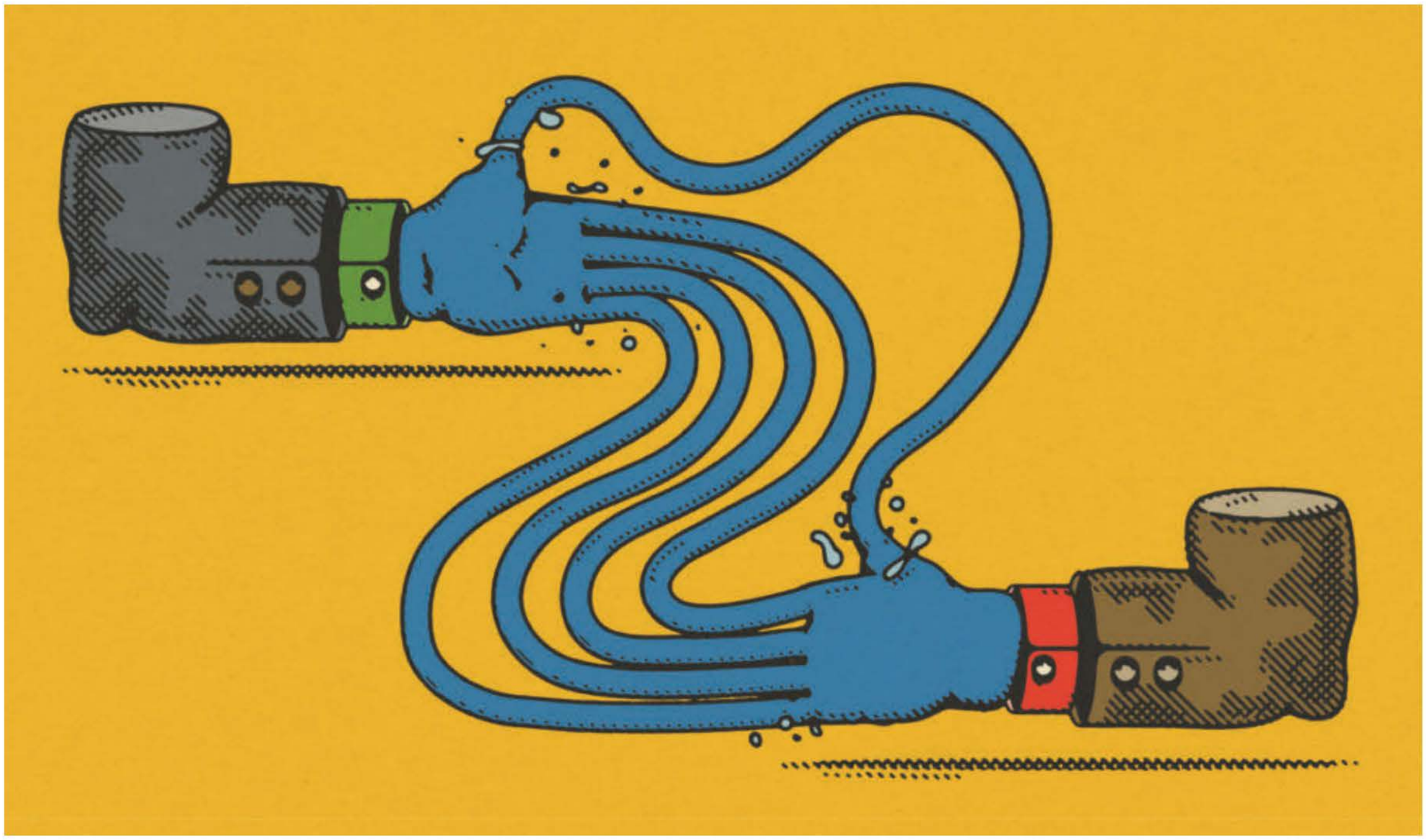
The potential effects of prolonging the tech wars are sobering. Any American administration that fights China on every front could lose focus on the fronts that matter most. Chinese green-tech exports are booming all around the world (see chart), and installations within China are growing faster than anywhere else, so denying access to the American market may not do much to weaken the grip of Chinese firms. And a more unilateral approach to controlling the flow of advanced technologies into China may harm the fragile cooperative relationship that the Biden administration has built with the Japanese, among others, in recent years. American policy could also alienate European allies. American policymakers report a lack of interest from their European counterparts on export controls and outbound investment screening against China.

But the biggest costs of the tech wars could be the bifurcation of the world's information and energy-technology industries, leading to sagging economic growth and slower decarbonisation. They will probably accelerate firms' secretive efforts to develop offerings for the Chinese market over which the American government has little or no control. That could inadvertently give China more power to set technological standards in parts of the world that use its equipment.

The Biden administration's approach to China and technology has been relatively predictable. For that reason, it has been less disruptive. By all accounts, Mr Trump would break with Mr Biden's policy even though it is a continuation of his own first term. Unfortunately, an even more aggressive campaign may lead to worse outcomes for America, China and the world. ■

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Business



Corporate dealmaking

Joint adventures

How to build a global business empire in the 21st century

No firm is an island. All strike contracts and compete with others. Conversely, when bosses decide a relationship would be better governed by fiat, one firm may acquire another—as BHP, a $150bn mining giant, proposed to do with a $35bn rival, Anglo American, on April 24th. Yet between the poles of contract and total commitment are plenty of ways for firms to combine capital, knowledge or other resources, without fully tying the knot.

Such in-between arrangements are winning favour across the economy, from tech and artificial intelligence (AI) to carmaking and energy. While corporate takeovers stalled in 2023, a few mega-mergers notwithstanding, the number of joint ventures (JVs) and partnerships jumped by 40%, according to Ankura, a consultancy. They are especially popular in areas of rapid technological change and in places given to protectionism, which these days afflicts rich and poor countries alike. With barriers to commerce rising, high interest rates contining to bite and regulators bridling at takeovers, such liaisons are becoming the go-to way to enlarge a business empire, as the recent actions of companies including Disney, Ford and Microsoft illustrate. Call it the age of the quasi-merger.

When the scope of co-operation is clear, firms often choose to share ownership of a separate entity through a JV. In February Disney announced a new sports-streaming service bringing together its ESPN network with the content of two rivals, Fox and Warner Bros Discovery. Weeks later it made a similar move in India, joining forces with Reliance, a giant Indian conglomerate, in an $8.5bn deal.

Many constructs are fuzzier. Microsoft has forged partnerships with some of the hottest makers of AI models: OpenAI of San Francisco, Mistral of Paris and, this month, G42 of Abu Dhabi. The investments give the world's most valuable firm minority stakes in Mistral and G42. After backing OpenAI to the tune of $13bn, it holds a non-controlling interest in the ChatGPT-maker's for-profit subsidiary. In February Ford, an American carmaker, joined forces with CATL, a Chinese battery giant, to build a $3.5bn battery factory in Michigan. CATL would bring the know-how via a licensing deal, but not own a stake in the project. If TikTok's Chinese owner, ByteDance, sells the app rather than shutting up shop in America, as a new law dictates (see subsequent article), the short-video time-sink may end up in the hands of a consortium of Western firms.

Quasi-mergers are not new. Firms have long teamed up to manage project costs, new technologies and manufacturing-obsessed governments. This year Renault of France and Nissan of Japan are celebrating a quarter-century of carmaking's biggest alliance, which Mitsubishi, another Japanese firm, joined in 2016. CFM International, co-owned by GE Aerospace, an American industrial giant, and Safran, a French

→ ALSO IN THIS SECTION

51 Boeing's nosedive
53 War and business in the Gulf
54 Bartleby: Workplace gossipmongers
55 Bye bye, TikTok
56 Schumpeter: Musk's conundrum

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one, has been making aircraft engines since the 1970s. In the 1990s, notes Melissa Schilling of New York University, companies scrambled to form partnerships to capitalise on the new technology of the day—the internet. Developing countries, including China, have often obliged foreigners looking to take advantage of cheap labour and vast markets to hand over technology through JVs with local partners.

Today's more complicated world is leading to more complicated arrangements. One hotspot is, again, carmaking. The industry is being remade by the shift from combustion engines to electric vehicles (EVs)—and by fears of deindustrialisation as Chinese firms dominate the market. In October Stellantis, formed by the merger in 2021 of Fiat Chrysler and PSA Group, owner of Peugeot and Citroën, announced the purchase of 20% of Leapmotor and the establishment of a JV to build and sell the Chinese firm's EVs abroad. (Stellantis's biggest shareholder part-owns *The Economist*'s parent company.) The next month Renault and Nissan ratified a new, looser pact with more equal cross-shareholdings. In March Nissan and Honda, another Japanese rival, said they were exploring a strategic partnership to develop EVs.

Many of the new carmaking ventures are not about making cars—at least not directly. Last year Stellantis bought nearly 20% of McEwen Copper, a small miner, as part of a deal (which also involves Rio Tinto, a giant one) to extract the red metal in Argentina. That copper may eventually make its way to Kokomo, Indiana, where Stellantis owns 49% of two battery factories being built with Samsung SDI, a South Korean battery firm part-owned by the electronics giant of the same name. Stellantis is also part of IONNA, a JV among seven carmakers that plans to build 30,000 charging stations in America.

Digital titans are building similarly intricate webs of co-operation. In contrast to those between lumbering carmakers, whose rationale is to spread costs, the AI deals have more to do with antitrust cops' conviction that big tech is already too big. In March Amazon said it had invested $4bn in Anthropic, securing access to the AI firm's Claude 3 model for its customers and crowning itself the model-maker's "primary cloud provider for mission-critical workloads". Alphabet has promised Anthropic up to $2bn and also crowed that the startup uses its cloud infrastructure.

Microsoft team-ups

AI's most ambitious dealmaker, Microsoft, is well aware of the dangers posed by stickier red tape. Its full-blown acquisition of Activision Blizzard, a video-game developer, took nearly two years to complete and was nearly derailed by trustbusters. The software behemoth first began working with OpenAI in 2016; $13bn later and it is integrating OpenAI's models into its consumer and enterprise products. In the shadow of turbulence at the startup, which in November led to the swift firing and rehiring of its boss, Sam Altman, Microsoft has begun to spread its bets.

The $16m investment in Mistral, announced in February, may be tiny but helps bring France's best shot at becoming an AI superpower into Microsoft's orbit. In March the tech world was stunned by an even more creative "no-deal" deal whereby senior employees at Inflection AI, another model-maker, decamped to Microsoft. The startup's other investors are reportedly being compensated by an unusual licensing agreement. (One of Inflection's founders, who also moved to Microsoft, sits on the board of *The Economist*'s corporate parent.) Microsoft's $1.5bn G42 transaction is half partnership and half high-stakes diplomacy—the deal came with hope of closer co-operation on AI between the American and Emirati governments.

The success of the quasi-merger wave is hard to predict. Though alliances pass the desks of regulators more easily than takeovers, they can still come unstuck. Last year American Airlines and JetBlue ended theirs on America's east coast after being sued by the Department of Justice. Disney's new sports venture is getting a close look from antitrust referees. Earlier this year the Federal Trade Commission, another American trustbuster, opened an inquiry into the AI deals. European and British regulators are making similar noises.

Cross-border deals, in particular, tread a narrow path. Teaming up in emerging economies has always needed careful management, lest politically connected locals turn on foreign partners or an entire jurisdiction becomes uninvestable. The turn away from free markets in the West has, to some extent, globalised this political uncertainty. The flexibility inherent in a partnership or JV but absent from a full-on takeover could make such structures more politically acceptable. But even transactions crafted to avoid tripping wires can come under scrutiny. Although CATL's partnership with Ford does not involve an equity investment by the Chinese firm, that hasn't stopped American lawmakers from calling for close scrutiny of the deal.

Perhaps the biggest threat to the newfangled partnerships is the partners. Aligning firms' incentives is notoriously tricky. The crucial fine print of quasi-mergers is kept secret, giving shareholders little insight into what bosses have actually agreed to. Disputes are ten a penny. In March an American judge ruled that Walmart could end its partnership with Capital One after the supermarket and credit-card provider fell out over the terms of their agreement. A fraught game of linguistic chess has the oil industry on the edge of its seat. ExxonMobil is warring with Hess, a smaller rival, over what should happen to their JV in Guyana should Hess sell itself to Chevron, Exxon's rival American supermajor.

A global slowdown in EV sales will put stress on carmakers' new constructs (Ford has already scaled back plans for its battery plant in Michigan). Being a novel technology, AI raises novel questions about things like safety or copyright that may not lend themselves to shared decision-making. Quasi-mergers are here to stay. Many may prove only quasi-successful. ■

Takeovers take a tumble

Global mergers and acquisitions*



Source: Bloomberg *Deal value greater than $100m

Boeing

Wings of change

The American planemaker needs one hell of a pilot

FEW COMPANIES have had a worse start to the year than Boeing. In January a panel masking an unused emergency exit blew out of a 737 MAX over Oregon. Thankfully the plane landed safely. A preliminary probe into the near-disaster concluded that the bolts that should keep the panel in place were missing. The incident prompted internal investigations and brought federal regulators to Boeing's factories to audit manufacturing processes. If that were not enough, on April 16th a whistleblower claimed that unacknowledged defects with 787 Dreamliners were symptomatic of a firm with "no safety culture".

The immediate consequences of the added scrutiny was a sharp fall in deliveries of planes—83 commercial jets in the first quarter, compared with 130 a year ago and, gratingly, with 142 by Airbus, Boeing's European arch-rival (see chart on next page). The damage was apparent when Dave Calhoun, its boss, presented quarterly results on April 24th. After announcing a ▸▸

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net loss of $355m, he sought to assure sceptical investors that the company was making good progress in resolving its manufacturing problems. Hanging over the earnings call was also the question of Boeing's next pilot, after Mr Calhoun a month ago announced his departure at the end of the year amid a big shake-up of management and the immediate appointment of a new chairman.

Mr Calhoun's successor will face an unenviable in-tray. A comparison with the fortunes of Airbus highlights Boeing's slide. In 2017 the market value of the American firm was two and half times its only rival's; now it is roughly the same. Since 2019, when the entire 737 MAX fleet was grounded for nearly two years after two fatal accidents attributable to faulty software, Boeing's combined annual net losses have amounted to $24.5bn. In that period Airbus has made profits of nearly $10bn. Boeing's orders of 5,700 planes are far below the 7,700 in the European firm's books.

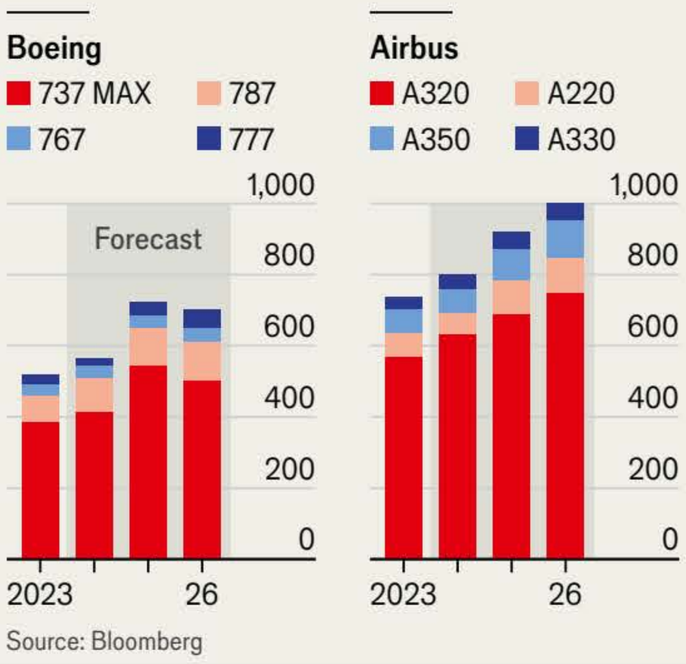
The roots of Boeing's many crises are summed up by Aviation Strategy, a consultancy. An "obsession with quarterly results and share price momentum" resulted in too much cash being returned to shareholders and too little put into developing new products or ensuring production quality. Between 2014 and 2020 Boeing handed out $61bn in dividends and share buybacks. It was not just shareholders who benefited. So did managers, whose bonuses were tied to their employer's surging share price. Ron Epstein of Bank of America notes that a merger with McDonnell Douglas in 1997 foreshadowed a "cultural shift away from engineering excellence". Boeing began to favour short-term financial management in a long-term industry, while Airbus focused less on investors and more on its aircraft, which might have a life-cycle measured in decades.

Reversing the cultural slide will be the hardest job for the new boss. It could take years. More immediately Mr Calhoun's replacement will have to ramp up production of the 737 MAX and guide new variants of this and other, long-haul planes to certification. At the same time, he or she must prepare the ground for the next generation of short-haul passenger jets. Airlines are angry with Boeing for delivery delays of the 737 MAX. Regulators, awaiting Boeing's plan to improve quality control, have capped production at 38 a month. Boeing's troubles mean that it does not actually expect to hit that rate until later in the year, by which time Airbus may be making 65 of its competing A320s.

Delays could have a lasting effect. Switching to Airbus would be no easy matter for airlines, not least because the European firm has no free delivery slots for its short-haul jets until the end of the decade. Yet a point could come when carriers feel they can no longer depend on Boeing. United Airlines is rumoured to be considering replacing an order for a larger version of the 737 MAX that is five years behind schedule and, with certification still pending, with no prospect of delivery.

Terrain, pull up!

Aircraft deliveries



Source: Bloomberg

Boeing's reliance on its past reputation as an American industrial behemoth won't cut it. As Mr Epstein observes, it may be "too big to fail but it is not too big to be mediocre". A struggling Boeing could open the door for challengers. COMAC, a Chinese one, has long-standing plans to break the duopoly, though so far without a plane that can truly compete with a Boeing or an Airbus. Embraer, a Brazilian maker of smaller regional jets, could also make a move into bigger aircraft.

