The Economist

Gaza ceasefire. Now what?

The lesson from rising bond yields

Tulsi Gabbard's Damascene excursion

Hard truths about MBAs

JANUARY 18TH–24TH 2025



THE TRUMP DOCTRINE

America's new foreign policy

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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



Mediators in Qatar announced a six-week **ceasefire** between Hamas and Israel, coming into effect on January 19th. There were quibbles about the details on both sides, and the deal is opposed by Israel's far-right parties. But if all goes according to plan the militants will release 33 of the remaining 98 hostages (half of whom may be dead) in the first phase of the ceasefire in exchange for hundreds of Palestinian prisoners. Over 1,000 Israelis and tens of thousands of Palestinians have been killed in the fighting.

General Joseph Aoun, the commander of **Lebanon's** armed forces, was elected the country's president by parliament. The office had been vacant for more than two years. Mr Aoun's elevation to the presidency is a blow to Hizbullah, a much weakened Iranian-backed militia, as is the selection of Nawaf Salam, head of the International Court of Justice, as prime minister.

Dozens of dead bodies were recovered from an illegal mine in **South Africa** after a court ordered a rescue mission. More than 100 men were pulled out alive, with hundreds more still believed to be underground. Police had shut off most food and water supplies. The government says the crackdown on illegal mining is necessary.

Daniel Chapo was sworn in as **Mozambique's** president, extending his Frelimo party's half-century in power. He took office following months of violent demonstrations against a flawed election in October. More than 300 people have been killed by security forces.

Volodymyr Zelensky said **Ukraine** had captured two **North Korean** soldiers in **Russia's** Kursk region and was willing to hand them over in exchange for Ukrainian prisoners of war. A contingent of 12,000 North Koreans is thought to have been deployed to Russia. Around 300 have been killed and 2,700 injured, according to reports from South Korea.

NATO announced that it would deploy vessels, aircraft and drones in a mission called Baltic Sentry to thwart sabotage against underwater sea cables. There have been several incidents of ships, suspected of belonging to Russia's "shadow fleet", dragging their anchors across the sea bed to damage infrastructure. Meanwhile, Mark Rutte, NATO's secretary-general, warned that Europe must spend more on defence, and that NATO's new spending targets may be around 3.6% or 3.7% of GDP. Most EU countries have struggled to hit 2%.

Crushed Tulip

In **Britain** Tulip Siddiq, a Treasury minister responsible for financial conduct, resigned after she was named in a corruption case in Bangladesh related to her aunt, Sheikh Hasina, who was ousted as Bangladesh's prime minister last year. Ms Siddiq was found not to have broken the ministerial code, but resigned anyway as she had become a "distraction". It was more bad news for the prime minister, Sir Keir Starmer, diverting attention from his big announcement on making Britain a hub for artificial intelligence.

The Senate began hearings to confirm Donald Trump's appointments to government jobs. **Pete Hegseth** fired back against a barrage of questions from Democrats about his fitness to lead the Defence Department amid allegations about his private life. When grilled about his statements about women not serving in combat roles, Mr Hegseth said they could serve as long as combat standards were maintained. Joni Ernst, a wavering Republican, said she would now vote for Mr Hegseth, all but ensuring his confirmation.

In the dying days of the Biden administration, the Department of Justice released a special counsel's report into allegations that Mr Trump tried to overturn the result of the **2020 election**, concluding there was enough evidence for a conviction at a trial that will now never happen. In response Mr Trump reiterated his innocence. A few days earlier he was given a conditional discharge without a fine in his criminal conviction for falsifying business documents.



Firefighters made some progress containing the wildfires in **Los Angeles**. At least 25 people have died and 12,000 structures are thought to have been destroyed or damaged in the Pacific Palisades and Altadena neighbourhoods. Gavin Newsom, California's governor, signed an order suspending building and environmental restrictions in the devastated areas to allow for quicker reconstruction. Karen Bass, the city's mayor, issued a similar order to speed up the rebuilding. Both are under intense pressure to resign.

New York's Metropolitan Transportation Authority reported that, year-on-year, 219,000 fewer vehicles had entered Manhattan's central business district during the first working week of the new congestion charge, and that the reduction in traffic meant that buses were moving faster. Traversing the Brooklyn Bridge by car was 28% faster, the Lincoln Tunnel 39% quicker and the Holland Tunnel 65%. The tunnels connect Manhattan with New Jersey.

Mark Carney, the former governor of the Bank of England, readied his campaign for the leadership of **Canada's** battered Liberal Party. Should he win, Mr Carney would immediately replace Justin Trudeau and become Canada's prime minister, though a recent survey indicates the Liberals are supported by just 20% of voters. Opposition parties have promised to defeat the Liberals in a vote of no confidence at the first opportunity.

Biden's last stand

The Biden administration said it would remove **Cuba** from America's list of state sponsors of terrorism, which also includes Iran, North Korea and Syria. Cuba then said it would release 553 political prisoners in a deal brokered by the Catholic church, which the White House noted in its announcement. Donald Trump added Cuba to the list at the end of his first term as president.

America, Britain and the EU imposed new sanctions on **Venezuelan** officials, as Nicolás Maduro was inaugurated for another term as president. America also increased its reward for Mr Maduro's arrest on drug-trafficking allegations to $25m.

South Korea's president, Yoon Suk Yeol, surrendered to investigators who want to question him about his brief declaration of martial law in December. A previous attempt to arrest him had been abandoned amid a stand-off with his hundreds of bodyguards. Mr Yoon reportedly refused to answer questions at his first session with the investigators. The Constitutional Court began the process of the impeachment trial that will decide if Mr Yoon should be removed from office.

The world this week Business



The annual rate of **inflation** in America rose again in December, to 2.9%, the third consecutive increase. Although there was some relief that the core rate softened, markets expect the Federal Reserve to now slow its pace of interest-rate cuts. Economists warn that inflation will only strengthen if the new Trump administration imposes a harsh tariff regime. The sell-off eased in **bond markets**, but yields remain high, adding to governments' debt load, especially in Britain, where higher yields have upended the government's fiscal plans. Investors in Britain found some relief when inflation there unexpectedly slowed in December, to 2.5%,

Argentina's annual inflation rate eased again in December to 117.8%. The peak last year was 289% in April. The month-on-month rate in December rose slightly to 2.7%; in December 2023 it stood at 25.5%.