New short-haul jets, likely to enter service around 2035, are another priority. It is a huge and expensive task that Mr Calhoun reckons will cost $50bn. To investors' consternation, that is nearly double the figure for Boeing's previous clean-sheet designs. Choosing the right technology is a task that Boeing has to get right. But some observers fear that the firm, which has not launched an all-new plane since the 787 in 2004, may have lost the institutional memory for such a huge undertaking.

The new boss will inherit other problems. A third of Boeing's revenues comes from its defence-and-space arm. The division's profits used to insulate Boeing from the cycles of the passenger-jet business. In the past two years they have turned to losses. Boeing has mismanaged fixed-price development deals, even as the Pentagon increasingly favours these to conventional "cost-plus" contracts, which remove most financial risk from the contractor. Boeing has also fallen far behind Elon Musk's SpaceX, whose rockets are already serving the International Space Station. Starliner, the rival vehicle from Boeing, has yet to make a crewed test flight.

Who, then, might take the yoke? External candidates are thin on the ground. Larry Culp, who has successfully turned around GE, another troubled icon of America Inc, appears to have ruled himself out. Bill Brown, who led the merger that in 2019 created L3Harris, a defence company, is instead taking the top job at 3M, an industrial conglomerate. Pat Shanahan, currently the boss of Spirit AeroSystems, one of Boeing's suppliers, could be a contender—were it not for the fact that Boeing is seeking to acquire his company in an effort to improve oversight. The most plausible insider is Stephanie Pope, promoted to head of the commercial-aircraft division in the recent reshuffle. Accepting the top job at Boeing would once have been a no-brainer. Now Ms Pope, or anyone else, will think long and hard about it. ■



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Business in the Middle East

Tinderboxed in

DUBAI

Will war snuff out the region's global business ambitions?

IT WAS SUPPOSED to be the new Middle East: a quieter, neutral entrepot where Arabs and Jews, Shia Iranians and Sunni Arabs, Americans, Chinese and even Russians could all rub along in the common pursuit of profit. In the past six months that vision, championed most vigorously by leaders of Saudi Arabia and the United Arab Emirates (UAE), and embraced by chief executives the world over, has come under assault—first by Israel's war with Hamas militants in Gaza, then, this month, by the first ever direct exchange of fire between the Jewish state and Iran (see Middle East & Africa section). Can the dream withstand the throwback to turmoil?

Thankfully, the Iranian and Israeli (largely victimless) strike and counter-strike have not escalated into a larger conflict. However, combined with the much bloodier war in Gaza and its fallout in places like Egypt, Jordan and Lebanon, the missile skirmish leaves the region on tenterhooks—and its commercial ambitions in a state of uncertainty.

Six months after Hamas's terrorist attack in Israel on October 7th, the knock-on hostilities with the most immediate consequences for global business have occurred along the region's waterways. Houthi rebels in Yemen have, ostensibly in solidarity with Gazans, been firing Iranian missiles on ships plying the Red Sea. On April 13th Iran seized what it described as an "Israeli-linked" merchant vessel in the Gulf of Oman, allegedly for "violating maritime laws and not answering calls made by Iranian authorities".

A.P. Moller-Maersk, the world's second-biggest container-shipping company, has suspended port calls in Saudi Arabia and Oman, and rerouted ships around Africa, adding two or three weeks to transit times between Asia and Europe. Overall, ships are making 65% fewer stops in Jordan and 40% fewer in Saudi Arabia than they were last October. The volume of freight has sunk by as much as 75% across the Bab el-Mandeb Strait and the Suez Canal, at either end of the Red Sea, and across the Strait of Hormuz, which links the Persian Gulf and the Arabian Sea.

Many oil tankers are steering clear of the rough waters. Cruise lines have cancelled or rerouted voyages. Beach-ready tourists are staying away from Egypt and Jordan, which depend on them for 10-15% of GDP. Hopes of luring 160m tourists a year to the region by 2030, three times the number in 2023, are receding.

Multinational businesses are feeling indirect effects of the fighting, too. In Israel, where more than 400 multinational firms have offices, executives worry about employees being called up for reserve duty. Progressive pro-Palestinian tech workers in America are pushing Google to drop a $1.2bn cloud-computing project in Israel. The conflict has contributed to slowing revenue growth at Snap. The social-media company says that advertisers are cutting spending in the region, where 30m of its 400m or so daily users reside. Meta, which owns Facebook and Instagram, has voiced similar concerns.

Meanwhile, American brands such as Coca-Cola and Starbucks are facing boycotts in Muslim countries, where consumers are angry at America's steadfast support for Israel. Some restaurants refuse to serve Pepsi or Coke, instead offering local alternatives like Matrix Cola. In February the boss of McDonald's said the burger chain was facing a "pronounced impact" on Middle Eastern sales (it bought out the Israeli franchise owner, after he offered meals to Israeli soldiers free of charge).

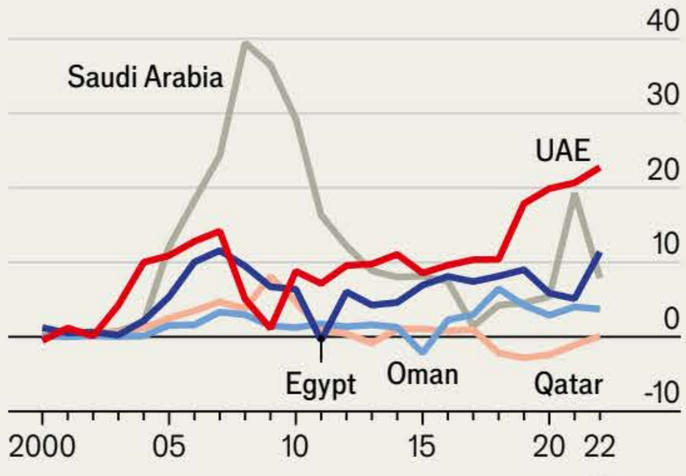
Having nearly doubled between 2017 and 2022, annual foreign direct investments in five Arab economies—Egypt, Oman, Qatar, Saudi Arabia and the UAE—are showing signs of softening. Between January and mid-March, even as global dealmaking has rebounded, buy-out barons and venture capitalists struck less than $1bn-worth of transactions in the Middle East, down from a quarterly average of $4.7bn in 2021 (see chart). The private sector is unlikely to be "adventurous at a time like this", says the chairman of a Gulf- ▸▸

Muddled east

Private-equity and venture-capital investments in the Middle East



Foreign direct investment, inflows, $bn



Sources: S&P Global; World Bank

*Estimate

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based company. "You want to remain much more liquid." Now it is all about being "cautious with extra investment", adds a private-equity executive. Companies must think harder about "physical protection of infrastructure, the way you choose your financing partners and risk scenarios around new projects", explains a European chief executive. Yields on Saudi and Emirati bonds have risen since October, as has the price to insure those bonds against default, suggesting that investors are jittery.

Not everyone is exercising the same level of caution. Amazon's cloud-computing arm still plans to spend at least $5bn on Saudi data centres, drawn by cheap energy and a strategic location. Microsoft, a tech titan with a rival cloud offering, is also building server farms and, in the UAE, a 5G mobile network. This month it announced a $1.5bn investment in G42, an Emirati artificial-intelligence darling. Rather than give in to its progressive techies on the Israeli project, Google has sacked 50 of the rabble-rousers. Last year Asian companies announced more than $29bn-worth of investments in the Middle East.

Overall, though, the mood in business circles is one of concern. Even if the conflict does not spiral out of control, the flare-ups could, executives worry, prompt the region's rulers to funnel resources away from economic development and towards security and stability. That has happened before—but never against the backdrop of a business boom. ■

BARTLEBY

Gossip in the workplace

Pssst! Want to read something about rumour and innuendo?

GOSSIP IS EVERYWHERE. On one estimate, from Megan Robbins and Alexander Karan of University of California, Riverside, people spend 52 minutes a day on average talking about other people. Gossip pervades the workplace. You hear it in conversations among colleagues; you know who to go to for the latest round of it. You can tell when gossip is imminent: voices suddenly lower and there may well be some theatrical looking around to check that the target is not in earshot. Sometimes it is offered up explicitly, like a vol-au-vent at a drinks party: "Do you want to hear a bit of gossip?" And yes, you almost certainly do.

Managers have grapevines, too. Scholars of gossip (what happens when these people all get together at a conference is a subject for future research) tend to describe it as informal exchanges of evaluative information about people who aren't there. Those exchanges can be complimentary as well as critical. By that definition, bosses who do not gossip about employees may not be doing their job properly.

Its ubiquity suggests that gossip must have some benefits. It is definitely a lot more entertaining to talk about colleagues, particularly if they are seen furtively entering a hotel room together, than the latest set of quarterly numbers. Evolutionary psychologists also reckon that gossip is helpful in instilling social norms. In their book "The Social Brain", Tracey Camilleri, Samantha Rockey and Robin Dunbar point to the example of hunter-gatherer groups in southern Africa who use gossip to convey criticism of those who fail to share the spoils of successful hunts.

Similar behaviour is visible in the workplace. In a recent paper by Terence Dores Cruz of the University of Amsterdam and his co-authors, participants were asked whether they would share gossip about someone who was constantly slacking off and leaving others to do the work. People were more likely to pass that piece of information on to a person who was going to have to work with this good-for-nothing than to one who was not. The knowledge that reputations are partly forged through gossip can act as a deterrent to bad behaviour.

But that reputational effect is also one reason to worry about gossip. For sometimes incentives emerge to spread inaccurate information about other people. Another experiment, conducted by Kim Peters and Miguel Fonseca of the University of Exeter, found, among other things, that lies cropped up twice as frequently when gossipers were told they were in competition with each other.

A related problem is that people are drawn to negative gossip more than positive gossip. The news that Colin did a great job generating sales leads last month is not going to spread far and wide. But if they are juicy enough, even outright falsehoods will circulate. In 2021 the Ontario Superior Court in Canada awarded hefty damages to an employee at a volunteer fire department who had been fired by the local municipality on the basis of false rumours that she had engaged in inappropriate sexual behaviour with firefighters.



If gossip can cause distress to its targets, it can also be bad for the people sharing information. One of the oddities of gossip is that everyone does it and yet it is so often frowned upon. A recent paper by Maria Kakarika of Durham University Business School and her co-authors found that being seen as a gossipmonger is unlikely to help your career. Participants were given a scenario in which someone spread negative personal gossip about a colleague. They were not just disapproving; they also said they would be more likely to give the gossiper lower performance ratings and to recommend bonus reductions. If you are the Wuhan wet market of office gossip, the place where rumour reliably replicates, you may end up being treated with similar suspicion.

What then should managers make of gossip? Getting rid of it entirely would require a police state, and in any case deprive the organisation of a potentially useful form of self-regulating behaviour. However, managers can dampen demand for it.

If there is uncertainty around a big event like lay-offs or the appointment of a new boss, gossip will flourish. If people think they are being treated unfairly, then they will want to vent about it to co-workers. If workers have jobs that bore them rigid, they will alleviate the tedium with chit-chat. One cure for excess gossip is decent management.

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TikTok's clock

One minute to midnight

Congress tells China: sell up or face a ban. Now for the courts

JOE BIDEN joined TikTok only two months ago, with a short video entitled "lol hey guys". On April 24th America's president approved a bill that could ban the popular app. The previous day, the Senate had passed a measure to crack down on "foreign adversary controlled applications", including TikTok, as part of a package of legislation allocating military aid to Ukraine, Israel and Taiwan (see United States section). Mr Biden wasted no time signing it into law, no matter the feelings of his 300,000 followers, or TikTok's 170m American users.

The law gives ByteDance, TikTok's Chinese owner, up to 12 months to sell to non-Chinese interests. (A previous version of the bill allowed six months; the new deadline pushes the matter conveniently beyond November's elections.) A wild selection of possible buyers is touted. Microsoft, Oracle and Walmart have all shown an interest in TikTok in the past. Steven Mnuchin, a former Treasury secretary, says he is putting together a group of investors.

They may not get the chance to bid. China's government, which owns a stake in a ByteDance subsidiary, has indicated it does not want to part with TikTok. It has classified the app's recommendation algorithm as a sensitive technology, whose export needs official approval. In March a Chinese government spokesman warned that, in the case of TikTok, "the relevant party should strictly abide by Chinese laws and regulations." The comment was read by some as a warning to ByteDance.

That would leave TikTok no choice but to shut down in America, where last year it earned revenues of $16bn, according to the *Financial Times*. The company is therefore pinning its hopes on an appeal to America's mighty courts. A memo sent to staff on April 21st described the new bill, which at the time had just been passed by the House of Representatives, as a "clear violation of [users'] First Amendment rights", which enshrine freedom of speech.

TikTok has a strong case, believes Evelyn Douek of Stanford Law School. "Decades of precedent hold that the government can't ban a form of communication because they don't like the content on it, even when it involves foreign adversaries," she says. TikTok has won in court before. Last year a judge overturned a ban imposed by the state of Montana, partly on free-speech grounds. An executive order to ban the app by then-president Donald Trump was blocked by judges in 2020.

Those in favour of a ban say the problem is not the content on TikTok, but the company's conduct. It is accused of harvesting users' data and manipulating what they see, both of which it denies. If courts can be persuaded that TikTok is up to no good, a free-speech defence will not necessarily save it. In 1986 an adult-book seller in New York lost a Supreme Court appeal against its closure, when judges argued that the reason for its shutdown was not the content of its books, but other, illegal activity taking place on the premises.

If TikTok wins, it could become an even stronger force in social media. "TikTok has been fighting with one hand tied behind its back against domestic competition," argues Mark Shmulik of Bernstein, a broker. While Meta, its arch rival, has come up with technical fixes to help its advertisers get around privacy changes Apple introduced for iPhones, TikTok has played it safe. If courts remove the threat of a ban, the company "could feel empowered to step on the gas", Mr Shmulik notes. It might also stem the exodus of senior staff. Kevin Mayer, a former chief executive hired from Disney, left amid Mr Trump's efforts to ban the app. Vanessa Pappas, its chief operating officer, departed last year. Now Erich Andersen, the chief counsel, is reportedly preparing to move on.

Whatever happens in court, TikTok is already wondering which countries might follow America's hawkish lead. India, where TikTok had 200m users, banned it in 2020 (along with several other Chinese apps) following a skirmish at the border with China. Countries including Indonesia and Pakistan have imposed and then lifted short-term prohibitions. The Taliban, naturally, outlawed TikTok on returning to power in Afghanistan.

Juicier markets look safe for now. No big European country is demanding TikTok be sold. But Europe has a record of eventually following America when it comes to China-related security matters, as in the case of its belated clampdown on Huawei, a Chinese maker of telecoms gear. Countries' willingness to act will depend partly on the closeness of their security relationship with America. America's fellow members of the Five Eyes intelligence alliance—Australia, Britain, Canada and New Zealand—have already banned TikTok on government devices.

Out of lip-sync

Further restrictions on TikTok could disrupt more than the market for social media—if China chooses to retaliate. It fired a warning shot earlier this month, banning app stores from offering apps including WhatsApp and Threads, a pair of Meta products, on national-security grounds. China could make life difficult for plenty of other big American companies. Tesla is suffering because of falling car sales in China (see Schumpeter). Apple's iPhone sales in the country are ebbing. American chipmakers like AMD are being hurt, too, as China encourages its smartphone-makers to use domestic chips. America may find that banning a short-video app has long-term consequences. ■



Not 'appy

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SCHUMPETER

Elon Musk's conundrum

Can Tesla be at once a metal-basher and a tech firm?



ON THE NIGHT before Elon Musk unveiled Tesla's first-quarter results on April 23rd, your columnist brought his car to a halt, noticing a futuristic vehicle hooked up to a Tesla charging station in Los Angeles. It was a dark-purple Cybertruck. Twinkling lights glittered behind the tinted windows. It looked so wedgelike, angular and otherworldly that it could have moonlighted as an armoured personnel carrier in "Civil War", a new apocalyptic film.

Its owner, Dennis Wang, is a Tesla devotee. Besides his four-month-old Cybertruck, he has owned Mr Musk's original ("sexy") quartet: the Models S, 3, X and Y. He has held shares in the company since 2018. He has full faith in Mr Musk. Despite a 40% plunge in Tesla's share price this year in the run-up to the earnings report, as well as the announcement in recent weeks of falling vehicle sales and unprecedented lay-offs, he believes the billionaire remains the best person to run the company. Even an embarrassing Cybertruck recall, caused by a stuck accelerator, was quickly fixed, he says, pointing to a new bolt in the pedal.

Yet however much Mr Wang loves Teslas, he does not think of Tesla as a car firm. He says it is a tech company. As he puts it, all electric vehicles (EVs) offer a similar driving experience. What differentiates them is the software—the brains beneath the dashboard. In Tesla's case, that is the latest version of its self-driving technology, which he calls "fantastic". His view is shared by many Tesla loyalists. It is why the company's shares trade at a multiple of earnings typical of a zippy software firm, not of a metal-basher.

Wall Street takes a different view. Though investors hope Tesla will one day make money from its snazzy artificial intelligence (AI), for now they want it to restore growth by selling more cars—the cheaper the better. Hence the sigh of relief when Tesla outlined plans within an otherwise dismal earnings report (revenues, profit margins and free cashflow all crashed) to start producing affordable vehicles by 2025 that would not rely on big new investments. Tesla's share price promptly soared more than 10%. Call that a $50bn thumbs-up from the unit-economics guys.

Mr Musk has a history of trying to have it both ways. When investors were doubtful about demand for Tesla's EVs at the end of the 2010s, he promised shareholders that its so-called full self-driving (FSD) technology would put 1m robotaxis on the road by 2020. That did not happen, so during the pandemic, as Tesla's sales rocketed, he changed his tune. He boasted that sales were growing faster than Henry Ford's Model T, and that Tesla aspired to sell 20m EVs a year by 2030.

This year it is touch and go whether Tesla will sell more than the 1.8m cars it shipped in 2023. So Mr Musk has flipped the script again. Once more he is highlighting FSD, though this time with a twist: the latest version is so good, he told analysts this week, that it is impossible to understand the company without trying it. He went so far as to say: "If someone doesn't believe Tesla will solve autonomy, I think they should not be an investor in the company." His competing narratives create quite the conundrum among investment types. Can Tesla be a car company as well as a tech company? The answer, broadly, is yes. But it depends on which of its markets you are talking about.

From a volume-growth perspective, no country is more important than China. It is the world's biggest EV market, and though growth is slowing, sales are still rising much faster than in America. However, competition is fierce and a price war is shredding Tesla's business there. Tesla has not said where the cheaper model it is planning will be sold. But if it is made available globally, it could help it fend off competition from BYD, a low-cost Chinese competitor that is not just the biggest EV seller in China but also has a strong presence around the world (though not in America).

Tesla's American home turf is different. Mr Musk's firm is already the market leader, so its growth prospects are probably constrained, more so because of the rising popularity of hybrids. Yet it has to sell more cars to generate cash to fund the purchase of huge volumes of AI chips that it needs to run its FSD technology. That is where a cheaper car comes in. It could help Tesla cross a bridge to the future while it attempts to overcome the huge engineering and regulatory challenges necessary for cars to drive people, rather than the other way round.

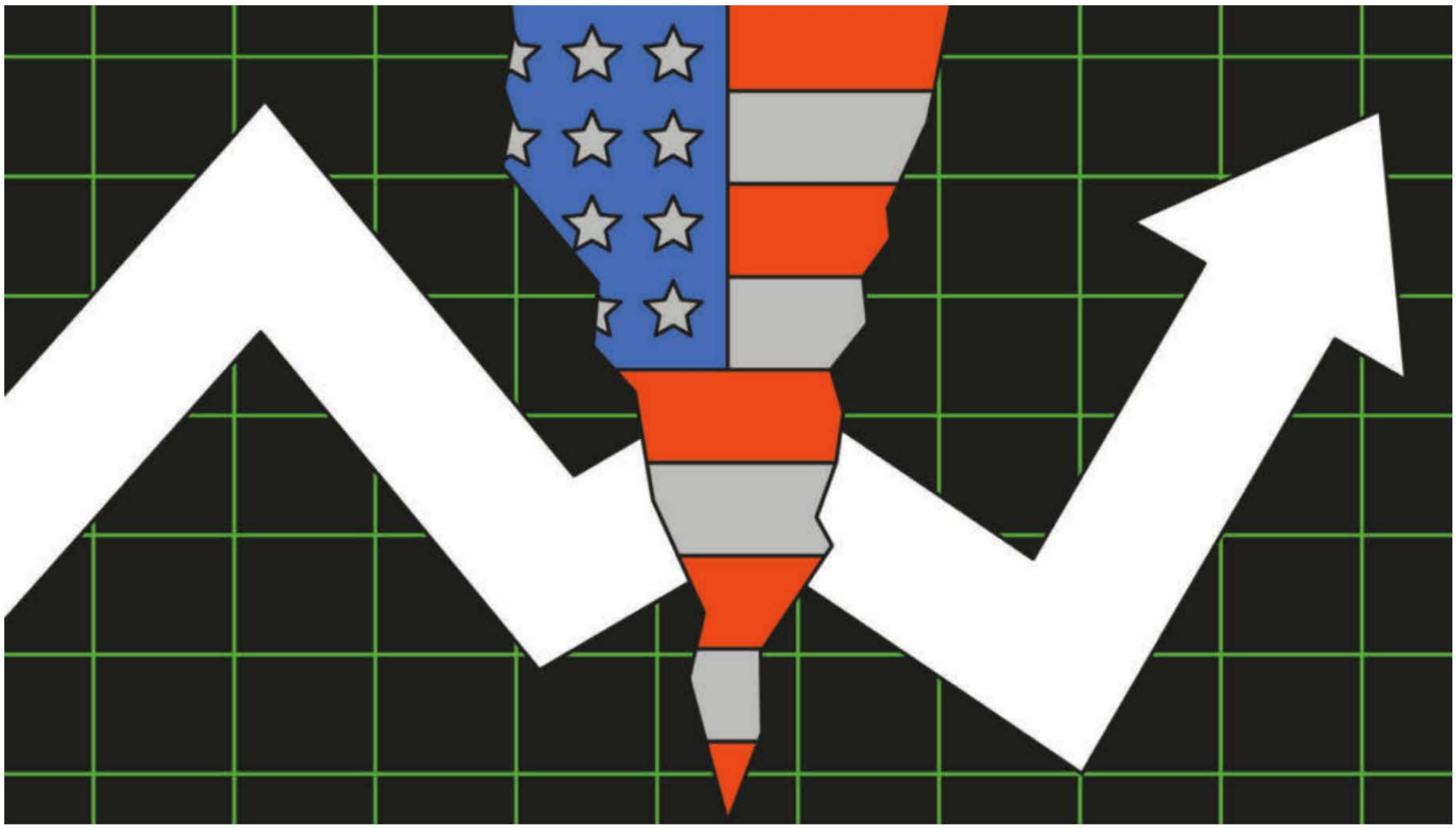
There are lots of potential roadblocks ahead. First is the risk of crumbling morale. Besides the sacking of one-tenth of its workforce, Tesla has lost several highly respected executives recently (the latest announced his departure on the quarterly earnings call). Second, trust between Mr Musk and big investors is gossamer-thin. Who knows how he will react if a majority at next month's shareholder meeting vote against the board's efforts to reinstate his $56bn payout from 2018 that was voided by a Delaware judge. Third, the difficulty of running many businesses besides Tesla is compounded by Mr Musk's "demon mode"—irascible outbursts that can leave rubble in their wake.

View from the Cybertruck

Like many Muskophiles, Mr Wang expects Tesla's boss to pull through. As a carmaker, Mr Musk excels. The Cybertruck, says its driver as his corgi scampers on the back seat, is the most comfortable car he has ever owned. As a technologist, Mr Musk continues to improve. Though Mr Wang acknowledges that the latest version of FSD requires driver supervision, he says being able to "sit back and decompress" on his commute is as valuable to him as a pot of money. Above all, no one matches Mr Musk when it comes to turning engineering dreams into reality. As he puts it, "If Elon wants to put a chip in your head, you will get a chip in your head." Just don't expect it to be implanted until years after it is promised. And be prepared for its Svengali to melt down in the meantime. ■

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Finance & economics



Red stocks v blue stocks

Broke capitalism

MIAMI

How American politics has infected investing

THE HEDGE FUND'S branding is a clue. 1789 Capital was set up last year and named after the year Congress proposed America's bill of rights. It offers investors the chance to put money into what it says are three key themes: a parallel conservative economy catering to consumers who want to avoid being bombarded with liberal ideas; the shift away from free trade; and firms that have been penalised by the environment, social and governance (ESG) investment trend. Its founder, Omeed Malik, a former banker, has hosted fundraisers for Robert Kennedy junior, an anti-vaccination, long-shot presidential candidate.

1789 Capital is part of a trend: American politics is infecting investing. A gap has opened up between how Democrats and Republicans view the world; many Americans want to express their political identities by any means possible; and others see their money as a way to sway businesses' behaviour. All this is influencing investment decisions. The amount of money invested in, say, novelty exchange-traded funds (ETFs), such as those tracking the portfolios of certain politicians, is small, but other developments are more significant. Some $13bn has been withdrawn from BlackRock's accounts, for instance, as Republican states boycott asset managers that support ESG. A bitter rematch between Donald Trump and Joe Biden will probably supercharge the trend.

According to a working paper by Elena Pikulina of the University of British Columbia and co-authors, the portfolios of Democrat and Republican retail investors began to diverge half-way through Barack Obama's presidency, before consistently widening. By combining data from investment advisers with county-level election results, the researchers show that investors in Republican-leaning counties shun stocks of firms where the chief executive has made donations to the Democrats, while those in Democrat-leaning counties are less likely to invest in a firm when there are concerns about its treatment of workers. Voters also indirectly influence decisions made by their political representatives, as can be seen with the ESG boycotts.

What motivates this behaviour? One possibility is that Democrats and Republicans simply disagree about the direction of the economy and, as a result, about which investments will perform best. Under this reading, rather than being the consequence of investors trying to achieve political outcomes, the divide is a product of politically inflected views of the world. A paper by Maarten Meeuwis of Washington University in St Louis and colleagues finds that the risk appetite of American investors shifts according to who is in the White House. After the presidential election in 2016 some Democrat-leaning investors sold stocks and bought bonds—a sign they were worried about the future. Republicans did the opposite. Although only a relatively small number of people made such moves, those who did typically shifted more than a quarter of their holdings.

→ ALSO IN THIS SECTION

58 Freeing American workers
59 The dangerous dollar
60 Lessons from Chinese traffic fines
60 The UAE's big-spending diplomacy
61 Buttonwood: Nervous markets
62 Free exchange: Workers v economists

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The authors argue these decisions reflect differing interpretations of economic data. They mirror a divide between Democrats and Republicans on consumer confidence. Both are more upbeat about the economy when the president is from their own party, controlling for inflation and unemployment. A consumer-sentiment survey by the University of Michigan finds a significant divergence along political lines—bigger than that along the lines of age or income. During Mr Biden's time in office, Republicans have on average expected 2.4 percentage points more inflation in the year ahead than Democrats.

Yet different world views do not entirely explain the trend. It seems partisans are buying shares as an expression of support, too, much as they might put up a candidate's poster. Truth Social, Mr Trump's social-media holding firm, surged when it listed on the Nasdaq in March, as supporters rushed to buy the stock. After Mr Trump's win in 2016, punters in Democrat-leaning counties invested more in clean-energy firms, even though the result was likely to be bad news for such businesses. To these investors, returns matter less than identification with the cause, says Stephen Siegel of the University of Washington, one of Ms Pikulina's co-authors.

Partisan investors also hope to change business behaviour. Since Republican states began to pull money from BlackRock, the firm's boss, Larry Fink, has begun to shy away from referring to ESG. So have other prominent asset managers and bankers. Meanwhile, a study by Matthew Kahn of the University of Southern California and colleagues finds that when an American state's pension fund becomes more Democrat-aligned—say, when a new governor comes in—the firms it is invested in reduce their carbon emissions quicker.

Partisan investing is both problem and opportunity for financiers. The rise of ESG investing at first allowed asset managers to distinguish themselves from rivals. Around $120bn flowed into such funds in 2021. But in the final quarter of 2023 they saw net outflows for the first time. The difficulty now is to sell to both sides without annoying either—a task that is becoming harder as new topics enter the fray. In October Ron DeSantis, governor of Florida, gave Morningstar Sustainalytics, a data firm, 90 days to either "clarify its business practices or cease its boycott of Israel". He argued that its ESG metrics classified companies as a risk for having invested in Israel. An independent report commissioned by Morningstar has recommended dropping a specific tag for companies that operate in "occupied territories"—advice that the firm intends to follow. Florida has since removed Morningstar from the warning list.

It is not just conservatives making a fuss. Vanguard, an asset manager, has been targeted by activists for exiting the Net Zero Asset Managers Initiative, an industry body. In January the Sunrise Project, a campaign group, began running advertisements in Pennsylvania, the firm's home state, accusing it of giving in to bullies.

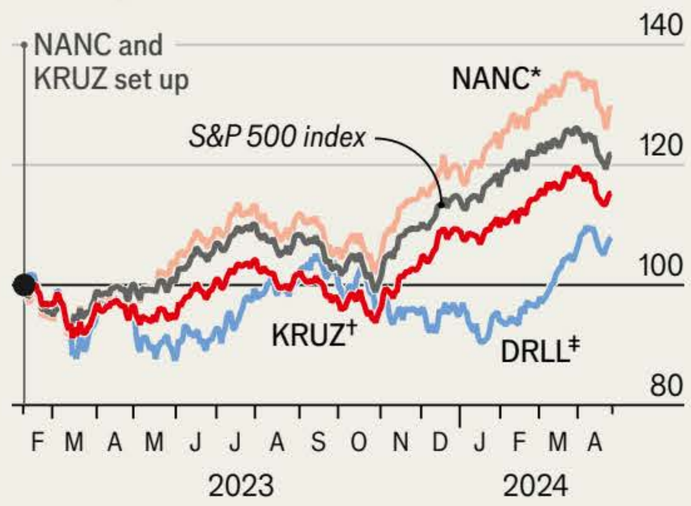
At the same time, smaller firms can indulge partisans. There have long been funds that apply a liberal lens to investment decisions, such as Parnassus Investments, which was established in 1984. They are being joined by right-wing ones. As well as 1789 Capital, there is Strive Asset Management, set up in 2022 by Vivek Ramaswamy, an ertswhile Republican presidential candidate, which offers investors an American energy ETF that focuses on fossil fuels and has the ticker DRLL.

Taking a stand can be expensive. Researchers at the Federal Reserve and the University of Pennsylvania have found that anti-ESG boycotts raised the cost of interest on $32bn borrowed by Texan municipalities by $300m-500m, as banks with ESG policies withdrew from underwriting bond sales. Democrats who shifted out of stocks when Mr Trump won in 2016 would have lost out on a post-election rally. In the year after the vote, the S&P 500 rose by 21%.

Markets thrive on differences of opinion: every seller needs a buyer and every buyer needs a seller. Funds that offer investors a chance to express those opinions are not necessarily a bad thing. But American capitalism has been built on the pursuit of profit at all costs. In recent decades, investors have flocked to index funds, which track the market, offering diversification and low fees. To the extent that partisan investors are trying to reshape the economy to align with their values, rather than betting on beliefs about the economy, they are going to pay for it. ■

Drill down

Exchange-traded funds, share prices, February 7th 2023=100



*Tracks investments by Nancy Pelosi, a member of the House of Representatives †Tracks investments by Ted Cruz, a senator ‡An energy fund focused on fossil fuels
Source: LSEG Workspace

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Non-competes in America

Hop to it

WASHINGTON, DC

Don't like your job? Quit for a rival firm

A FIFTH OF American workers have a non-compete clause in their contract, barring them from leaving to join a rival. Owing to a new rule issued by the Federal Trade Commission on April 23rd, these clauses may soon be voided. Advocates hope this will inject dynamism into the American economy and lead to stronger wages; critics warn it will stifle investment.

The debate about non-compete clauses is an old one, dating back to Europe in the 1400s. Courts generally came down on the side of apprentices trying to escape the clutches of their mentors. In the Industrial Revolution, though, views shifted. The main argument in support of non-compete clauses—then and now—is that they protect firms with an understandable interest in defending trade secrets. With them in place, companies become more willing to make hefty investments and train up workers, confident that they will reap the benefits from both. A recently published study by Jessica Jeffers of HEC Paris found that when American states make non-competes easier to enforce, firms increase their physical investments by as much as 39%.

Unfortunately, many bosses abuse the power that such control gives them. In one risible example from 2014 a worker at Jimmy John's, a sandwich chain, shared a copy of the company's contract terms, which barred staffers from jumping to any competitor within two years of leaving. Sand-



Lina Khan, friend of the worker

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wich artists are not the only Americans doing basic jobs who are so constrained. Studies have found that about 10% of those on minimum wages, from barbers to waiters, face similar restrictions.

Even for highly skilled employees, the merits of these limitations are questionable. California, home to many of the world's most disruptive tech firms, has long prohibited companies from stopping employees who wish to join rivals. Ms Jeffers's research points to a trade-off: although existing firms benefited from job-hopping restrictions, she found such rules led to a 7% fall in new companies entering knowledge-intensive sectors. They thus represent an impediment to innovation.

The tide has been turning against non-competes in America. At least ten states have blocked their use for low-wage workers. On April 23rd the FTC upped the ante, voting for a sweeping ban. Under the rules, existing non-competes for executives making over $151,164 a year can be maintained, but all other non-competes will no longer be enforced, and employers will be barred from creating any new ones, including for executives. The FTC anticipates that the ban will lift the rate of business creation by 3% and increase earnings for the average worker by about $500 per year.

For Lina Khan, the Biden-appointed head of the FTC, the ban would be a rare accomplishment in her otherwise wayward campaign to re-engineer competition law in America, as she tries to take on the power of big companies. Whether the ban will actually go into force in six months, as scheduled, is uncertain. Almost immediately the US Chamber of Commerce sued the FTC in a Texas court, arguing that although the agency can challenge specific business practices, it lacks the constitutional authority required to create regulation. The ban, in other words, will come down to another competition debate: whether federal agencies have the right to compete with Congress in making rules. ■

International economics

The greenback's back

SINGAPORE

A strong dollar sets the stage for a new Trump-China clash

THE DOLLAR is looking formidable. As American growth has stayed strong and investors have scaled back bets that the Federal Reserve will cut interest rates, money has flooded into the country's markets—and the greenback has shot up. It has risen by 4% this year, measured against a trade-weighted basket of currencies; the fundamentals point to further appreciation. With a presidential election looming, and both Democrats and Republicans determined to promote American manufacturing, the world is on the verge of a new period of strong-dollar geopolitics.

This situation is made still more difficult by the fact that the currency's strength reflects weakness elsewhere. By the end of 2023, America's economy was 8% larger than at the end of 2019. Those of Britain, France, Germany and Japan each grew by less than 2% during the same period. The yen is at a 34-year low against the dollar. The euro has dropped to $1.07 from $1.10 at the start of the year (see chart). Some traders are now betting that the pair will reach parity by the beginning of next year.

Should Donald Trump win in November, the scene is therefore set for a fight. A strong dollar tends to raise the price of American exports and lower the price of imports, widening the country's persistent trade deficit—a bugbear of Mr Trump's for many decades. Robert Lighthizer, the architect of tariffs against China during Mr Trump's time in the White House, wants to weaken the dollar, according to Politico, a news website. President Joe Biden has made no public pronouncements on the currency, but a strong dollar complicates his manufacturing agenda, too.

Elsewhere, a mighty greenback is good for exporters that have costs denominated in other currencies. But high American interest rates and a strong dollar generate imported inflation, which is now exacerbated by relatively high oil prices. In addition, companies that have borrowed in dollars face steeper repayments. On April 18th Kristalina Georgieva, head of the IMF, warned about the impact of these developments on global financial stability.