The **German economy** shrank by 0.2% in 2024, after contracting by 0.3% in 2023. Output from construction was down by 3.8% and from manufacturing by 3%, in part because of the problems that Chinese competition and the transition to electric vehicles are causing Germany's car industry. **Volkswagen's** global sales fell by 2.3% in 2024. In China VW's sales plunged by 10%.

Oil prices rose to their highest levels since August, because of the new sanctions America has imposed on Russia's oil industry to try to curb its exports. Brent crude traded above $82 a barrel; at the start of the year it was around $75.

The resurgence of China's exports last year helped push its annual **trade surplus** up by 21% to $992bn, a third of which was with the United States.

The Biden administration imposed further restrictions on exporting **artificial-intelligence chips**, including caps on exports of graphics processing units. Nvidia, the leading supplier of GPUs, criticised the new rules as a "regulatory morass, drafted in secret and without proper legislative review", which would "undermine" America's leadership in the technology. It also said that the first Trump administration laid the foundation for America's success in AI, which is perhaps a plea for the incoming new government to scrap the restrictions.

Let the good times roll

JPMorgan Chase reported a net profit of $14bn for the final quarter of 2024, a 50% increase from the same period in 2023. Profit at America's biggest bank for the whole of 2024 came in at $58.5bn, a record for the firm. Jamie Dimon, the bank's chief executive, said businesses were "encouraged by expectations for a more pro-growth agenda". **Goldman Sachs** doubled its profit in the fourth quarter, to $4.1bn. BlackRock, Citigroup and Wells Fargo also posted bumper earnings.

Qantas, Australia's national airline, confirmed that it has had to delay flights between Sydney and South Africa because of the danger from **SpaceX rockets** returning to Earth over the Indian Ocean. The delays were caused by late changes by SpaceX to both the timing of the rockets' re-entries and location co-ordinates.

Johnson & Johnson agreed to buy **Intra-Cellular Therapies** for $14.6bn. Intra-Cellular specialises in the growing field of neuroscience, developing treatments for Parkinson's disease and anxiety and depressive disorders.

Barrick Gold, a Canadian mining company, suspended operations at a gold mine in **Mali**, after the government confiscated gold stocks from the complex and placed them in a bank. A Malian judge ordered the seizure, reportedly claiming Barrick owed the government $5.5bn. Barrick is disputing the size of the state's share of its mining revenues.

Meta joined a growing list of American companies that are ending or scaling back their **diversity, equity and inclusion** policies. The social-media company said the legal and policy landscape was changing, noting a shift in the Supreme Court's position. DEI had also become a "charged" term, it said, coming to mean preferential treatment for some groups over others. Banging a final nail into the DEI coffin at Meta, Mark Zuckerberg ordered tampons to be removed from men's bathrooms. He also mused about a "culturally neutered" corporate culture and the need for more "masculine energy".

Closing the open-door policy

In another retreat from an inclusive policy, **Starbucks** issued a code of conduct for its coffeehouses, ditching a guideline that had allowed anyone to use the premises or toilets without buying anything. The restrooms are now for use by customers only, the company warned, and no violence, vaping, drugs or panhandling are allowed. In 2022 Starbucks closed 16 stores in urban areas because of "challenging incidents" that threatened people's safety.



The Economist

The Trump doctrine

A superpower's approach to the world is about to be turned on its head

DONALD TRUMP'S critics have often accused him of buffoonery and isolationism. Yet even before taking office on January 20th he has shown how much those words fall short of what his second term is likely to bring. As the inauguration approaches, he has helped secure a ceasefire and hostage deal in Gaza. Busting taboos, he has bid for control over Greenland, with its minerals and strategic position in the Arctic. Mr Trump's second term will not only be more disruptive than his first; it will also supplant a vision of foreign policy that has dominated America since the second world war.

For decades American leaders have argued that their power comes with the responsibility to be the indispensable defender of a world made more stable and benign by democracy, settled borders and universal values. Mr Trump will ditch the values and focus on amassing and exploiting power. His approach will be tested and defined in three conflicts: the Middle East, Ukraine and America's cold war with China. Each shows how Mr Trump is impelled to break with recent decades: in his unorthodox methods, his accumulation and opportunistic use of influence, and his belief that power alone creates peace.

The Middle East illustrates his talent for unpredictability. The Israelis and Palestinians eventually agreed to a deal over Gaza because he created a deadline by threatening that "all hell would break loose" if they failed. He will need to keep pressing them if the deal is to progress to its later phases. Not since Richard Nixon has a president looked to behaving like a "madman" as a source of advantage.

Caprice is bolstered by pragmatism. Unlike most peacemakers, Mr Trump is blithely uninterested in the tortured history of the Middle East. The Abraham accords, signed in his first term, suggest that he will use the hostage release to promote a deal between Israel and Saudi Arabia, which he sees as the route to prosperity—and a Nobel peace prize (see Middle East & Africa section). Iran's allies have been crushed in Gaza, Lebanon and Syria. It may be ready to deal, too.

Yet the home of the three monotheistic religions will be a stern test of whether people really are willing to put aside their beliefs and their grievances for a shot at prosperity. Time and again, extremists on both the Israeli and Palestinian sides have vetoed peace plans by using violence to discredit the pragmatic centre. The Israeli right wants to annex Palestinian land. Iran is teetering between engagement with America and dashing for a nuclear bomb. What if the zealots and the mullahs get in Mr Trump's way?