Many countries have ample foreign-exchange reserves that they could sell to bolster their currencies: Japan has $1.3trn, India $643bn and South Korea $419bn. Yet any relief would be temporary. Although sales slowed the strengthening of the dollar in 2022, when the Fed began raising interest rates, they did not stop it. Central banks and finance ministries are loth to waste their holdings on fruitless fights.

Another option is international co-ordination to halt the greenback's climb. The beginnings of this were on display on April 16th, when the finance ministers of America, Japan and South Korea issued a joint statement expressing concern about the slump of the yen and won. This may be the precursor to more intervention, in the form of joint sales of foreign-exchange reserves, to prevent the two Asian currencies from weakening further.

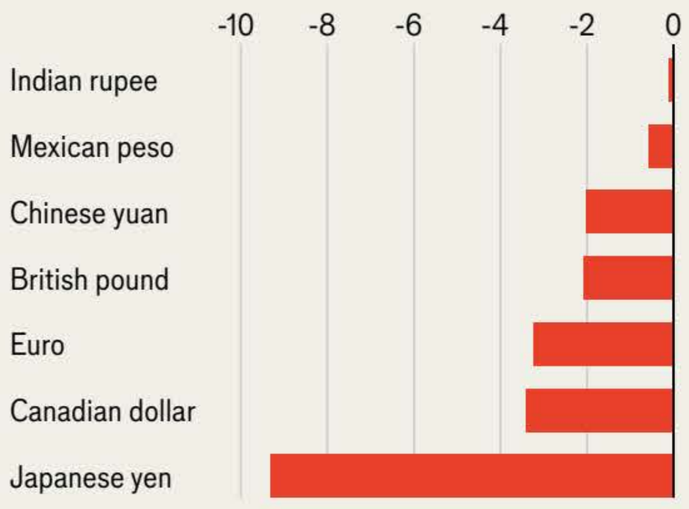
But as much as these countries may want to be on the same page, economics is unavoidably pulling them apart. After all, yen and won weakness is driven by the gap in interest rates between America and other countries. South Korea's two-year government bonds offer a return of around 3.5%, and Japan's just 0.3%, while American Treasuries maturing at the same time offer 5%. If interest rates stay markedly higher in America, investors seeking returns face a straightforward choice—and their decisions will buttress the dollar.

Then there are countries with which America is less likely to co-operate. According to Goldman Sachs, a bank, China saw $39bn or so in foreign-exchange outflows in March—the fourth most of any month since 2016—as investors fled the country's languishing economy. The yuan has weakened steadily against the dollar since the beginning of the year, and more rapidly from mid-March, since when the dollar has risen from 7.18 yuan to 7.25. Bank of America expects it to reach 7.45 by September, when America's election campaign will be in full flow. That would place the yuan at its weakest since 2007, providing a boost to China's latest export drive. Cheap Chinese electric vehicles may be about to become cheaper still.

Even protectionists in America may be willing to overlook allies' weak currencies, at least for a time. They are less likely to do so for China. This raises the risk of further tariffs and sanctions, and maybe even the return of China to America's list of currency manipulators. As long as America's economy outperforms, the dollar is likely to remain strong. And as long as American politicians see that as a cause for concern, trade tensions are sure to rise. ■

Cleanest shirt

Currencies against the $, Jan 1st-Apr 24th 2024, % decrease



Source: LSEG Workspace

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Fiscal fiasco

Put the brakes on

What a parking-fine spree tells you about China's economic woes

MA YIJIAYI was locked up in November. She did not stand in a square demanding political rights. Nor did she steal from state coffers. Instead, her crime was to ask a deadbeat debtor to pay her back. The local government in Liupanshui, a city in the province of Guizhou, owes Ms Ma, who is a contractor, 220m yuan ($30m) for building schools. Officials had offered her a mere 12m yuan. She refused.

Chinese citizens and business owners are increasingly victims of unscrupulous attempts by local governments to shore up their finances. An investigation in January found that almost all the traffic fines issued last year by police officers in Hebei province rested on bogus claims. In a neighbouring region, truck drivers allege that officials are putting their fingers on the scale, issuing excessive penalties for overweight loads. Jacked-up parking fees and stricter inspection of restaurants have also become municipal money-spinners.

Creative money-raising demonstrates just how desperate local governments are to find new sources of income. Between 2021 and 2023 provincial authorities' non-tax revenues grew by 20%, three times faster than their tax takings. The Ministry of Finance says the cash came from squeezing money from state assets, such as by putting tolls on bridges. But leaders in Beijing have been increasingly open about worries that pickpocketing local governments may be playing a role, too—and hurting public trust in the process.

Local authorities face a dire financial situation. Slower economic growth, compounded by falling public land sales and turmoil in the property market, has dented revenues. All but two of China's provinces are forecasting lower growth in their tax takes this year than last, according to *Caixin*, a business magazine. On April 9th Fitch, a rating agency, cited yawning budget deficits as a justification for downgrading China's credit outlook to negative.

China's central government struggles to put a number on local-government liabilities. Lots of debt is held by subsidiary financial entities and off official balance-sheets. Victor Shih and Jonathan Elkobi of the University of California, San Diego, estimate that local governments owe 90trn-110trn yuan, or 75-91% of national GDP. Over half of China's provinces report debt-to-GDP ratios above 50%. The number of local-government vehicles in default has more than tripled since March last year, according to Trivium, a consultancy.

The central government can afford to provide some assistance. Its debt burden is relatively light, and it receives hefty cash-flows from taxes and state-owned firms. In October policymakers said that they would issue 1trn yuan in bonds for payments to local authorities. Nevertheless, they have tried to skirt responsibility for local debt, instead pushing municipalities to curtail spending. In March Li Qiang, China's premier, criticised "vanity projects". China's cabinet, led by Mr Li, has told cadres in a dozen provinces to end non-essential infrastructure investment.

China's division of fiscal firepower has long been contested. Struggles date back to the 1990s when Zhu Rongji, one of Mr Li's predecessors, wrenched back revenues from local officials. China's federal system suffers from what technocrats call "vertical fiscal imbalance": local governments are saddled with responsibility for education, health care and investment spending, but lose out on more than half of tax revenues to the central authorities. By contrast, local cadres retain all the income that they receive when levying fines.

In February the central government stepped up its campaign against fast-fingered local officials. It punished cadres accused of overreach, issued terse directives through state organs and amended legislation in order to insist on "law-based governance". Will these moves make a difference? Perhaps not. Arbitrary fines became still more common after a previous crackdown in 2021. Local governments found that they simply had no alternative given the state of their finances. Although Ms Ma's case is now being investigated by central authorities, a similar fate probably awaits other business owners. ■



Profitmaking opportunity

Investing abroad

Dirham diplomacy

DUBAI

The United Arab Emirates is using a wealth fund to gain foreign-policy sway

SOVEREIGN WEALTH FUNDS seldom worry about foreign policy. Those that invest abroad typically do so in order to ensure stable returns or diversify holdings, meaning they tend to hold Treasuries and Western stocks. Many have started to spend more at home in order to advance national growth plans. But ADQ, one of the United Arab Emirates's wealth funds, is heading in a different direction.

With $199bn of assets under management, an amount equivalent to two-fifths of the UAE's GDP, the fund has decided to take a new approach. Although more than 80% of its capital is tied up in domestic infrastructure and related firms, such as Etihad Airways and AD Ports, this reflects spending in the years after the fund was established in 2018. The new ambition is to exert the UAE's influence abroad—on which it is willing to spend big.

Investments by Etihad and AD Ports, in things such as a cargo operator and a Congolese port, have made ADQ one of the most active wealth funds in Africa. Last year it signed $11.5bn of deals with Turkey, including in export financing and post-earthquake reconstruction; it is also in discussions about financing a railway across the Bosporus Strait, which would create a trade route linking Asia, Europe and the Middle East. ADQ's biggest deal yet was signed in February, when the fund provided $24bn of a $35bn package to rescue Egypt from default. Rather than merely bankrolling the deal, ADQ's cash bought a stretch of the country's Mediterranean coast, which will become a holiday destination, financial hub and free-trade zone.

This frenetic activity reflects the UAE's belief that it has an opportunity to exert influence. Saudi Arabia is turning inward as it focuses on its "Vision 2030" agenda, intended to reduce its reliance on oil. The kingdom's share of bail-outs in the Middle East fell to 39% in the decade to 2022, down from 65% in the four decades before that. Other countries in the Gulf are now rushing to spend, and the UAE is eager to win the race for influence.

ADQ's investments are particularly attractive to potential recipients as they are akin to private-equity stakes. Much as buy-out barons take on illiquid investments, and then focus on improving operations, so ADQ attempts to expand ports and property empires, rather than passively sitting on purchases.

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Thus ADQ's investments often go hand-in-hand with trade deals, including one signed with Kenya on April 24th. The fund has joint ventures with countries including Azerbaijan, Jordan and Oman, all three of which have inked such agreements. It is also investing alongside Egypt and Turkey. As an ADQ paper states, such alliances align research-and-development efforts and create strategies to benefit portfolio firms with similar interests. They also forge closer alliances and help spread risk.

Emirati rulers do not just want more influence over the countries that receive their investments, however. After ADQ's deal with Egypt, for instance, the fund was able to help complete an IMF deal. Following this, the Egyptian pound was allowed to trade more freely, and duly sank. But for now the country is no longer teetering on the edge of collapse—and ADQ was able to get a difficult deal over the line. This will have boosted the UAE's standing in Washington and beyond.

Financial results are less of a concern for the wealth fund's administrators. ADQ has not been set explicit targets, as is typical with other similar institutions. Its reports do not provide many figures. "Our impact extends beyond financial returns, transcending social barriers with an immediate effect on people's livelihoods," Jaap Kalkman, ADQ's investment boss, has said. Or to put it more plainly: mixing foreign-policy goals and investments is hardly a formula for guaranteed returns. ■

BUTTONWOOD

Don't look down

With investors nervous, how far could the American stockmarket fall?

THE SOUND of alarm bells is becoming harder to ignore. America's stockmarket finished the first quarter of 2024 on an astonishing tear, with its benchmark S&P 500 index having risen in 18 out of the preceding 22 weeks. No longer: it has fallen over each of the past three. Look at individual stocks, meanwhile, and it is clear just how far investors have swung from euphoria to twitchiness. Nvidia was the poster child of the S&P 500's winning streak, seeing its share price more than double between October and March. On April 19th it fell by a gut-churning 10% over the course of a single day, wiping more than $200bn from the company's market value. The awful news that precipitated the plunge? There wasn't any.

If there is a reason for this attack of the vapours, it is that the prospect of cheaper money is receding into the distance. American consumer prices rose by 3.5% in the year to March. That is far too high for the Federal Reserve to consider cutting interest rates imminently unless something calamitous happens. Thus investors have pared their bets accordingly. But something else is going on, too. As the size of the Nvidia jolt suggests, turning-points have less to do with sober-headed analysis than mob psychology. Markets have recovered a bit in recent days, suggesting plenty of uncertainty. The question now is whether the mood will continue to darken.

That will be determined by the mob. Yet as investors ponder whether or not to panic, America's stockmarket is in an unusually precarious position. Shares have rarely been valued more highly than they are today, giving them further to fall and making them more vulnerable to changing investor sentiment. Relative to ever higher interest rates on government bonds, expected returns on stocks look especially unattractive. If a crash does loom, all the pieces are in place for it to be particularly nasty.

Take valuations first. The cyclically adjusted price-earnings (CAPE) ratio, which was popularised by Robert Shiller of Yale University, is now higher than it was even in the late 1920s. The ratio's current level has been exceeded only around the turn of the millennium and in 2021. Both occasions preceded market crashes. And a high CAPE is more than just a bad omen. A lot of academic work has demonstrated that the earnings yield—or inverse of the price-to-earnings ratio—on stocks is a reasonably good predictor of their future returns. This makes intuitive sense, given that a company's earnings are the ultimate source of its value.

The CAPE ratio is an especially useful signal because it incorporates ten years' worth of earnings, smoothing out noise. When it is elevated, expected future returns are low—and at present, it is nearly twice as high as its long-run average. Reversion to anywhere near the mean would take an earth-shaking drop. Worse, the high CAPE makes such a fall more likely, by giving investors reason to dump low-yielding stocks.



Couple this with a renewed acceptance that high interest rates are here to stay, and things look shakier still. Just as the earnings yield is a proxy for stocks' expected returns, so real yields on government bonds indicate their expected returns. The gap between the two therefore measures the additional reward investors anticipate for holding riskier shares over safer government debt. It varies over time according to the prevailing risk appetite, but has seldom been as low as its current two percentage points.

A reversion to the average, which is around four percentage points, would entail share prices dropping by 29% at current bond yields. It seems improbable, however, that investors' risk appetites would still be average immediately after such a large drop. For much of the 2010s the yield gap hovered around six percentage points; in the traumatic years following the financial crisis of 2007-09, it was more like eight. A return to those levels would require share-price crashes of 47% and 57%, respectively.

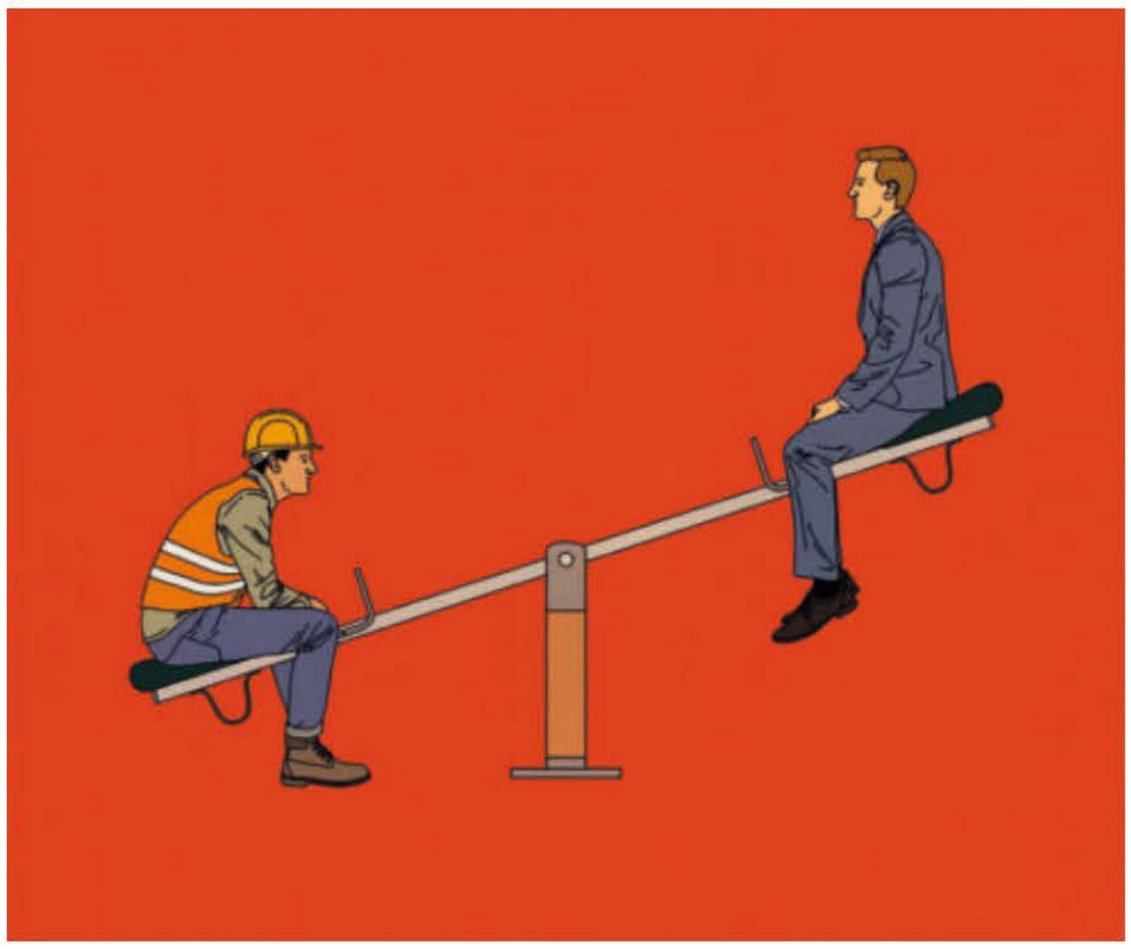
Put all this to a Wall Street bull and the retort is straightforward: earnings will grow, possibly supercharged by artificial intelligence. It is this which will drive future returns, such that low yields based on past profits are meaningless. Yet the past few decades suggest otherwise. Low earnings yields might indeed indicate that earnings will rise, but historically they have portended poor returns instead. Perhaps this time is different—and even if that is not the case in the long run, share prices could keep rising for a while yet. Once the mood does turn, though, watch out.

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FREE EXCHANGE

Ups and downs

Is inflation morally wrong? Workers and economists disagree



WHERE OTHER historians saw a mob of hungry peasants, E.P. Thompson saw resistance to capitalism. Studying England's 18th-century food riots, the Marxist historian coined the term "moral economy". The rioters, he argued, were not motivated purely by empty bellies, but by a belief that the bakers, farmers and millers had violated paternalist customs, which suggested they should limit their profit, sell locally and not hold back grain. Gradually, Thompson argued, the moral economy was being displaced by a market economy, in which prices follow the amoral logic of supply and demand, rather than ideas of what would be a "fair price" in times of scarcity.

Americans may not be rioting over bread prices, but they are angry. President Joe Biden now faces a tight race for re-election. Swing voters are particularly annoyed about inflation, as the price level has risen by a cumulative 19% since Mr Biden's inauguration. Yet this frustrates many left-wing economists, who see the tight labour market and rising real wages in America as a great success. To them, inflation is an irritating—and now stubborn—by-product of the mixture of fiscal stimulus and industrial policy pursued by Mr Biden. It is not the main story.

A new working paper by Stefanie Stantcheva of Harvard University helps explain the divergence. Ms Stantcheva asks, "Why do we dislike inflation?", which updates a paper published in 1997 by Robert Shiller, who later won a Nobel prize in economics. Using two surveys, she posed Americans a series of closed questions, such as "How have your savings been affected by inflation?", and open-ended ones, such as "How would you define 'inflation' in your own words?". The results show that Thompson's concept of the "moral economy", which he thought had been displaced by the cold logic of the market, still has popular appeal.

Americans who responded to Ms Stantcheva's surveys were angry for a number of reasons. Most believed that inflation inevitably meant a reduction in real incomes. They said that rising prices made life more unaffordable and prompted them to worry they would not be able to afford the basics. Respondents did not see a trade-off between inflation and unemployment—referred to as the "Phillips curve" by economists—but thought that the two would rise in parallel. Some 70% did not view inflation as a sign of a booming economy, but as an indication of one in a "poor state". Around a third saw reducing inflation as a bigger priority than financial stability, reducing unemployment or increasing growth. In short, respondents really hated rising prices.

Some of their beliefs reflected what has happened during the current spell of inflation. Following the covid-19 pandemic, real incomes did indeed fall, as prices rose faster than wages. It is only over the past couple of years that wages have grown sufficiently to make up the difference. The price of basics, such as food and fuel, has risen faster than other items in the inflation basket. And even if your income is rising, it is irritating to see a greater share go on necessities. Nor does inflation always accompany a strong labour market. During the global financial crisis of 2007-09, for instance, high commodity prices produced a situation in which inflation rose at the same time as the global economy weakened. During the inflation of the 1970s, which looms large in the popular memory, unemployment rose.

Why, then, are some economists more relaxed about rising prices? Inflation does present difficulties: it can undermine central-bank credibility and causes arbitrary redistribution from creditors to debtors. The constant updating of prices also carries costs for companies. Yet if all prices are adjusting at the same rate, the change is not as consequential as many workers believe. It no more means that workers are getting poorer than measuring someone's height in feet rather than centimetres would mean that they are getting shorter. What is more, inflation is often the consequence of a hot labour market, as is the case in America at the moment. It should, therefore, be accompanied by low unemployment and rising wages, which help compensate for the irritation of prices changing more frequently.

Thin gruel

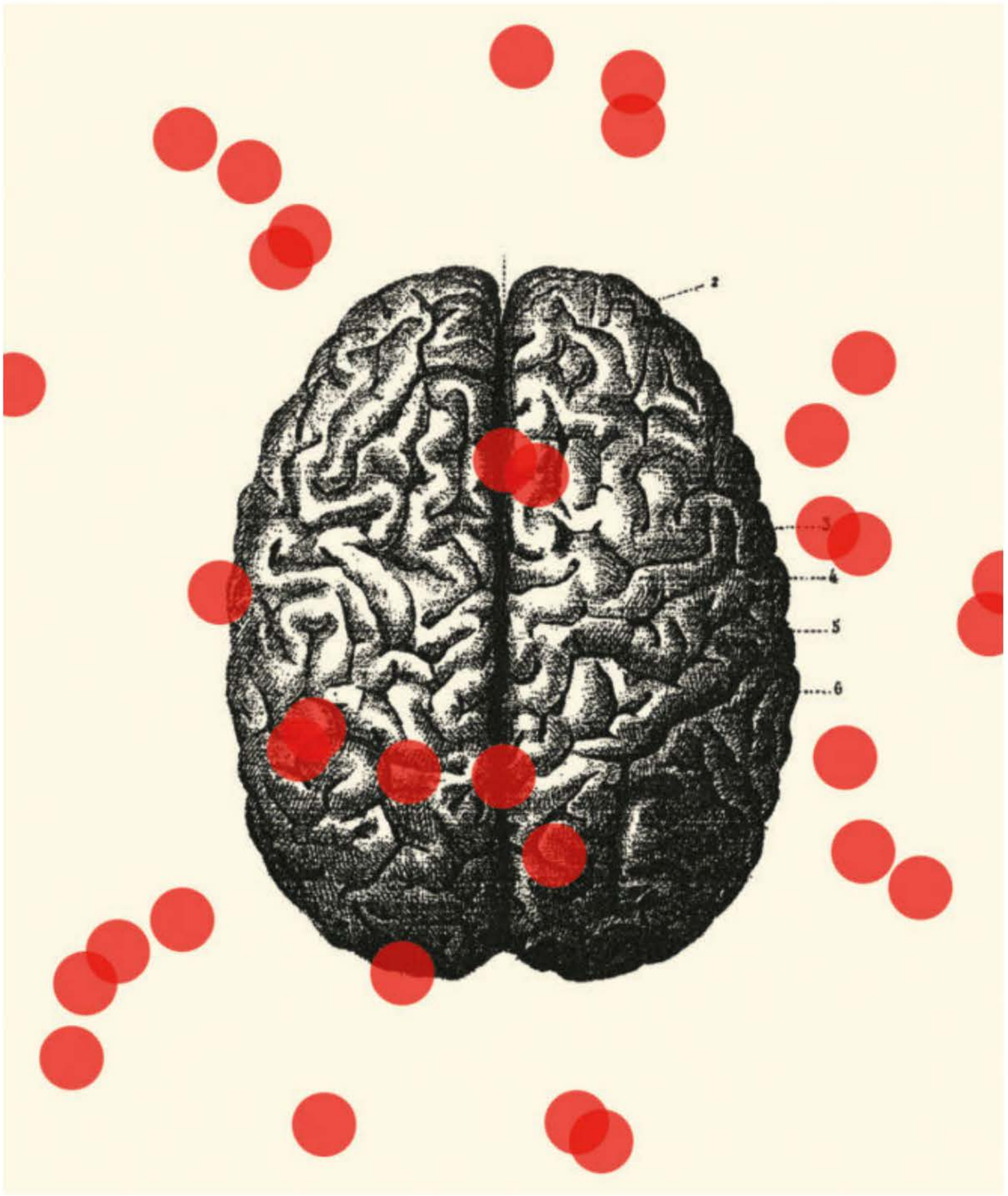
Much like rioters in 18th-century England, Americans believe that price rises are fundamentally unfair. Respondents to Ms Stantcheva's surveys suggested that inflation widened the gap between rich and poor, while businesses allowed prices to rise because of corporate greed. They also "tend to believe that employers have a lot of power and discretion in setting wages", notes Ms Stantcheva. In their view, inflation is not a phenomenon that emerges from hundreds of millions of people taking trillions of decisions. It is something inflicted on them by people at the top of totem pole.

Yet workers still gave little credit to businesses or the government for an astonishingly strong labour market. Wage rises were generally seen as the responsibility of the individual: a well-deserved reward for hard work. Those survey respondents who had received a pay rise were twice as likely to attribute it to their on-the-job performance as to inflation. However persuasive left wing-economists may be, Americans will not thank the Biden administration for what they see as their own success.

Riots are often counter-productive. In 18th-century England, according to Thompson, terrified farmers decided not to bring their crops to market. Shortages worsened in other parts of England as speculators were intimidated into keeping purchases in storage, rather than shipping them across the country. In a moral economy concerns about what is right and wrong outweigh efficiency, imposing a cost on those assigning blame as well as those being blamed. That does not make it any more comfortable for those being judged, as Mr Biden is now all too aware. ■

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Science & technology



Mental health

Psychiatry's blind spots

The body's influence on mental health has for too long been overlooked

THE TICS started when Jessica Huitson was only 12 years old. Over time her condition worsened until she was having whole-body fits and being rushed to hospital. But her local hospital, in Durham, England, was dismissive, suggesting she had anxiety, a mental-health condition, and that she was probably spending too much time watching videos on TikTok. Her mother describes the experience as "belittling". In fact, Jessica had an autoimmune condition brought on by a bacterial infection with *Streptococcus*. The condition is known as Paediatric Autoimmune-Neuropsychiatric Disorders Associated with *Streptococcus* (PANDAS). When the infection was identified and treated, her symptoms finally began to improve.

Ms Huitson is not alone in having a dysfunction in the brain mistaken for one in the mind. Evidence is accumulating that an array of infections can, in some cases, trigger conditions such as obsessive-compulsive disorder, tics, anxiety, depression and even psychosis. And infections are one small piece of the puzzle. It is increasingly clear that inflammatory disorders and metabolic conditions can also have sizeable effects on mental health, though psychiatrists rarely look for them. All this is symptomatic of large problems in psychiatry.

A revised understanding could have profound consequences for the millions of people with mental-health conditions that are currently poorly treated. For example, over 90% of patients with bipolar disorder will have recurrent illness during their lives; and in children with obsessive-compulsive disorder (OCD) over 46% do not achieve remission. Some 50-60% of patients with depression eventually respond after trying many different drugs.

For some in the profession, a deeper understanding of the biology of mental health, tied to clear biological fingerprints of the kind that might come from a laboratory test, will lead to more accurate diagnoses and better targeted treatments.

Shrinks, rapped

The field of psychiatry has historically been focused around the description and classification of symptoms, rather than on underlying causes. The Diagnostic and Statistical Manual of Mental Disorders (DSM), sometimes known as the bible of psychiatry, emerged in 1952 and contains descriptions, symptoms and diagnostic criteria. On the one hand, it has brought helpful consistency to diagnosis. But on the other, it has grouped patients into cohorts without any sense of the underlying mechanisms behind their conditions. There is so much overlap between the symptoms of depression and anxiety, for example, that some wonder if these are actually even separate categories of illness. At the same time, depression and anxiety come in many different subtypes—panic disorder with and without agoraphobia, for example, are distinct diagnoses—not all of which may be meaningfully distinct. This can lead to patient groups in drug trials being so diverse that drugs and therapies fail simply because the cohort being studied has too little in common.

Previous attempts to find causal mechanisms for mental-health conditions have run into difficulty. In 2013 the National Institute of Mental Health, an American government agency, made a heroic gamble to move away from research based on the DSM's symptom-based categories. Money was funnelled into basic research on disease processes of the brain, hoping to directly connect genes to behaviours. Some $20bn of new research was funded but the

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idea failed spectacularly—most of the genes uncovered had tiny effects. Allen Frances, a professor of psychiatry at Duke University, calls the search for such biomarkers "a fascinating intellectual adventure, but a complete clinical flop".

Genes alone are clearly not the answer. Ludger Tebartz van Elst, a professor of psychiatry and psychotherapy at the University Hospital Freiburg, in Germany, says that many different conditions such as schizophrenia, attention deficit hyperactivity disorder (ADHD), anxiety and autism can be triggered by the same genetic disorder, 22q11.2, caused by the loss of a small piece of chromosome 22.

Despite this counsel of misery, a shift in psychiatry is potentially on the horizon. Some of this is coming from a revived interest in finding neurological biomarkers with ever-more sophisticated technology. In addition, there is a greater understanding that some mental-health conditions actually have triggers or roots which need to be treated as medical conditions rather than psychiatric ones.

Fundamental health

A key moment came in 2007, when work at the University of Pennsylvania showed that 100 patients with rapidly progressing psychiatric symptoms or cognitive impairments actually had an autoimmune disease. Their bodies were creating antibodies against key receptors in nerve cells known as NMDA receptors. These lead to brain swelling and can trigger a range of symptoms including paranoia, hallucinations and aggression. The disease was dubbed "anti-NMDA-receptor encephalitis". Most important of all, in many cases it was treatable by removing the antibodies, or using immunotherapy drugs or steroids. Studies of patients having a first episode of psychosis have found that between 5% and 10% also have brain-attacking antibodies.

It seems likely that, in rare cases, OCD can be caused by the immune system, too. This is seen in the childhood condition PANDAS, with which Ms Huitson was diagnosed in 2021. But it is also sometimes found in adults. One 64-year-old man reported spending an extraordinary amount of time obsessively trimming his lawn only to look back on this behaviour the next day with feelings of regret and guilt. Researchers found these symptoms were being caused by antibodies attacking the neurons in his brain.

More recently, Belinda Lennox, head of psychiatry at the University of Oxford, has conducted tests on thousands of patients with psychosis. She has found increased rates of antibodies in the blood samples of about 6% of patients, mostly targeting the NMDA receptors. She says it remains unknown how a single set of antibodies is capable of producing clinical presentations ranging from seizures to psychosis and encephalitis. Nor is it known why these antibodies are made, or if they can cross the blood-brain barrier, a membrane that controls access to the brain. She assumes, though, that they do—preferentially sticking to the hippocampus, which would explain how they affect memory and lead to delusions and hallucinations.

Dr Lennox says a shift in medical thinking is needed to appreciate the damage the immune system can do to the brain. The "million dollar question", she says, is whether these conditions are treatable. She is now running trials to find out more. Work on patients with immune-driven psychosis suggests that a range of strategies including removing antibodies and taking immunotherapy drugs or steroids can be effective treatments.

Another important discovery is that metabolic disturbances can also affect mental health. The brain is an energy-hungry organ, and metabolic alterations related to energy pathways have been implicated in a diverse range of conditions, including schizophrenia, bipolar disorder, psychosis, eating disorders and major depressive disorder. At Stanford University there is a metabolic psychiatry clinic where patients are treated with diet and lifestyle changes, along with medication. One active area of research at the clinic is the potential benefits of the ketogenic diet, in which carbohydrate intake is limited. This diet forces the body to burn fat for energy, thereby creating chemicals known as ketones which can act as a fuel source for the brain when glucose is in limited supply.

Kirk Nylen, head of neuroscience for Baszucki Group, an American charity that funds brain research, says 13 trials are under way worldwide looking at the effects of metabolic therapies on serious mental illness. Preliminary results have shown a "large group of people responding in an incredibly meaningful way. These are people that have failed drugs, talk therapy, transcranial stimulation and maybe electroconvulsive-shock therapy." He says that he keeps meeting psychiatrists who have come to the metabolic field because of patients whose low-carb diets were followed by huge improvements in mood. Results from randomised controlled trials are expected in the next year or so.

It is not only understanding of the immune and metabolic systems that is improving. Vast quantities of data are now being parsed with unprecedented speed, sometimes with the help of artificial intelligence (AI), to uncover connections previously hidden in plain sight.

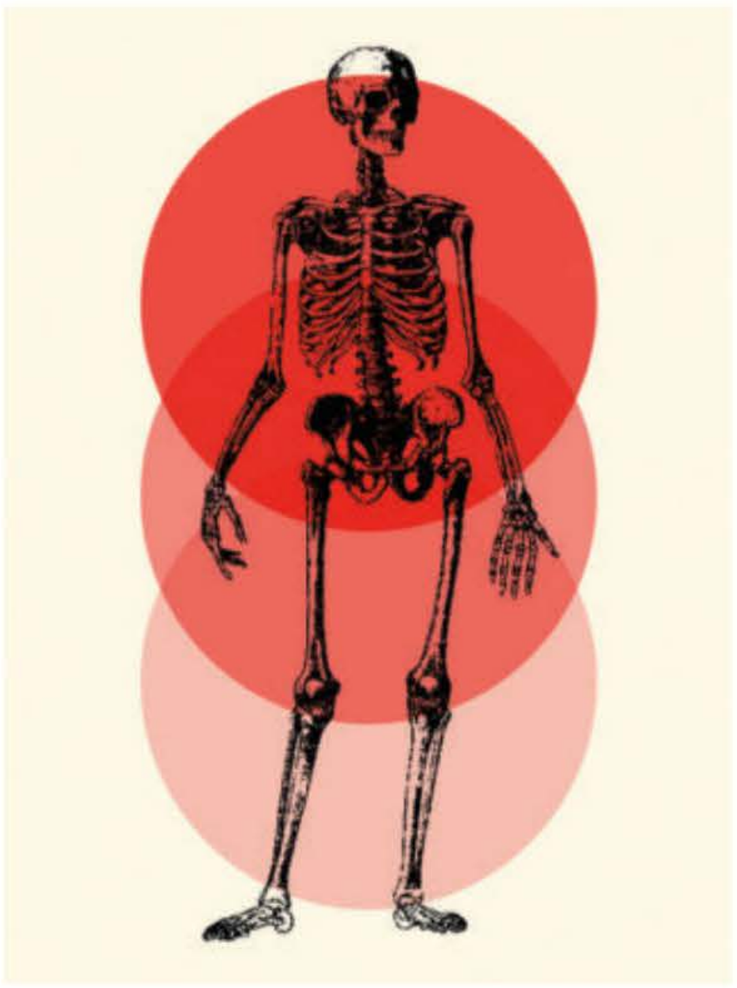
Dr Jung, tear down this wall

This could at long last bring biology more centrally into the diagnosis of mental health, potentially leading to more individualised treatments, as well as better ones. In early October 2023, UK Biobank, a biomedical database, published data revealing that people with depressive episodes had significantly higher levels of inflammatory proteins, such as cytokines, in the blood. A study last year also found about a quarter of depressed patients had evidence of low-grade inflammation. This could be useful to know as other work suggests patients with inflammation respond poorly to antidepressants.

More innovation is under way. A number of researchers are exploring different ways of improving the diagnosis of ADHD, for example, classifying patients into a number of different subgroups, some of which may have been previously unknown. In three separate announcements in February 2024, different groups announced the discovery of biomarkers that could



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predict the risks of dementia, autism and psychosis. The search for better diagnostic tools is also likely to be accelerated by the use of AI. One firm, Cognoa, is already using AI to diagnose autism in children by analysing footage of their behaviour—side-stepping the long waits for clinicians. Another outfit, the Quantitative Biosciences Institute (QBI) in California, has used AI to create an entirely new map of the protein-protein interactions (and the molecular networks) involved in autism. This will greatly facilitate further explorations of diagnostic tools and treatments.

All such developments are promising. But many of the field's problems could be resolved by relaxing the distinctions that exist today between neurology, which studies and treats physical, structural and functional disorders of the brain, and psychiatry, which deals with mental, emotional and behavioural disorders. Dr Lennox finds it extraordinary that the treatment options differ so completely if a patient ends up on a neurology ward or a psychiatric ward. She wants antibody testing to be more routine in Britain when someone presents with a sudden post-viral mental illness that does not get better with standard treatments. Thomas Pollak, a senior clinical lecturer and consultant neuropsychiatrist at King's College London, says MRI scans should probably be used on patients after their first episode of psychosis as, in 5% to 6% of patients, it would change the way they are treated.