His answer will be to increase pressure using sanctions or the threat of force, or to walk away. That is also the choice he faces in Ukraine, where he has pledged to stop the fighting. Because he has more leverage over America's allies than Vladimir Putin, the easier route is to walk away by ending support and so force concessions on the government in Kyiv—especially if, as his critics fear, he is flattered when Mr Putin deals with him as one alpha male to another. But that would undermine his other goals. Abandonment would court comparisons to Mr Biden and his hapless departure from Afghanistan. Mindful of comparisons with Taiwan, China might conclude he is a pushover. He may yet decide that being seen as ready to back Ukraine will strengthen his hand against Mr Putin.

An opportunistic use of power has some benefits. Mr Trump will continue to badger NATO members to spend more defending themselves against Russia, which is good. But it also has costs. NATO can probably survive Mr Trump's threats to walk out, squabble over trade, support insurgent national conservative parties and bully Denmark over Greenland's sovereignty. However, alliances thrive on trust. Putin-sympathising national conservatives will act as a poison. Allowing for its size, Denmark lost as many soldiers in Afghanistan as America did. Being arm-wrestled over Greenland is the sort of treatment that casts America as a threat, not a protector.

Despots will take comfort from a retreat from universal values. If Mr Trump asserts a sphere of American influence that embraces Canada, Greenland and Panama (see Americas section), they will claim it as an endorsement of their own principle that international relations have in reality always been a trial of strength—handy when Russia covets Georgia or China claims the South China Sea. If Mr Trump scorns institutions like the UN, which embody universal values, China and Russia will dominate them instead, and exploit them as conduits for their own interests.



The Trump camp argues that what counts is America's strength, and that this will lead to peace with China. They warn of the need to prevent a third world war, observing that Xi Jinping wants to be capable of taking Taiwan by force by 2027. China is also rapidly building nuclear weapons and is systematically mastering strategic technologies (see China section). America, they say, needs to re-establish deterrence; and the panoply of "madman" diplomacy, pragmatism and the accumulation of economic and military strength is the way to do it.

Alas, when it comes to Taiwan, there is a contradiction. If the source of America's strength is to be ruthlessly pragmatic about values, tough with allies and open to deals with opponents, then those are exactly the conditions for Mr Trump to trade Taiwan to China. Although the many China hawks in his administration would fight that, the very possibility points to a weakness at the heart of Mr Trump's approach.

Pax Trumpiana

When the use of power is untethered by values, the result can be chaos on a global scale. If ultra-loyal, out-of-their-depth would-be disruptors like Pete Hegseth and Tulsi Gabbard are confirmed to head the Pentagon and intelligence, the chaos will spread on the inside, too. Mr Trump is ill-suited to separate his own interests from his country's, especially if his and his associates' money is at stake, as Elon Musk's will be in China. By turning away from the values that made postwar America, Mr Trump will be surrendering the single greatest strength that his despotic opponents do not possess. ■

Adapting to climate change

Lessons from the Los Angeles fires

Much of the damage could have been averted

THE FLAMES are still roaring, the fire crews are still battling and the people of Los Angeles have barely begun to grieve. As of January 16th, the wildfires that struck the city had killed at least 25 people and destroyed more than 12,000 buildings. Whole neighbourhoods look as if they have been firebombed. JPMorgan Chase, a bank, estimates that the bill for the damage will exceed $50bn, making these fires the costliest in American history (see United States section). Even before the flames are put out, many Angelenos are wondering: could some of the pain have been averted? Alas, the answer is yes.

Living in Los Angeles has always involved risk. Cradled uneasily between the mountains and the sea, America's second-largest city is susceptible to fires, floods and earthquakes. Climate change adds to the peril, by making fires more frequent and severe. Weather "whiplash" set the stage for the fires: the vegetation flourished after heavy rain, only to be parched to kindling by a long drought. Flames, once sparked, flew far and fast on strong Santa Ana winds.



Even if the world makes heroic efforts to curb emissions, favourable conditions for wildfires will grow more common in the decades to come. Vulnerable places everywhere will need to make themselves less vulnerable. This is where politics in LA, California and America has failed.

Strict regulations in LA require new homes to be fire-resistant, but most homes are not new. NIMBYism and convoluted environmental rules make it extraordinarily difficult to build, so much of the housing stock pre-dates the modern building code and is packed with flammable wood. Dense urban development would be reasonably fireproof, but most of LA is zoned for single-family homes, which sprawl out into the foothills, nestling against flammable undergrowth. Clearing or thinning that flammable vegetation is hard, since environmental objections can delay controlled burns for years.

A well-functioning insurance market would encourage sensible behaviour, by charging people more if they own fire-prone homes in fire-prone areas, and less if they make their homes safer or if they moved. But Californians voted in 1988 to give an elected insurance commissioner the power to stop insurance firms from raising prices. Insurers were forced to use historical data on wildfires, and could not adjust premiums to the added risks from a changing climate. Not only has a crucial incentive to make homes safer been lacking, but some insurers have been pulling out of the state because writing policies is unrewarding. A reform to allow them to use model-based estimates of risk came into effect only on January 2nd.

California's predilection for referendums also restricts the state's freedom to budget. A ballot initiative, passed in 1978, makes it hard to raise property taxes. Deprived of revenue from taxes, cities are more dependent on fees for services such as firefighting.

The toll of natural disasters, from floods and fires to hurricanes, keeps rising globally. National and local leaders should be working together to reduce the damage. Instead Donald Trump stooped to partisan abuse by blaming California's governor, Gavin Newsom, for the disaster and calling him "Newscum". America urgently needs regulations and insurance markets that create the right incentives by promoting cost-effective ways to harden homes and encouraging people to live in safer places. LA will be rebuilt: Mr Newsom talks of a new "Marshall plan" for the city. People will always want to live in such a beautiful, vibrant place. But the city—and the world—should learn from its tragedy. ■

Bond yields

Outrun the vigilantes

Rising bond yields should spur governments to go for growth

BRUTAL BOND sell-offs are not what you expect after interest-rate cuts. But since the Federal Reserve started reducing its rates in September the yield on America's ten-year Treasury has risen by about a percentage point, to 4.7%. A global repricing has followed. In Britain yields have climbed to about where they were after Liz Truss's disastrous "mini-budget" in 2022, despite interest-rate cuts and austere government rhetoric. Yields are up in the euro zone, Canada and across emerging markets. The striking exception is China, where investors are worried about growth. Almost everywhere else indebted governments, companies and homeowners must grapple with the rising cost of capital.

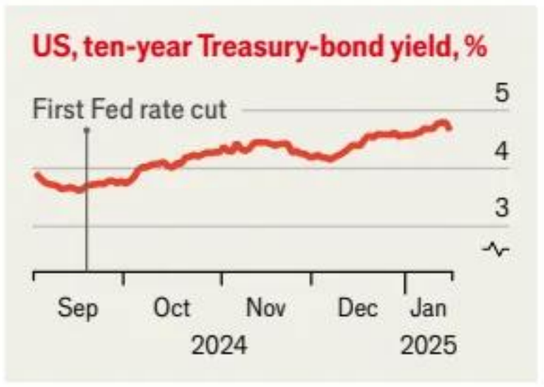
The bad news is that bond investors are looking aghast at genuine economic uncertainty (see Finance & economics section). The good news is that the uncertainty is two-sided, and on one of those sides higher yields are a sign of a healthier economy. Though they are painful now, there might yet be a reason to cheer them.

The first headache for investors is inflation. Globally it has fallen from an annual rate of 10.4% in late 2022 to 4.4% today, leading to much backslapping among central bankers. But in many places it is proving hard to get down to the official target, usually 2%. That has reduced confidence that deep interest-rate cuts are coming. Non-farm payrolls in America rose by over a quarter of a million workers in December, feeding fears that the economy is still too hot. In Britain growth is lacklustre, ▸▸

but surveys show inflation expectations creeping up. The oil price has risen by over 10% since Christmas, to around $80 a barrel, in part because of American sanctions on Iran.

Donald Trump's agenda could give prices another boost. He threatens tariffs that dwarf those implemented in his first term. It is unclear how much this is a negotiating ploy, but his pledge on January 14th to establish an "external revenue service" suggests he wants permanently high tariff revenues. If his administration somehow manages to deport millions of illegal migrants, there will be shortages in the labour market. Last time Mr Trump was in office inflation was quiescent, but today central bankers are on a hair trigger: his policies are more than enough to scare bond traders.

The last big worry is mounting public debts. Finance ministers have been grappling with ageing societies, the pressure to spend more on defence and the green-energy transition—plus populist resistance to spending cuts. Budget rows have helped force Justin Trudeau to step down as head of his party in Canada and caused chaos in France. A big fiscal fight looms in America, where Mr Trump wants to cut taxes, even though the deficit is already a gaping 6.9% of GDP.



Rising yields should discipline politicians to shrink their deficits. But the danger today is that higher debt-interest costs push them further into the red. The combined debt-to-GDP ratio among big rich economies is nearing 100%, a level at which a percentage-point increase in bond yields eventually drains the public coffers by 1% of GDP annually, or more than half of most European defence budgets. If higher interest rates and bond yields simply bring about bigger deficits, the economy gets a stimulus, and central banks can lose control of inflation.

It is an alarming prospect. Yet for any borrower, the cost of debt is only one side of the equation. Growth in income also matters. In America GDP has soared, thanks in part to labour productivity: output per hour worked has risen 10% in five years. Optimists think things will soon get better still, as artificial intelligence (AI) supercharges the labour force. America's stockmarket has long reflected such an expectation. And although it has wobbled as bond yields have risen—the S&P 500 index is now not much higher than when Mr Trump won the election—stocks are still astonishingly expensive.

Growth and interest rates are tightly linked. Just as Chinese yields have been falling in anticipation of a protracted economic malaise, so America's might be rising partly in expectation of accelerating productivity. Companies' surging investment in AI is running at a pace of about $55bn a year. Once in full swing, the dotcom boom led to extra investment worth 1.5% of American GDP, according to Goldman Sachs, a bank. More demand for capital mechanically increases yields even if the investments end up being a disappointment.

A booming America is only partial compensation for borrowers whose bonds are tied to Treasuries—as emerging markets, which have long suffered when American yields rise, can testify. But outside America, higher growth is possible too. Sclerotic economies must make their labour markets more flexible and avoid excessive regulations that hinder the adoption of AI. They should avoid responding to protectionism with their own tariffs, and deepen their own economic integration to offset Mr Trump's trade war. And they should avoid foolish industrial policies which suck up capital only to waste it. High yields could portend disaster. But if they force governments to try to match America's fast growth then they might yet bring about some good. ■

Trade and security

Houthi Inc

The Houthis offer a disturbing glimpse into an increasingly anarchic world

YOU MIGHT think a ceasefire in Gaza would herald a period of calm in the Middle East. But as we report this week, one militant group has created a violent and lucrative new business franchise that is built to last. The Houthis are holding Red Sea shipping to ransom, notionally in solidarity with the Palestinians, but in reality to extract income from the industry and exert influence over the region (see International section). They have had a banner year. *The Economist* estimates that Red Sea cargo shipments are 70% lower by volume and that, by shaking down ship owners, they are earning hundreds of millions of dollars a year—or even billions—while imposing hundreds of billions of dollars of cost on the world. Far from going quiet when the shooting stops in Gaza, the Houthis may be heralding an anarchic world without rules or a policeman.

The Houthis, a political and religious group that originated in north-west Yemen, are part of Iran's "axis of resistance", a network of proxies across the Middle East. Whereas Hamas and Hizbullah have been smashed by Israel and Bashar al-Assad's regime in Syria has collapsed, the Houthis have staying power. That is owing to the fact that are in a remote, rugged country that is violent, divided and poor. Repeated American, allied and Israeli air and naval strikes have had only limited effect at vast expense. An earlier attempt to quell the Houthis by force, led by Saudi Arabia in 2015-22, failed amid terrible civilian casualties.