This rift between neurology and psychiatry is greater in Anglo-Saxon countries, says Dr Tebartz van Elst. (These are countries including America, Britain, Canada, and New Zealand.) In Germany, psychiatry and neurology are more integrated, with neurologists training in psychiatry, and psychiatrists doing a year of neurology as part of their training. That makes it easier for investigational work to be done. He says he offers most patients with first-time psychosis or other severe psychiatric syndromes an MRI of the brain, an electroencephalogram, lab tests for inflammation, and a lumbar puncture to find evidence to support different treatments in some patients. The price tag, around €1,000 ($1,070), is no more than the cost of hospitalising a patient for three or four days, says Dr Tebartz van Elst, so may be good value for money.

What's the diagnosis?

All this work will one day put psychiatry, and its patients, on a firmer footing. It is already offering validation for some of those for whom the field has failed.

Jessica Huitson is only one of them. Diagnosed and treated too late, she still struggles with her condition and her future is uncertain. Those with ME/CFS, a post-infectious condition which comes with a series of cognitive problems such as attention and concentration deficits, were once dismissed as malingering or diagnosed with "yuppie flu". New work suggests it is associated with both immune and metabolic dysfunction.

Some wonder whether these conditions are the tip of a much larger iceberg. The prize in finding out more will be better patient care and outcomes. Biology is coming, whether psychiatry is ready or not. ■

Chronology

The years are getting longer...

Climate change is slowing the acceleration of Earth's spin

THE PERFECT day should have 86,400 seconds: 24 hours for Earth to spin around its axis, 60 minutes in each hour, and 60 seconds in each minute. But the apparent precision of these simple calculations ignores the messy reality of planetary bodies. Tidal forces, combined with the roiling currents in Earth's core and the redistribution of ice sheets at its surface, cause the planet's rate of spin to vary ever so slightly from year to year.

This irritant was scotched in 1967 with the definition of a new second, derived from the vibrations of caesium atoms inside uber-precise atomic clocks. The two seconds, solar and atomic, are almost exactly equivalent. But not quite. The leap year 1972, for example, should have had 31,622,400 seconds. Reckoned by atomic seconds, however, Earth's full journey around the sun took 31,622,401.14. As a result, two additional seconds were added:



Unfrozen in time

the very first "leap seconds". One, on June 30th that year, made up for the lag; the second anticipated an impending additional one. It was added to the very last minute of the year's very last day.

For a while, leap seconds were a regular fixture. Between 1972 and 2016, there were 27. Owing to a gradual acceleration in Earth's spin that has allowed solar seconds to catch up with atomic ones, there have not been any since. In fact, within the next few years the time nerds of the International Earth Rotation Service (IERS), the body that decides when leap seconds should fall, may need to implement an entirely novel "negative leap second". On some future December 31st, in other words, the stroke of midnight will follow a 59-second minute. Such adjustments are a vexing prospect for organisations reliant on perfect timekeeping, from stockmarkets to power grids. But a new study suggests that climate change will buy them some welcome extra time.

In a paper published in *Nature* last month, Duncan Agnew, a geophysicist with an interest in timekeeping at the University of California in San Diego, disentangled the various factors that are causing Earth's spin to accelerate. To do so, he used a range of data sources including laser measurements of the distance between Earth and the Moon, disturbances to Earth's gravity, and records of ancient eclipses. Partly responsible for the recent speed-up, he concluded, are the currents that ripple through Earth's molten core. The melting of the polar ice sheet since the end of the last ice age, 12,000 years ago, has also made Earth spin faster. Their weight squashed the poles; their subsequent disappearance allowed Earth's crust to rebound and become more spherical. This caused an acceleration in the planet's ▸▸

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spin, an effect familiar to skaters tucking in their arms to rotate faster.

Dr Agnew also found effects pulling in the other direction. In recent decades, climate change has been shrinking the Greenland and Antarctic ice sheets, shifting water mass off the land and into the oceans where it can be redistributed. By reducing both regions' mass, the melt decreases their gravitational pull, with the net effect of "pushing" water away from their shores. Water lost from the Greenland ice sheet ends up pooling most noticeably around the equator and in the southern hemisphere. The opposite, more or less, is true for water released from the Antarctic ice sheet. Glaciologists who have tracked how all this water mass moves around from land to oceans have consequently found a shift away from the poles and towards the equator. That means Earth's waistline is thickening, says Jonathan Bamber, a glaciologist at the University of Bristol. The effect is not huge—it is measured in millimetres per year—but is nonetheless enough to exert a braking effect on Earth's spin.

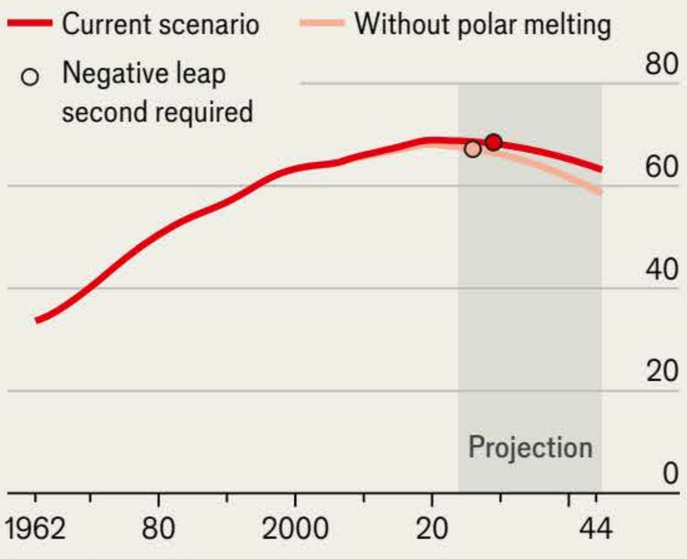
Not a second too soon

It is also delaying the need for a negative leap-second. Without climate change, current trends suggest IERS will need to implement one within just two years. Dr Agnew's calculations suggest they have until 2029. That time will allow software engineers running systems reliant on the precision of atomic clocks to devise new programs capable of handling the negative leap second.

Alternatively, as some have suggested, IERS could use that time to eliminate the concept entirely. Solar seconds and atomic ones are already allowed to differ by one second. Extending that tolerance to one minute would probably eliminate the need for leap seconds of all kinds for decades to come. For timekeepers the world over, that day may be as close to perfect as it is ever possible to get. ■

Wait before you leap

Atomic time's lead over solar time, seconds



Source: "A global timekeeping problem postponed by global warming", by D.C. Agnew, *Nature*, April 2024

Psychology

...and the seconds are crawling by

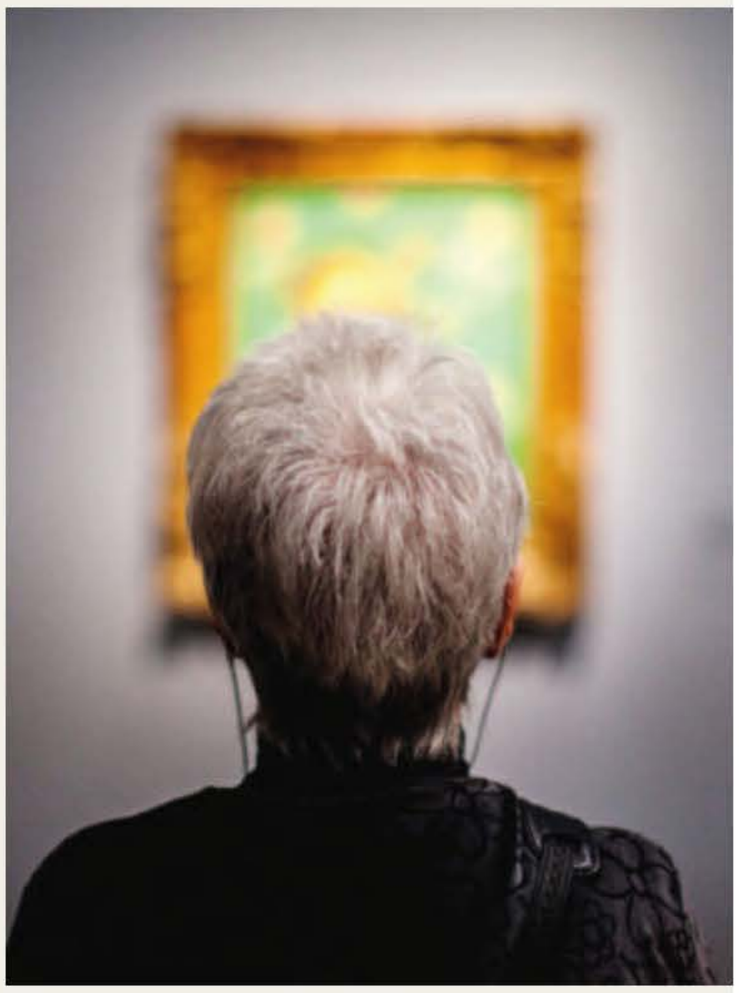
Staring at more memorable images can make time seem to pass more slowly

TIME FAMOUSLY speeds up when you are having fun. But it slows down, it turns out, when one looks at something worth remembering. According to research published on April 22nd in *Nature Human Behaviour*, people's sense of how fast time passes can be influenced by the memorability of the images in front of them. Scientists propose this effect could be a way for the brain to sneak in more processing time before a snap decision needs to be made.

A team led by Martin Wiener, a cognitive neuroscientist at George Mason University in America, tested how visual stimuli alter people's experience of time. They showed several dozen participants images of different scenes—from empty box rooms to filled stadiums—for between 300 and 900 milliseconds. After each one the participants had to say if the time spent looking at the image was short or long. Their responses revealed that, when the images featured large scenes, such as a vacant warehouse, more time seemed to have passed. The opposite happened when the images were of spaces cluttered with objects, such as an overfull garage.

That was strange. Previous research has found that the experience of stretched time increases with size; for instance, if people are flashed images of different numbers for equal lengths of time, they think the higher numbers are shown for longer. But the cluttered scenes seemed to contradict that trend. To see if something else was at play, the researchers ran another experiment using pictures that differed in memorability. Humans better remember pictures focused on people, actions and centrally placed objects. Dr Wiener's team used images from a 60,000-image data set, where each image had been judged on its memorability (a man with flowers in his beard: memorable. Foliage: less so).

The more memorable the image, the more it seemed to stretch time. It also worked in reverse: when participants were called back to the lab a day later, they were better at remembering the time-slowing pictures. To help explain the result, the team fed the memorability pictures to a neural network designed to spot objects in images at a pace that correlates with humans. Perhaps counter-intuitively, it was faster at processing more memorable pictures. The researchers believe that this effect in the artificial neural network may be analogous to what happens in human brains. If so, it could be the key to explaining why time sometimes seems to slow down.



You must remember this

Exactly how processing speed leads to altered time perception is still unclear, but the researchers believe the connection lies in how the brain prioritises incoming information. They propose a new model in which the brain tries to do more processing when it encounters something important, relevant or memorable. It does so, they suggest, by making seconds seem to pass slower, possibly as a way to get more processing done before the body reacts. If a human came face-to-face with a predator, for example, a more sustained burst of thought might be useful, says Dr Wiener.

That is a new and compelling way to think about what time means for the brain, says Chris Paffen, an experimental psychologist at Utrecht University who was not involved with the work. It would make time "a primary aspect of how we deal with the world", rather than just a measure of how long something takes, he says. Though it remains little more than a hypothesis for now, its memorability is undisputed.

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Culture



Pop culture

Gangnam style v gulag style

SEOUL

Why South Korea's pop culture rocks and North Korea's does not

NORTH KOREA'S rulers have always had strong views on art. Kim Il Sung, the regime's founding despot, said artists should "arouse burning hatred for the enemy through their works". His son and successor, Kim Jong Il, was such a cinema enthusiast that he kidnapped a South Korean director and his actress ex-wife and forced them to make propaganda films, including a (surprisingly good) revolutionary Godzilla-style monster flick. Kim Jong Un, the current ruler, demands "masterpieces pulsating with the sentiment of the times", by which he means praise for himself.

The president of South Korea probably has views on the arts, too. But because it is a democracy, its artists do not have to care what he thinks. Which helps explain why South Korean pop culture has spread joy across the world, whereas North Korean "people's culture" has not.

On YouTube "Gangnam Style", a South Korean rap video, has been viewed 5bn times—nearly 60 times as often as "Kiss", a popular children's song from the North. On IMDb, an online film database, the top South Korean films have hundreds of thousands of ratings; the top northern ones, hardly any. The gulf is so vast that only a logarithmic scale can illustrate it (see charts on next page).

Cultural success translates into cash. Half of the top ten bestselling albums in the world last year were South Korean, according to the International Federation of the Phonographic Industry, a trade group. The country's pop-culture exports were a whopping $13bn in 2022, up from just under $5bn in 2013. This sum dwarfs North Korea's official exports of all goods and services combined.

The two Koreas share 5,000 years of history and were separated only after the second world war. So a comparison of their modern pop culture offers a useful insight into the effect of politics on creativity.

The first difference is freedom. In the South, artists are allowed to criticise, satirise and expose uncomfortable truths. "Parasite", the first foreign film to win Best Picture at the Oscars in 2020, presents a bleak picture of inequality in South Korea (which is not especially bad by rich-country standards). "Squid Game", a television series, offers a gory and original take on the same theme: cash-strapped contestants in an imaginary game show compete for a huge jackpot—and face death if they lose.

North Koreans are free only to criticise the South. One northern newspaper called "Parasite" a "masterpiece" for its examination of working-class woes in Seoul. But any art about North Korea must glorify the regime and vilify its enemies. This makes for dreary, predictable fare.

The sole feature film North Korea has released in the past five years is "A Day and a Night", a tiresome yarn about a humble nurse exposing counter-revolutionaries. Whereas South Korean shows depict complex protagonists facing difficult moral choices, characters in North Korean ones must simply be good (heroic workers) or bad (traitors, spies). Foreign characters are

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69 Why is Judith Butler so influential?

69 Peering into the lagoon city

70 Unboxing Amazon

71 Latin America's beloved "Vortex"

71 Has Taylor Swift peaked?

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either evil (Americans, Japanese) or implausibly devoted to the Kim family.

Furthermore, all parts must be played by actors who have never displeased the regime. This applies retroactively, which can be awkward. The lead role in "The Taehongdang Party Secretary", a television drama about a land-reclamation project to grow potatoes, was originally played by Choe Ung Chol, who later fell from grace for unclear reasons. (Rumour has it that he was associated with Kim Jong Un's uncle, who was executed for treason in 2013 and more or less airbrushed out of history.) When the show was recently rebroadcast, Mr Choe's face and voice had been digitally removed from every scene and replaced with those of a new actor.

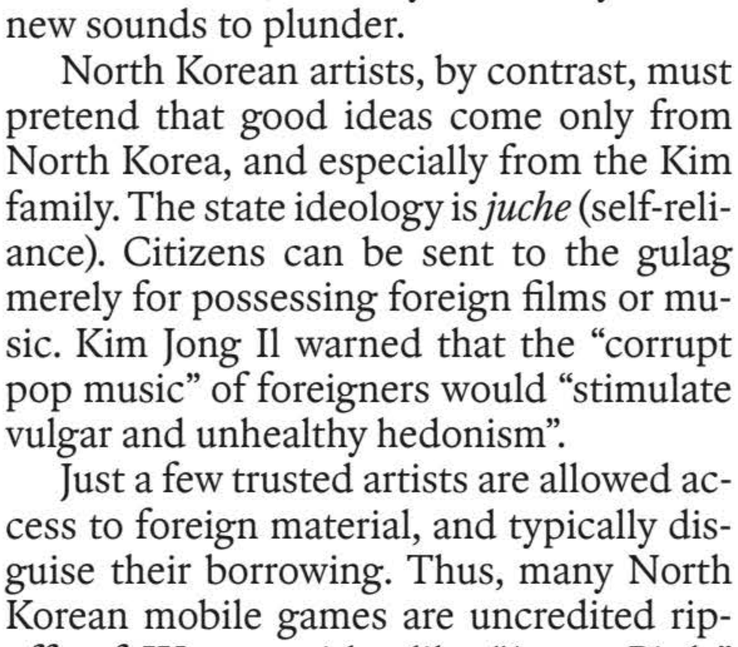
Ideological conformity extends to music, too. "Leader, Just Give Us Your Order!" is a typically bombastic anthem, with a video of soldiers goose-stepping and charging into battle through sheets of fire. Few foreigners enjoy such tracks, and many North Koreans only pretend to. Choi Il-hwa, who escaped from North Korea when she was 14, recalls that she and her friends would "twist the lyrics" of state-approved songs, substituting "love" and "friends" for "glory" and the Kim dynasty, thus risking horrific punishment for a few moments of artistic freedom.

When imitation is and isn't flattery

The second big difference concerns foreign influence. South Korean artists borrow widely. Film directors such as Park Chan-wook and Bong Joon-ho draw inspiration from Hong Kong gangster movies, Taiwanese neo-realist flicks and American classics. Blackpink, the first female K-pop group to top America's *Billboard* Top 200, reimagine American hip-hop and pop in a style that is uniquely their own. On their debut song, "Whistle", they rap in a mix of English and Korean over skittering trap-style hi-hats. South Korean music firms make 80-95% of their profit from new releases, estimates Suh Bo-kyung of Bernstein Research, so they are always after new sounds to plunder.

Putting the pop in K-pop

Korean music videos, number of views on YouTube
Top five by country, to April 2024, log scale



Source: YouTube

North Korean artists, by contrast, must pretend that good ideas come only from North Korea, and especially from the Kim family. The state ideology is *juche* (self-reliance). Citizens can be sent to the gulag merely for possessing foreign films or music. Kim Jong Il warned that the "corrupt pop music" of foreigners would "stimulate vulgar and unhealthy hedonism".