For all their country's failings, the Houthis have a clever business model. Because of the proliferation of cheap missiles and drones to non-state groups that can strike frequently and at long range, they pose a credible and sustained threat to commercial shipping passing through the Red Sea via the Suez Canal, which normally handles 12% of global trade. But they offer a choice. If you cut a deal using their helpful customer-relations email address and black-market payment systems, they will grant you safe passage. By one estimate, illegal payments to the Houthis could amount to $2bn a year.

Because their target is Western firms, which often want to avoid paying protection money, the pattern of activity in the Red Sea has shifted. China's share of traffic in the strait has increased by a quarter since October 2023. The big Western shipping lines are taking the longer route, around Africa. The ▸▸

extra time and fuel this requires increases costs and eats up shipping capacity. *The Economist* estimates that the bill, some of which is passed on to consumers, amounts to $175bn a year.

What to do? Although the Houthis may pause following the Gaza ceasefire, their ability to threaten ships will remain. Any "maximum pressure" campaign against Iran by Donald Trump could affect the Houthis, who rely on Iranian missiles and Iranian and Russian targeting information. Still, America is not a big user of the Suez Canal, so Mr Trump's appetite for pursuing the Houthis directly may be limited. Besides, no one has yet identified an effective aerial and naval strategy against them and a ground invasion of Yemen is out of the question.

Yet even if Iran were to disown them, the Houthis would have good cause to continue the extortion and the money to buy the weapons they need. They could also threaten other targets, including the oil-rich Gulf states. Hence, if Mr Trump turns a blind eye to the Houthis, other countries in Asia, the Middle East and Europe may eventually follow China and pay the Houthis protection money despite also paying lip service to the principle of freedom of navigation.

That would hardly break the world economy, but it would reshape it. A permanent tail-risk would become embedded in financial and shipping markets as investors factored in the possibility of a total closure of the Suez Canal or Houthi strikes on other targets in the region. There would be an enduring loss of efficiency. And market shares in shipping would shift as Western firms lost business to vessels carrying the flag of China or other rule-breakers.

Businessmen or believers?

Similar trends are discernible as other industries, including air travel, are reshaped by swirling geopolitical risks. The Houthis have discovered that the world is unwilling to work together, although the costs of inaction are high. Indeed, they have been so successful at exploiting collective inertia that other militias may pay them the compliment of imitating them. ■

Medicine

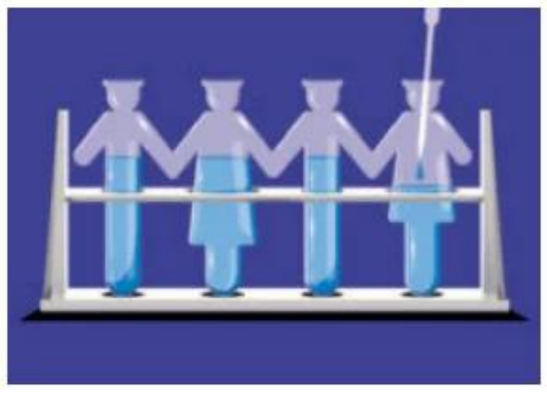
Moving the needle

To improve clinical trials, companies need a wider variety of people to take part

LAST YEAR Roche, a Swiss pharmaceutical firm, published a review of the clinical trials on neurological drugs it had held between 2016 and 2021. It found that black people were under-represented in all but one. Surprisingly, that news represents progress, because it shows that trial organisers are becoming more aware of a dangerous bias that sets back the safety and efficacy of medical treatments.

Many trials exclude certain groups, and do so deliberately—children, for example, or people with physical or learning disabilities, pregnant women and the elderly. For such groups, participation has stalled or even reversed. There are good explanations for the exclusion, such as the difficulty of getting informed consent or the potential harm to unborn children.

Yet the consequences can be absurd. A recent review found that half of trials around the world testing hip-fracture interventions excluded people who lived in nursing homes, were old or had some level of cognitive impairment. Though these groups make up almost a third of all patients suffering hip fractures, it is unclear if the interventions will work as safely or as effectively on them. Their doctors face an invidious choice: prescribe anyway, with uncertain results; or deny their patients new treatments.



A shocking example of such exclusion is of people with Down's syndrome (see Science & technology section). They have long been left out of clinical trials, including recent trials of lecanemab and donanemab, the first drugs against Alzheimer's that seem to slow the progress of the disease. This is despite the fact that those with Down's are highly likely to develop it. Yet without data from trials, doctors will not prescribe them the drugs, for fear of unknown side-effects.

Obtaining informed consent for trials is not always easy, especially from people with learning disabilities or dementia. Accounting for different groups' risks of side-effects can complicate the analysis of the data. And some groups mistrust doctors because of a history of mistreatment, which makes recruiting them harder.

Even so, broadening the range of trials' participants can be practically useful, because they may lead to new medical insights. Running trials on people who are more likely to develop Alzheimer's, such as those with Down's syndrome, might help researchers test whether their drugs work preventively.

Something like that happened with the Dallas Heart Study in the 2000s. As a large piece of epidemiological research, it included an ethnically representative sample of people and found a genetic variant in some African-Americans which was correlated with 40% lower bad cholesterol. That gene is now one of the foremost drug targets in the fight against cardiovascular disease.

Fortunately, the bias of clinical testing may be changing. Almost half of trial participants in America are now women (in the rest of the world it is still only 40%). America and Britain look likely to publish regulations that require trial organisers to explain whom they ought to include and how they plan to recruit them.

The drug and medical-device industries are likely to object. Companies may fret about the speed and cost of broad-based trials. During the covid-19 pandemic, Moderna slowed down its vaccine trial because its recruiters, a private contractor, had not enrolled enough subjects from ethnic minorities. In that time, millions contracted the virus.