Just a few trusted artists are allowed access to foreign material, and typically disguise their borrowing. Thus, many North Korean mobile games are uncredited rip-offs of Western titles like "Angry Birds" and "Bejewelled", which are unavailable on North Korea's walled-off internet. Its most famous original game, "Pyongyang Racer", is an uninspired driving simulation. Its main virtue is verisimilitude: the streets are as empty as those of the capital, where only the rich own cars.

The third difference is capitalism. Pop culture in South Korea is produced by a variety of private companies. These firms are scandal-prone and notorious for micromanaging stars' lives. But they never forget that fans have choices.

Mindful that their country has just 52m people, they have strived to please a global audience, just as South Korean industrial firms have aimed to export cars and mobile phones. K-pop groups often feature members with different styles, who speak different languages and sometimes come from different countries. Lyrics and videos tend to be less raunchy than their Western equivalents, making them palatable to censors and parents in more of the world. South Korean artists have been swift to embrace new technology. For example, the country is a pioneer of webtoons, a form of comic designed to be scrolled downwards on a phone screen. Koreans now dominate the Japanese webtoon market.

Most important, South Korean artists have grappled with universal themes. The way that television series such as "Squid Game" and "The Glory" (which deals with bullying) explore economic and social injustice resonates with global audiences, who "share similar agonies", says Jin Dal-yong of Simon Fraser University in Vancouver, Canada.

North Korean pop culture, by contrast, is state-directed and aims to please one man. Since Kim Jong Un's life experiences are a trifle unusual—he was brought up to be a god-king and can have anyone who annoys or ridicules him put to death—this does not always yield content to which normal people can relate.

On "Grandfather's Old Tales", a children's show on North Korean television, an "imperialist" wolf rips apart a rabbit. ("Baby Shark", a South Korean children's song, is less bloody and far more popular.) In "A Sick and Twisted World", a comic book series, readers are invited to look down on depraved foreign customs, such as eating contests in America.

To be fair, Mr Kim has tried to modernise some of his country's cultural output. He personally launched Moranbong, a girl band in short skirts, in 2012, around the time when the whole world was dancing to "Gangnam Style". Moranbong signalled a flirtation with openness: members played covers of Western songs such as "My Way" and the theme from "Rocky". But since then the group has grown more conservative, ditching their risqué outfits for military garb, belting out songs such as "Fly High, Our Party Flag" and offering videos of nuclear missiles destroying America.

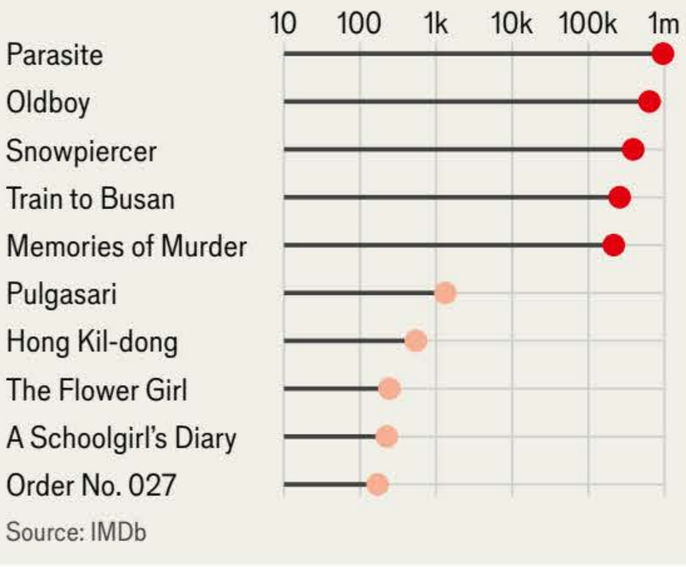
Occasionally, despite the obstacles, North Korean artists produce art that speaks to people. "Comrade Kim Goes Flying", a film from 2012 about a coalminer who wants to be a trapeze artist, was well-received by foreign film-festival-goers, as was "A Schoolgirl's Diary", a coming-of-age tale about a girl struggling to accept her father's commitment to his work.

Years after she escaped, Ms Choi and her parents were driving, and she put on some North Korean pop, including "Whistle". Not the Blackpink song, but one with a similar love theme and an unmistakably North Korean lyric: "Today I smiled and told you I'd exceeded production goals three-fold." Ms Choi's father grew nostalgic. Ignore the oppressive words; the tunes helped him realise it was OK to miss the place where he was born, even if he has absolutely no desire to return.

North Korea has talent: cartoonists who can draw, composers who can create a tune. It is only their rulers who hold them back. When it comes to hard power, the two Koreas are in the same weight class, thanks to the North's nuclear weapons. But culturally, the South is a colossus, whereas the North's soft power is as weak as the rationale for making a communist dictatorship hereditary. ■

Screen time

Korean films, number of votes on IMDb
Top five by country, to April 2024, log scale



Source: IMDb

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From ivory tower to person of the hour

Who's afraid of Judith Butler?

Who's Afraid of Gender? By Judith Butler. *Farrar, Straus and Giroux; 320 pages; $30. Allen Lane; £25*

THERE WAS a time when outlandish theories about gender were confined to the fringes of social-science faculties. Now such notions—and particularly the idea that sex is mutable—are debated everywhere, from kitchen tables and pubs to state legislatures, thanks to a few academics. Chief among them is Judith Butler of the University of California, Berkeley, known as "the godmother of queer theory". As the revolution Butler helped start has recently met with more intellectual and political resistance, the author has written a new book in its defence.

Butler (who prefers to go by the pronoun "they") shot to fame in academic circles with "Gender Trouble" (1990), a difficult book that some students read and others pretended they had. Drawing on ideas of feminist thinkers, Butler examined concepts of "sex" (the biological categories of male and female) and "gender" (the behaviours associated with those categories). Butler argued that gender is "performative" rather than defined by sex; terms such as "man" and "woman" were not helpful and should be reimagined. "Gender Trouble" has become part of the post-modern social-science canon.

Butler grew up in a world where many held rigid views about how men and women should look and behave. As a lesbian who faced homophobia after coming out in the 1970s, Butler asked why a woman had to be feminine and desire men, and a man be masculine and desire women. Butler went on to develop queer theory—an ideology that says that gender identity trumps biological sex in defining who a person is—promoting this concept in notoriously impenetrable academic prose.

"Who's Afraid of Gender?" is Butler's first non-academic book, and much of it is surprisingly lucid. That is partly because the subject matter is less the wilder fringes of gender and more the mean streets of political activism. The author calls out religious leaders who treat gay people as second-class citizens and details the appalling way they are still discriminated against in the developing world. Butler correctly points to the moral panic that discussions of "gender" can engender on the political right (and rails against Donald Trump and his opportunism in this regard) and, crucially, draws attention to people struggling with dysphoria and the historical prejudices they have suffered.

The problem is that pretty soon, the author leaves the path of gay-rights advocacy and disappears down an ideological rabbit hole. Soon after critiques of "the so-called facts of sex", the TQ+ overwhelms the LGB. The result is a stir-fry of disingenuous provocations, served up with a large portion of post-modern word salad. The reader is left wondering how Butler ever became so influential.

In the introduction, the author writes that pushback is driven by something stronger than a backlash against progressive movements, namely "the restoration of a patriarchal dream-order". Rather than methodically taking on critics' arguments, Butler assails them—for instance the "outmoded science" that says males should not compete in women's sport. Then Butler goes on to place gender in the same basket as women's rights, gay rights and legal abortion, suggesting that anyone who asserts the importance of biological sex must be against those things.

Butler smears the growing army of liberal-minded women who oppose these views on sex and gender, including J.K. Rowling, as hysterical right-wingers allied with the pope, Mr Trump and Vladimir Putin. Soon the author descends into the quicksand of intersectionality, where all oppressions overlap, accusing people who criticise the Butler perspective of buttressing "white supremacy". By the end, all opponents are extremists. The words "fascism" and "fascist" appear nearly 70 times.

The book is a lesson in how well-meaning activism can overreach. The author has lent intellectual credibility to a theory that has, as recently revealed in the Cass Review commissioned about England's youth-gender services, caused harm to many young people, some of whom are autistic, depressed or simply gay. Channelling Butler's theories, some activists are labelling those who oppose giving minors cross-sex hormones as "bigots".

This is hurting the causes that Butler once stood for. It is not just conservatives and populists who are increasingly alienated. The policies that have resulted from Butler's ideas are troubling folk in middle America, who support the right of all to live as they wish but worry about ideological brainwashing and the safeguarding of women and children. This is pushing them to the right politically. Butler asks who is afraid of gender. It is the wrong question. What a growing number of liberal people object to is not an abstract noun but the real-world consequences of the muddled thinking that the author typifies. ■



Butler, in the spotlight

History

The tides of Venice

Venice. By Dennis Romano. *Oxford University Press; 800 pages; $41.95 and £31.99*

VISITING THE Venice Biennale, one of the world's largest art fairs that opened on April 20th and runs until late November, often evokes a disconcerting emotion. You come to see the works on display in the exhibitions that sprawl across the city, only to leave feeling guilty at having paid too little attention to the work of art that is Venice itself.

Bedazzled by its loveliness and wondering at its sheer implausibility, outsiders have seldom managed to make objective appraisals. Dennis Romano, an emeritus professor at Syracuse University in New York, embarked on this new history of the city with the notion that "deromanticising Venice does not strip it of its power. It makes the achievements of the lagoon city and of all Venetians more fascinating and remarkable still."

The result is a triumph. Ignore the vacuous subtitle of his book ("The Remarkable History of the Lagoon City"). This is contemporary historical writing of the highest quality: clear, entertaining and yet academically rigorous. Mr Romano has already written four books on the city's long and turbulent history. With his fifth he has done for Venice in the 21st century what John Julius Norwich, an English historian and travel writer, did for the city in the 20th. As time goes by, this monumental ▸▸

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chronicle should gradually replace its distinguished forerunner as the history of choice for readers in English who want to better understand Venice's rich past.

Norwich's work told the story of the Venetian Republic, which endured for more than 1,000 years until swept out of existence by Napoleon in 1797. This is a more comprehensive account. It covers the entire story from Venice's elusive origins to today's city, wrestling with the problems that arise from mass tourism. It goes even further, in fact, looking ahead to thousands of years from now when "sedimentation and tectonic overriding will transform the northern Adriatic into dry land". Venice, if it has survived, will be landlocked.

Mr Romano also differs from Norwich in discarding a doge-by-doge approach: as he remarks, Venice's republican rulers were, for the most part, a colourless bunch. Instead, he weaves a great deal of social and economic history into the broadly chronological narrative. He also digresses into such arcane but intriguing fields as 16th-century espionage. Inevitably, the Venetians often deployed the vocabulary of commerce: a prediction that someone "in prison for debts would be released in June" was code for "the Turkish fleet will sail in June". A Jewish spy used "sacks of cotton" to denote Turkish galleys.

The thematic treatment means readers are sometimes whisked back and forth in time, but the effect is to make more sense of the politics, the diplomacy and the military context. Knowing that Egypt during the Fatimid caliphate was desperately short of timber and pitch helps explain why Venice, and not Egypt, for all its wealth and might, became the dominant naval power in the eastern Mediterranean by the 12th century.

Not that this dominance was always put to a use of which fellow Christians approved. The lagoon city played a decisive role in the sack of Constantinople, which, though it strengthened Venice's commercial position, irretrievably weakened the Byzantine Empire and Christian Europe's eastern flank. Medieval Venetian merchants cheerfully traded slaves, particularly those extracted from the lands around the Black Sea—and, to the outrage of successive popes, sold most to Muslim states. Mr Romano does not develop this point, but the strongest and ablest males became enslaved mercenaries and battled Christian troops in the Levant and beyond.

Venice has always had dark aspects. It gave ghettos their name (*getto,* a foundry, was where Venice's original ghetto was in the 1500s); as Mr Romano shows, its slums in the 19th century were as squalid as any in Europe. Yet the very fact of its survival is testament to the Venetians. In its spectacular ingenuity, fragility and resilience Venice is a metaphor for humankind. ■



Antitrust

Amazon's killer smile

The Everything War. By Dana Mattioli. *Little, Brown; 416 pages; $32.50. Torva; £22*

IN 2009-10 AMAZON went to war over nappies. The e-commerce giant, then worth about $50bn, identified a startup, Diapers.com, that had a devoted following among young mums. First it stalked it. Then it pounced, reaching out to buy the company on the same day that it slashed the price of its own baby products by 30%. Amazon's price cuts almost crushed Diapers.com, forcing it to sell itself to its nemesis. Marc Lore, Diapers' founder, has not forgiven Amazon. He later went on to lead the e-commerce division of Walmart, its biggest rival, partly to get his own back. "It's still triggering," he admitted at a recent event attended by your reviewer.

The story of Diapers.com is one of many damning narratives about Amazon that run through "The Everything War", which relates how other well-known brands have felt its hot breath on their necks, from Allbirds, a shoemaker, to Trader Joe's, a supermarket chain. At the *Wall Street Journal*, Dana Mattioli, the author, has doggedly pursued Amazon; her stories on its misuse of sellers' data have caught Congress's eye. She is on the antitrust warpath, and the book tries to portray the company's supposed misuse of power.

The book starts by quoting an article in the *Yale Law Journal* in 2017 called "Amazon's Antitrust Paradox", written by a 27-year-old law student called Lina Khan. It ends with Ms Khan, now chair of the Federal Trade Commission (FTC), a trustbusting and consumer-welfare agency, throwing the book at Amazon. Last September the FTC and 17 state attorneys-general sued Amazon, accusing it of operating an illegal monopoly by using its power to raise prices and degrade service for shoppers and vendors, while stifling competition. Amazon calls the lawsuit misguided.

Such subject matter and scope, just as Ms Khan is attempting to turn decades of antitrust enforcement on its head, should make for gripping reading. But it does not. For all the shoe leather the author treads in pursuit of Amazon, her story is rambling, and there is no "gotcha" moment. Unexpectedly, Ms Khan has focused the FTC's case against Amazon on different behaviour than the sort Ms Mattioli chronicles.

To make up for that, Ms Mattioli yells. Her tone is, at times, so one-sided it makes you sympathise with Amazon. Jeff Bezos, its founder, does not just have a rapacious hunger to win, he has a "killer instinct" that he tries to impose on his staff. It leaves rivals' "corpses in its wake". It has a "cutthroat culture". Its customer obsession, which she says is a guiding principle, is cover for "unethical behaviour".

Sadly, this is a feature of too many books trying to tear down prominent firms or business people. Occasionally, works of investigative reporting are so incisive that they bring down a company. Think "Bad Blood", by John Carreyrou, which helped expose the fraud of Theranos, a blood-testing startup. But others that lack sufficient incriminatory evidence tend to resort to rabble-rousing rhetoric.

Amazon highlights many of the contradictions of corporate concentration; it is not a simple tale of might versus right. Sometimes crushing rivals is essential for businesses to survive and thrive. Even Warren Buffett, America's investing guru, likes companies with "moats" to keep the competition at bay. No doubt it has treated some rivals, clients and employees harshly in the course of establishing its empire. But customers and vendors are so loyal, they spring to its defence when it faces any regulatory onslaught that could deprive them of their beloved Prime membership.

Ms Mattioli hints at one of the deepest problems of antitrust in America. Politicians have failed to tighten up competition law to make it fit for an era of entrenched oligopolies, and congressional attempts to hold Amazon and other tech giants to account have fizzled out amid a barrage of lobbying. Probably the wisest description of Amazon in the book comes from Ms Khan herself: "It is as if Bezos charted the company's growth by first drawing a map of antitrust laws, and then devising routes to smoothly bypass them." ■

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"The Vortex" at 100

Jungle book

BOGOTÁ

One of Latin America's most important books is timely

THE BOOK is on the minds and lips of presidents. Recently Gustavo Petro, Colombia's leader, praised "La Vorágine" ("The Vortex"), a novella by José Eustasio Rivera, for having words that "still shine like stars" and showing how "the destruction of the jungle fills human beings with nothing but hatred". Mr Petro and Luiz Inácio Lula da Silva, Brazil's president, both spoke about "The Vortex" at the International Book Fair of Bogotá. This year's biblio-bonanza is celebrating the relationship between literature and nature, as well as the centenary of the publication of "The Vortex", which was written in April 1924.

Rivera told his story through Arturo Cova, an equivocal narrator who seduces a woman, Alicia, in Bogotá and then flees with her to *los llanos* in the east. Greed and cruelty drive the people they encounter, who desire only to "steal rubber and hunt Indians".

"The Vortex" evokes the region's colonial history, when conquistadors pillaged jungles and slaughtered inhabitants in pursuit of riches. It also excoriates the abuses that the rubber industry inflicted on indigenous people serving as indentured workers in the Amazon, the world's largest rainforest. As the forest is despoiled and a tug-of-war plays out between those wanting to prioritise environmental protection over economic growth, the book feels modern and timely.

It can also be read as pioneering eco-literature. Rivera's vivid, poetic prose transforms the jungle into a living being, "a green hell" that fights back against its persistent invaders. Thundering rapids drown men; ants as poisonous as scorpions prey on human flesh. At one point Cova hears a tree's vengeful thoughts.

By the end of "The Vortex", the rainforest devours the protagonist. The message is that, if the destruction of ecosystems persists, humans suffer. Fortunately, renewed conservation efforts led by Brazil and Colombia are focused on preserving what remains of the Amazon. But plenty of deforestation continues. No one can be sure of what will be left a hundred years from now.



Shake it off

Has Taylor Swift peaked?

The musician is at the height of her commercial, but not her creative, power

TAYLOR SWIFT has a strong claim to being the most popular entertainer of the 21st century—and perhaps of all time. Five of the ten most popular albums in America in 2023 were hers, according to Luminate, an analytics firm. Ms Swift's albums have now cumulatively racked up 384 weeks in the top ten of the *Billboard* chart, beating a record previously held by the Beatles. She is halfway through the most lucrative concert tour ever. A film version of it grossed over $260m at the box office last year.