The trade-off almost always favours efficacy. A pandemic on such a scale is very rare. As broad-based trials become the norm, they will be easier and faster to set up. Firms are rightly granted valuable monopolies as a reward for financing the research needed to discover successful drugs and bring them to market. A quid pro quo should be that the trials which lead to those monopolies reveal who will benefit and by how much. ■

IFAD

Investing in rural people

Associate Vice-President of the Financial Operations Department

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DIRECTOR
United Nations University – Maastricht Economic and Social Research Institute on Innovation and Technology (UNU-MERIT)
Maastricht, the Netherlands

The United Nations University (UNU) is a global think tank within the UN system engaged in policy-oriented research, capacity development, and dissemination of knowledge in furtherance of the purpose and principles of the United Nations. More information at **https://unu.edu**

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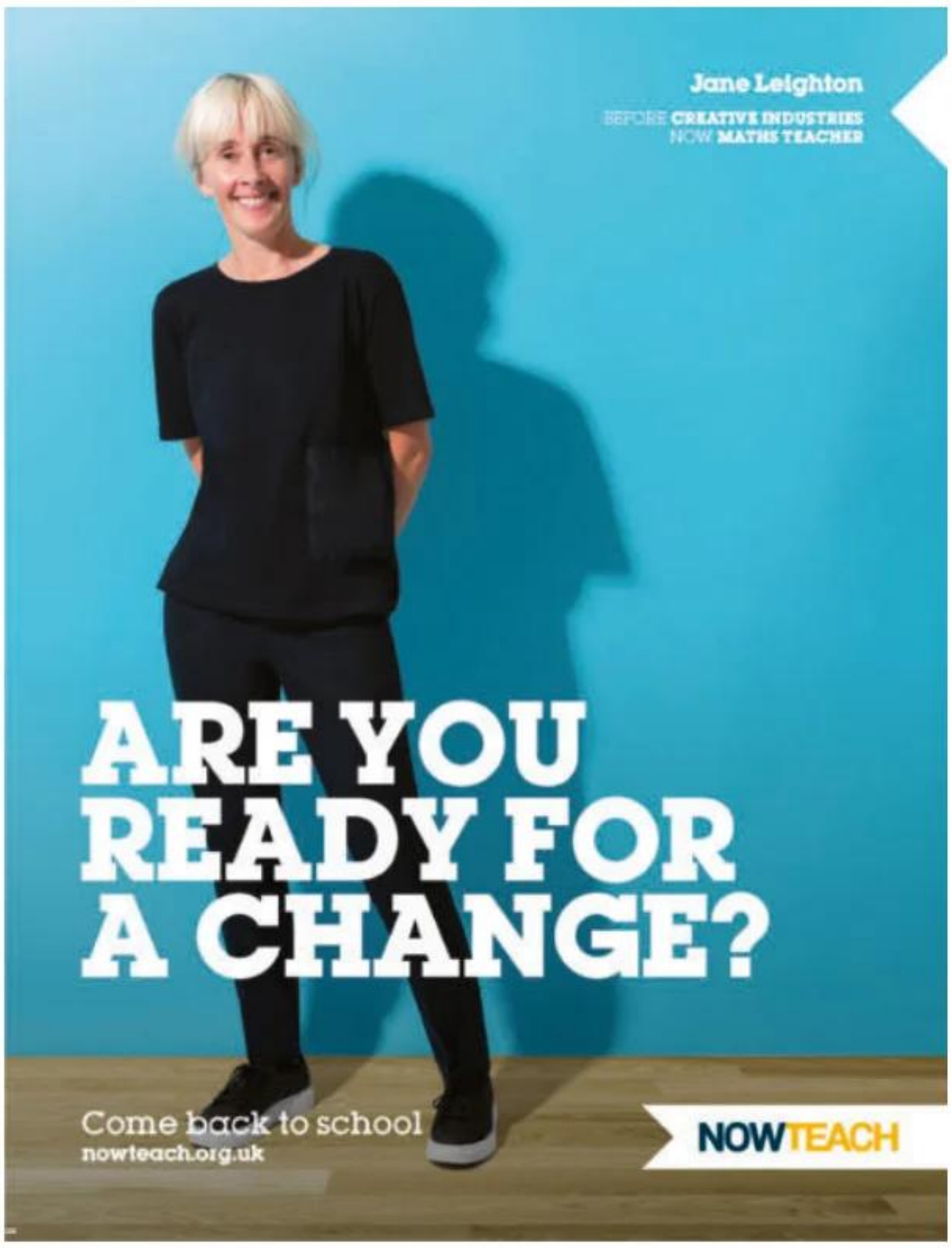

AMRO

The ASEAN+3 Macroeconomic Research Office (AMRO) is an international organization established to contribute to the macroeconomic and financial resilience and stability of the ASEAN+3 region – comprising 10 members of the Association of Southeast Asian Nations (ASEAN), and China; Hong Kong, China; Japan; and Korea – through surveillance, supporting regional financing arrangements (RFAs), and providing technical assistance (TA) to members. In addition, it serves as a regional knowledge hub (RKH) and facilitates ASEAN+3 financial cooperation.

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The **AMRO Director** will lead the organization, ensuring efficient and timely surveillance of ASEAN+3 economies and overseeing all activities and tasks assigned by the Executive Committee.

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The **Chief Economist** will guide and supervise AMRO's country and regional surveillance and related research activities. This role includes developing analytical frameworks and tools, as well as managing AMRO's support function for the effective implementation of the Chiang Mai Initiative Multilateralisation (CMIM), in particular, the production of AMRO's Reports including policy recommendations.

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Qualified candidates should send (a) CV, (b) brief description on the relevant working experiences, and (c) earliest possible starting date of employment at AMRO, by **10 February 2025** to:

For AMRO Director position: AMRO_Director@charterhouse.com.sg
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We will acknowledge receipt of all the applications. However, we regret that only shortlisted candidates will be notified.

Letters

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Hands off Greenland

Greenland has long sought independence from Denmark and the idea that America could simply take over Denmark's role as security guarantor and financial patron is deeply misguided (Free exchange, January 11th). It is not acceptable for one country to bully others. It took us two world wars to conclude that territorial sovereignty is the fundamental right of all countries. Denmark and Greenland would have no problem with an increased American commercial or military presence on the island. There are indeed legitimate strategic concerns, such as the ability of Russian aircraft or submarines to cross over or under the ice-shelf undetected, but these should not undermine the principles upon which international peace and prosperity are built.

EMIL TAO BJORN
Aarhus, Denmark

Donald Trump says he wants to gain Greenland to bolster the security of the United States, so focusing on the commercial value of the island is off the mark. This is not a commercial transaction, but an existential strategy, so the value of Greenland should not be based on its resources, but on those of the United States. That's not easy to calculate, but one estimate puts the net wealth of the US at around $137trn. And since that takes no account of human happiness and welfare, isn't that the absolute minimum-starting point from which to consider the proportion that is worth paying as insurance?

BILL YOUNG
Arlesheim, Switzerland

Greenland could join Canada instead. As a new Canadian province or territory, Greenlanders would keep a large part of their autonomy, a universal health-care system and better social security. They would probably prefer Canada's multiculturalism and First Nations rights to the United States' melting pot and disregard for anything un-American. Canada is also much closer geographically to Greenland, making travel, trading and services less expensive. Canada has unmatched mining expertise in the frozen north and good laws to protect the environment.

ANDRÉ MOREAU
Saint-Bruno-de-Montarville, Canada

Regarding Mr Trump's goading about Canada becoming America's 51st state (Charlemagne, January 4th) perhaps the Republican should be reminded that the US has tried to take over Canada before, in the War of 1812. As I recall, this did not turn out too well for America.

DAVID BREWER
Puslinch, Canada

Mr Trump gets the numbers wrong. Canada would not become the 51st state. Leaving aside its three territories, Canada consists of ten provinces, which would be new states 51 to 60. Adding ten states from our more liberal northern neighbour would result in the Democrats enjoying permanent control of the Senate, the House of Representatives and the electoral college. Well played, Mr Trump.

GEORGE KOVAC
Miami

When your home is flooded

You referred to a "state-backed scheme" in Britain that can soften the insurance blow for those at risk from flooding ("Wet, wet, wet", January 4th). That scheme, Flood Re, is often not well known or understood. It is paid for by insurers, rather than the government. Only homes built before 2009 are eligible, to ensure that the scheme's very existence does not incentivise inappropriate house building. The scheme will end in 2039, along with the subsidised insurance premiums that households benefit from. Some mortgages may well extend beyond that date. If homes do flood, households should tap Flood Re's Build Back Better initiative to protect against future flooding with relatively cheap and simple resilience measures, such as airbrick covers and non-return valves.

For insurance to remain affordable to those at risk of flooding after 2039, the government must continue to invest in new flood defences as well as maintaining existing ones. One in four homes in England is at risk of flooding. Climate change and new house-building policies will increase that number. The rampant paving over of front gardens, often for charging electric vehicles, is also not helping.

HARRIET BOUGHTON
General counsel
Flood Re
London

Golden oldies

I strongly object to *The Economist* describing people over 55 as the new problem generation, concluding that we are "behaving badly" ("Ageing disgracefully," January 4th). Having led our lives raising the next generation, we deserve some self-determination when it comes to our personal use of alcohol, drugs and rock and roll as we grow older. We don't need to hear the same demeaning judgments we heard when we were young, only this time from the younger generation.

The Economist needs to instil in its younger writers the liberal set of values that it has always been known for.

STEN LINNANDER
Konstanz, Germany

Problematic cohorts of people now aged over 55 learned to be antisocial as teens in the 1980s, when committing crimes like joyriding and burglary was easy. It turns out that the likelihood of antisocial behaviour across the course of a life is determined not by when people are born, as often thought, but by how easy crime is to commit when they are adolescents. Put another way, opportunity makes the thief but also the persistently antisocial. This is why, despite close to 90% declines in many property and violent crimes since the early 1990s, these ageing cohorts remain troublesome.

Adolescent cohorts nowadays are marked by mostly low-crime-involvement. However, we should be wary of the potential longer-term effects of current easy crime opportunities, particularly those facilitated by the internet, such as fraud, online harassment and other victimisation, and by online marketplaces that make it easy to fence stolen goods. Phone theft also remains easy. Recent spikes in car theft in America, where electronic immobilisers are not mandated, could have longer-term cohort effects. All this means that reducing the opportunities for crime should be the platform on which crime-prevention policies are built.

GRAHAM FARRELL
Professor of crime science
University of Leeds

Amusing amphibians

"The tadpole that conquered the world" (December 21st) reported on how the axolotl has become a global megastar, with its image plastered all over social media, toys and jewellery. The creature made its literary debut in 1956, in Julio Cortázar's haunting short story "Axolotl", where it is used as a profound metaphor for alienation and transformation. Arguably, Cortázar's work played a role in embedding the axolotl in the global imagination long before its resurgence as a cultural and ecological icon.

PIOTR ZIENTARA
Gdynia, Poland

One of the axolotl's most famous pop-culture appearances was in *Mad* magazine in 1958. It featured in a poem that began thus (apologies to Wordsworth): I wandered lonely as a clod/Just picking up old rags and bottles/When onward on my way I plod, I saw a host of axolotls/Beside the lake, beneath the trees/A sight to make a man's blood freeze.

Truly a classic.

NELSON SMITH
Toronto

Briefing The right under Donald Trump



Courtiers with ideas

WASHINGTON, DC

Conservatives in Congress and the courts will reshape Donald Trump's agenda

HE WON WHAT was supposed to be a close election by a convincing margin, even clinching the popular vote. His fellow Republicans controlled both the House of Representatives and the Senate. He had laid out a bold agenda and expected his party to follow. "I earned capital in the campaign, political capital, and I intend to spend it," George W. Bush boasted in 2004. Yet what the president had hoped would be his signature policy, a partial privatisation of social security, the state pension scheme, never even came up for a vote. Moderate Republicans revolted, allying with Democrats to fend it off. Similarly ambitious plans for immigration reform flopped as well. "Popularity is as fleeting as the Texas wind," Mr Bush reflected towards the end of his term.