On April 19th she released a double album entitled "The Tortured Poets Department: The Anthology". Over the course of 31 songs, Ms Swift wields her scalpel and dissects every inch of her recent relationships. Few songwriters have been better at transmuting heartbreak into hits. ("The high", as she sang on "Blank Space", has surely always been "worth the pain".) Unfortunately, on this album, she has eschewed danceable pop for something as downcast as the title implies.

Gone are the irresistibly catchy choruses of "I Knew You Were Trouble" and "We Are Never Ever Getting Back Together", replaced with dreamy synths, muted drums and languorous vocals. Ms Swift can do melancholy and wistfulness well. Yet "The Tortured Poets Department" is mournful without being memorable. For a woman who launched her career as a precocious country-singing teen, her new lyrics sound jarringly immature, with unimaginative rhymes. "Like I lost my twin / Fuck it if I can't have him," she sings in "Down Bad".

It is a sign of her stardom that many Swifties rushed to buy the record anyway: within a day of its release "The Tortured Poets Department" sold 1.4m copies in America. But some are breaking ranks to confess that they think the songs are underwhelming and samey. Is Ms Swift falling into the trap that ensnares those who reach the highest echelons of their fields, from auteurs to chief executives? Perhaps no one—including her songwriting collaborators—wants to tell music's biggest star that her tunes are bland.

On "I Can Do It With A Broken Heart" she boasts that she is "so productive, it's an art". Indeed it is quite common for great artists at the height of their fame to release lengthy double albums: think of the Beatles' 30 songs on the "White Album" or Bruce Springsteen's 20 on "The River". But both of those could have benefited from more selective editing and still have become the treasured classics that they are today. For Ms Swift, it is the quality of her output, not the quantity, that has set her apart from her peers.

Ms Swift's latest offering is some way short of her usual standard. In one of the songs, she claims to be in "her glittering prime". Fans both devoted and casual may wonder if the lustre is fading. ■

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Economic & financial indicators

	Gross domestic product, % change on year ago: latest		quarter*	2024†	Consumer prices, % change on year ago: latest		2024†	Unemployment rate, %: latest		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 $ Apr 24th	% change on year ago
United States	3.1	Q4	3.4	2.0	3.5	Mar	2.7	3.8	Mar	-2.8	-6.1	4.7		113	-	
China	5.3	Q1	6.6	4.7	0.1	Mar	1.0	5.2	Mar‡§	1.4	-4.6	2.1	§§	-55.0	7.25	-4.8
Japan	1.2	Q4	0.4	1.3	2.7	Mar	2.3	2.6	Feb	2.7	-4.7	0.9		41.0	155	-13.3
Britain	-0.2	Q4	-1.2	0.4	3.2	Mar	2.6	4.2	Jan††	-2.8	-4.2	4.2		44.0	0.80	nil
Canada	0.9	Q4	1.0	1.7	2.9	Mar	2.5	6.1	Mar	-0.6	-0.3	3.8		90.0	1.37	-1.5
Euro area	0.1	Q4	-0.2	0.8	2.4	Mar	2.4	6.5	Feb	2.7	-3.2	2.6		8.0	0.94	-3.2
Austria	-1.7	Q4	0.2‡	0.5	4.1	Mar	3.5	4.7	Feb	2.4	-2.4	3.1		-6.0	0.94	-3.2
Belgium	1.3	Q4	1.3	1.1	3.8	Mar	2.2	5.5	Feb	-0.5	-4.4	3.1		-8.0	0.94	-3.2
France	0.7	Q4	0.2	0.9	2.4	Mar	2.7	7.4	Feb	-0.7	-4.9	3.0		-1.0	0.94	-3.2
Germany	-0.2	Q4	-1.1	0.1	2.3	Mar	2.1	3.2	Feb	6.2	-1.5	2.6		8.0	0.94	-3.2
Greece	1.1	Q4	0.6	2.8	3.4	Mar	3.2	11.0	Feb	-5.4	-2.1	3.6		-71.0	0.94	-3.2
Italy	0.6	Q4	0.7	0.6	1.2	Mar	1.7	7.5	Feb	0.9	-5.3	4.0		-44.0	0.94	-3.2
Netherlands	-0.4	Q4	1.4	1.0	3.1	Mar	2.8	3.6	Mar	8.9	-2.4	2.8		-3.0	0.94	-3.2
Spain	2.0	Q4	2.3	1.7	3.3	Mar	2.9	11.5	Feb	1.8	-3.5	3.3		-21.0	0.94	-3.2
Czech Republic	0.2	Q4	1.8	1.2	2.0	Mar	2.1	2.7	Feb‡	-0.5	-2.5	4.4		-42.0	23.6	-9.9
Denmark	3.5	Q4	10.8	1.3	0.9	Mar	1.8	2.9	Feb	9.4	1.2	2.6		-15.0	6.98	-3.1
Norway	0.5	Q4	6.2	1.0	3.9	Mar	2.6	3.9	Jan‡‡	14.4	12.0	3.9		65.0	11.0	-4.0
Poland	1.0	Q4	nil	2.9	2.0	Mar	3.8	5.3	Mar§	0.2	-5.2	5.8		-27.0	4.05	3.0
Russia	4.9	Q4	na	1.9	7.7	Mar	6.4	2.8	Feb§	2.2	-1.8	13.4		245	92.3	-11.9
Sweden	-0.1	Q4	-0.2	0.3	4.1	Mar	2.4	9.2	Mar§	5.6	-0.9	2.4		-3.0	10.9	-5.8
Switzerland	0.6	Q4	1.2	1.0	1.0	Mar	1.4	2.3	Mar	9.0	-0.3	0.7		-38.0	0.91	-2.2
Turkey	4.0	Q4	3.9	3.1	68.5	Mar	52.4	9.2	Feb§	-3.0	-4.6	27.0		1,521	32.5	-40.3
Australia	1.5	Q4	1.0	2.0	3.6	Q1	2.7	3.8	Mar	1.1	-1.0	4.4		101	1.54	-3.2
Hong Kong	4.3	Q4	1.8	3.2	2.0	Mar	2.2	3.0	Mar‡‡	7.0	-1.4	3.9		82.0	7.83	0.3
India	8.4	Q4	8.0	6.6	4.9	Mar	4.8	7.6	Mar	-0.8	-5.3	7.2		8.0	83.3	-1.7
Indonesia	5.0	Q4	na	5.1	3.0	Mar	3.2	5.3	Q3§	-0.2	-2.4	7.0		33.0	16,155	-8.1
Malaysia	3.9	Q1	na	4.4	1.8	Feb	2.5	3.3	Feb§	1.9	-4.4	4.0		4.0	4.78	-7.1
Pakistan	nil	2023**	na	1.0	20.7	Mar	21.0	6.3	2021	-2.9	-7.2	14.2	†††	-92.0	278	1.8
Philippines	5.5	Q4	8.7	5.7	3.7	Mar	2.9	4.5	Q1§	-1.3	-6.1	6.8		63.0	57.5	-3.1
Singapore	2.7	Q1	0.2	2.4	2.7	Mar	3.1	2.0	Q4	18.5	0.1	3.4		53.0	1.36	-2.2
South Korea	3.2	Q1	5.2	2.3	3.1	Mar	2.5	3.0	Mar§	1.9	-1.3	3.6		34.0	1,369	-2.5
Taiwan	4.9	Q4	9.7	3.3	2.1	Mar	2.0	3.4	Mar	14.4	0.1	1.7		47.0	32.5	-5.8
Thailand	1.7	Q4	-2.3	3.2	-0.5	Mar	1.2	1.0	Mar§	3.0	-3.5	2.8		26.0	37.0	-7.1
Argentina	-1.4	Q4	-7.3	-3.5	288	Mar	258.3	5.7	Q4§	0.2	-1.1	na		na	873	-74.8
Brazil	2.1	Q4	-0.1	1.8	3.9	Mar	4.1	7.8	Feb§‡‡	-1.5	-7.2	11.5		-125	5.16	-1.7
Chile	0.4	Q4	0.4	2.8	3.2	Mar	3.5	8.5	Feb§‡‡	-3.5	-2.5	6.1		48.0	955	-14.5
Colombia	0.3	Q4	0.1	1.2	7.4	Mar	5.8	11.7	Feb§	-3.1	-5.1	10.6		-79.0	3,936	14.0
Mexico	2.5	Q4	0.3	2.3	4.4	Mar	4.2	2.6	Feb	-0.6	-4.7	9.9		101	17.1	5.4
Peru	-0.4	Q4	0.9	2.4	3.0	Mar	2.6	7.0	Mar§	-0.4	-2.9	7.5		-7.0	3.70	1.6
Egypt	2.3	Q4	na	2.6	33.4	Mar	31.8	6.9	Q4§	-3.4	-11.0	na		na	47.9	-35.5
Israel	-4.7	Q4	-21.0	1.9	2.7	Mar	2.8	3.3	Mar	4.9	-6.3	4.8		87.0	3.78	-3.4
Saudi Arabia	-0.8	2023	na	2.0	1.6	Mar	2.1	4.4	Q4	0.7	-1.9	na		na	3.75	nil
South Africa	1.2	Q4	0.2	1.6	5.3	Mar	4.8	32.1	Q4§	-2.0	-5.2	10.8		60.0	19.2	-5.7

Source: Haver Analytics. *% change on previous quarter, annual rate. †The Economist Intelligence Unit estimate/forecast. §Not seasonally adjusted. ‡New series. **Year ending June. ††Latest 3 months. ‡‡3-month moving average. §§5-year yield. †††Dollar-denominated bonds. Note: Euro area consumer prices are harmonised.

Markets

In local currency	Index Apr 24th	% change on: one week	Dec 29th 2023
United States S&P 500	5,071.6	1.0	6.3
United States NAScomp	15,712.8	0.2	4.7
China Shanghai Comp	3,044.8	-0.9	2.3
China Shenzhen Comp	1,694.8	-0.3	-7.8
Japan Nikkei 225	38,460.1	1.3	14.9
Japan Topix	2,710.7	1.8	14.6
Britain FTSE 100	8,040.4	2.5	4.0
Canada S&P TSX	21,873.7	1.0	4.4
Euro area EURO STOXX 50	4,989.9	1.5	10.4
France CAC 40	8,091.9	1.4	7.3
Germany DAX*	18,088.7	1.8	8.0
Italy FTSE/MIB	34,271.1	1.9	12.9
Netherlands AEX	874.0	1.0	11.1
Spain IBEX 35	11,027.8	3.7	9.2
Poland WIG	84,201.3	2.2	7.3
Russia RTS, $ terms	1,171.1	1.5	8.1
Switzerland SMI	11,370.7	1.2	2.1
Turkey BIST	9,722.1	2.0	30.1
Australia All Ord.	7,937.5	1.0	1.4
Hong Kong Hang Seng	17,201.3	5.8	0.9
India BSE	73,852.9	1.2	2.2
Indonesia IDX	7,174.5	0.6	-1.4
Malaysia KLSE	1,571.5	2.0	8.0
Pakistan KSE	72,051.9	2.4	15.4
Singapore STI	3,293.1	4.4	1.6
South Korea KOSPI	2,675.8	3.5	0.8
Taiwan TWI	20,131.7	-0.4	12.3
Thailand SET	1,361.1	-0.4	-3.9
Argentina MERV	1,202,669.0	2.6	29.4
Brazil BVSP*	124,740.7	0.5	-7.0
Mexico IPC	56,464.0	1.9	-1.6
Egypt EGX 30	25,917.6	-12.6	4.1
Israel TA-125	1,962.2	2.6	4.0
Saudi Arabia Tadawul	12,355.7	-0.9	3.2
South Africa JSE AS	74,513.9	2.1	-3.1
World, dev'd MSCI	3,323.3	1.3	4.9
Emerging markets MSCI	1,034.7	2.2	1.1

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	104	154
High-yield	351	502

Sources: LSEG Workspace; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

***The Economist* commodity-price index, 2020=100**	Apr 16th	Apr 23rd*	% change on: month	year
Dollar Index				
All Items	134.6	136.5	4.2	6.8
Food	144.8	147.3	2.8	4.4
Industrials				
All	126.1	127.6	5.6	9.2
Non-food agriculturals	134.0	134.4	-3.3	12.9
Metals	124.1	125.8	8.4	8.2
Sterling Index				
All items	139.0	141.1	5.9	6.5
Euro Index				
All items	144.6	145.8	5.5	9.6
Gold				
$ per oz	2,346.2	2,386.2	10.8	18.8
Brent				
$ per barrel	90.3	87.8	1.3	8.6

Sources: Bloomberg; CME Group; Fastmarkets; FT; LSEG Workspace; LME; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; Urner Barry; WSJ. *Provisional.

For historical indicators data, visit economist.com/economic-and-financial-indicators

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- Manage human and financial resources in compliance with EU regulatory framework.
- Represent the ESAs externally on DORA-related matters, fostering relationships with stakeholders.
- Maintain strong working relations with other ESA managers, fostering collaboration.

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- Proficiency in English (C1 level) and another official EU language (B2 level).

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OBITUARY

Terry Anderson

The longest-held Western victim of the mid-1980s hostage crisis died on April 21st, aged 76



IT WAS ONLY part of his life, he insisted. He had done so much else. Before it, he had been a Marine, joining straight out of high school and seeing combat duty in Vietnam. Then, after studying journalism at Iowa State, he had signed on with the Associated Press. He reported from Japan and South Africa, and then volunteered—volunteered!—for the Beirut desk. There was a civil war in Lebanon, but he found that fascinating, the best job he ever had. There were straightforward good times, too, when he and his colleagues and Madeleine, his beautiful Lebanese fiancée, would gather on the balcony of his seaside apartment, high above the rubbled streets, smoke cigars, sip Scotch and watch the twilight come down over the sea.

Terry Anderson did plenty afterwards, too. He taught journalism at several universities, and set up a foundation to build schools in Vietnam. He became honorary chairman of the Committee to Protect Journalists, and helped homeless veterans. Other ventures didn't go so well. He had to close two restaurants and a bar, the Blue Gator in Athens, Ohio, where he hoped to indulge his love of blues. His charter-boat business went bust, and his horse farm had to be sold. He ran for the Ohio Senate, but lost. In 2009 he declared bankruptcy. There were three marriages and three divorces. His weight ballooned. He had to admit he was sometimes a jerk. But had he always been one, or had those seven years made him one? If so, they had also made him a hero and a famous man. He tried not to think about them, but they would not go away.

On March 16th 1985 he had been enjoying an early-morning tennis game by the sea, part of his new fitness regime. (Jogging, no smoking, a low-carb diet.) His play absorbed him rather more than the green Mercedes sedan that kept cruising past the court. But as he drove home the car drew up alongside; three gunmen ran from it, pulled his door open and thrust him inside. He was to be a prisoner of these Hizbullah militants for almost seven years. Because he plied his reporter's trade openly, they took him for a spy.

His own arrogance got him kidnapped, he said. He thought he was safe. His subsequent treatment both infuriated him and reduced him at times to despair. He did not think they would kill him; it was clear they wanted to trade him for their own captured comrades. Nor did they torture him, as they did others. But they were young, pistol-happy and with an enemy in their hands, so they did their brutal best to degrade him. He was kept chained and often blindfolded, with no idea where he was. As the war ebbed and flowed he was moved around Lebanon, strapped to the chassis of a truck or, at times, in a coffin, taped up like a corpse.

Without the blindfold he was still in the near-dark, in basements or small damp cells where he slept on thin, dirty mattresses on concrete floors. Most of the food was inedible. For perhaps a year and a half in total he was kept in solitary confinement, which he could barely endure. As a Christian he tried for hours to pray, but found just a blankness in which he was talking to himself, not God. It was all too easy to believe that the world had forgotten him. (His sister, Peggy Say, was lobbying everyone she could think of to gain his release, and the Reagan administration was embarking on an illegal scheme of selling arms to Iran, Hizbullah's sponsor, but he knew none of that.) He marked the thousandth day of his captivity by beating his head against his cell wall until it bled.

Several things got him through in the end. One was his Marine training. Another was native stubbornness: he would simply wake up in the morning and do what he had to do, summon the energy from somewhere, day after day after day. Most ordinary people, he reflected, led their lives that way. And nothing about him and his fellow captives was particularly extraordinary.

Their company was the most important factor. His fellow prisoners—principally Brian Keenan, John McCarthy and Tom Sutherland—helped him greatly. When he was with them, they talked as much as they could about anything at all: Keenan, a Belfast boyo, about Irish affairs, Sutherland, an animal geneticist, about agriculture, until he felt ready to start a farm himself. They played poker with a deck he made out of scrap paper, and chess with pieces he crafted from the silver foil round processed cheese. He became their leader, harrying the guards for better food and decent books to read—Dickens's novels, "Animal Farm" and "The Plague" were on his list—and for news of the world outside, which he was desperate to recover.

Twice he almost did. One day he was allowed to see the sun and eat a hamburger, but it turned out to mean nothing. In 1987 he was given a suit and taken to a carpeted apartment with Marcel Fontaine, then his cellmate. Only Fontaine was released, though he went on wearing that suit for a week, hoping. His own release was not until December 4th 1991, 2,454 days after his capture.

The AP colleagues who bear-hugged him, and his family, who brought flowers, saw a jubilant man with a fine moustache and big glasses, just as in the old days. Those days were what he meant to resume. He would forgive his captors, forget the lost years, and get on with his life. He was not a vindictive person. But he, like his fellow captives, was damaged more than he knew. He found it hard to deal with relationships, decision-making, emotions and crowds. He married Madeleine quickly, but then divorced her. Counselling helped only so far. In 1999 he sued the government of Iran for $100m in damages, and in 2002 he received $26m from frozen Iranian assets. He blew it in seven years.

Was that claim revenge? No, he said, just stating responsibility. He refused to let that part of his life define the larger, slowly improving part. Yet it kept doing so. As the years passed, he was still regularly asked whether he had forgiven his captors. He wasn't sure. And had he got over it? You would have to ask his ex-wives, he would say ruefully. He didn't know. He was who he was. ■

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