Donald Trump is familiar with this dynamic. In his first term, his promised repeal of Obamacare was thwarted at the last minute by John McCain, a Republican senator and former presidential nominee. He was talked out of his pledge to pull all American troops out of Afghanistan by the national-security grandees he appointed to senior jobs. And even though he shifted the judiciary to the right by appointing lots of judges, the courts scuppered many of his administration's initiatives. Will he again see much of his agenda undermined or reshaped by fellow conservatives?

100 Pennsylvania Avenue

This time, Mr Trump has been careful to appoint ardent loyalists to senior jobs in the cabinet and the White House. But he has less authority over Republicans in Congress, who have a pivotal role in advancing his agenda. The Senate, for instance, must approve his choices for more than 1,000 jobs, including all the members of the cabinet. Many of Mr Trump's campaign pledges cannot be fulfilled without legislation from Congress.

There is not much margin for dissent. The Republicans have a slightly firmer grip on the Senate than in 2017, with 53 rather than 52 of the chamber's 100 seats. But that still means Mr Trump can afford no more than three defections on any given vote, assuming Democrats close ranks. As for the House of Representatives, Mr Trump has the smallest majority for a president entering office since George H.W. Bush was inaugurated in 1989 with the Republicans in the minority (see chart on next page). He has made matters worse by nominating three House Republicans for jobs in his new administration. One has already resigned; if, as is likely, the other two take up their new posts, the Republicans will have a majority of just two, at least until special elections are held to fill the vacancies. That would be the narrowest majority since the 1930s. Mike Johnson, the Republican speaker, has worried aloud about delayed flights or bouts of flu, which might lead to unexpected defeats in the chamber.

Mr Trump has assigned J.D. Vance, his running-mate and a senator for the past two years, to be his point man on Congress. The vice-president anyway has the formal responsibility of presiding over the Senate and casting deciding votes in the event of a tie. But some of Mr Vance's former colleagues see him as slightly pre- ▸▸

sumptuous. He arrived in the chamber aged 38 and began loudly questioning Republican orthodoxy on economics and foreign policy.

Mr Vance's first task is to help secure the Senate's approval of Mr Trump's nominees. In many cases, it will not be easy. The Senate has become more Trumpy since 2017, thanks to new arrivals like Bernie Moreno from Ohio and Jim Banks from Indiana. But there are still a few moderate Republicans, such as Susan Collins from Maine and Lisa Murkowski from Alaska. Former members of the party's leadership, including John Cornyn from Texas and Mitch McConnell from Kentucky, are more institutional than iconoclastic. When the Republican caucus chose a new leader to replace Mr McConnell in November, it rejected the MAGA candidate, Rick Scott from Florida, and plumped instead for John Thune from South Dakota, a more collegial type. Mr Thune has said that he will not facilitate Mr Trump's agenda by scrapping procedural rules like the filibuster, which sets a 60-vote threshold for most legislation to win approval.

In similar fashion, Republicans in the Senate may not simply wave through all Mr Trump's most controversial nominees. Already Matt Gaetz, Mr Trump's first choice for attorney-general despite his louche personal life, has had to withdraw in the face of resolute opposition. Although hostility to Peter Hegseth as the next secretary of defence seemed to be evaporating after a hearing this week, the prospects of other nominees remain in doubt: Tulsi Gabbard as director of national intelligence (see United States section), Robert F. Kennedy junior as secretary of health and human services and Kash Patel as head of the Federal Bureau of Investigation. Several Republican senators have sounded sceptical notes about one or other of these choices. For instance Bill Cassidy from Louisiana, a doctor, has hummed and hawed about Mr Kennedy. Mr Thune, when asked whether such figures would be approved, recently said, "We don't have, at this point, I don't think, clarity on that." He has himself sounded lukewarm about sending the Senate on holiday to allow Mr Trump to make "recess appointments" without the Senate's approval.

Whereas Republicans in the Senate may dilute Mr Trump's most radical ideas out of a sense of moderation and propriety, the House may resist him as not radical enough. A majority of Senate Republicans arrived in the upper chamber before he first became president in 2017, but of the 220 Republicans elected to the House in November, only 70 predate him. During the past eight years, moderates have seen their influence wane. Tevi Troy, a presidential historian, predicts that most opposition to Mr Trump will now come from his right: "It'll be, 'I'm not criticising Trump. I'm criticising people who are undermining Trump.'"

Far-right members of Congress are some of Mr Trump's fiercest supporters. But many of them are also purists, who see compromise and pragmatism as forms of corruption. "What we used to have was Ron Paul," recalls Grover Norquist, an anti-tax crusader, referring to a former Republican representative who would oppose virtually all legislation as insufficiently conservative. "When you have a 20- or 30-vote margin, you can have a Ron Paul do that, and everybody gets the joke, right?"

The default option

These days the hardline Freedom Caucus has dozens of members and the joke is less funny. One of the group's motivating beliefs is fiscal conservatism. Mr Trump, in contrast, has never shown much interest in fiscal discipline. Mr Trump and the Freedom Caucus have already clashed over the "debt ceiling", the legal cap on the federal government's borrowing, which Mr Trump said in December should be abolished or suspended as part of a stopgap budget bill. Republican fiscal hawks rejected the idea unless "real spending cuts are agreed to and in place". They won that skirmish: the idea was dropped. Even so, 38 Republicans voted against the budget bill, which passed only with Democratic support.

The fiscal hawks will have more chances to flex their muscles: in March, when December's budget agreement expires, and over the summer, when the debt ceiling will be hit. A rankled and perhaps nervous Mr Trump has called for a more loyal conservative to challenge Chip Roy, the Freedom Caucus's policy chair, in a primary at the next election. He has also chosen a former Freedom Caucus staffer, James Braid, to head the office at the White House in charge of liaising with Congress.

The slender Republican majorities and the divergent dynamics of the House and the Senate will make legislating fraught and unpredictable. Small groups of representatives or even individual lawmakers may be able to hold bills to ransom. The inevitable horse-trading is bound to dilute or modify Mr Trump's proposals. Big tests will come in the next few months, as Republicans pursue legislation on immigration, energy and the budget.

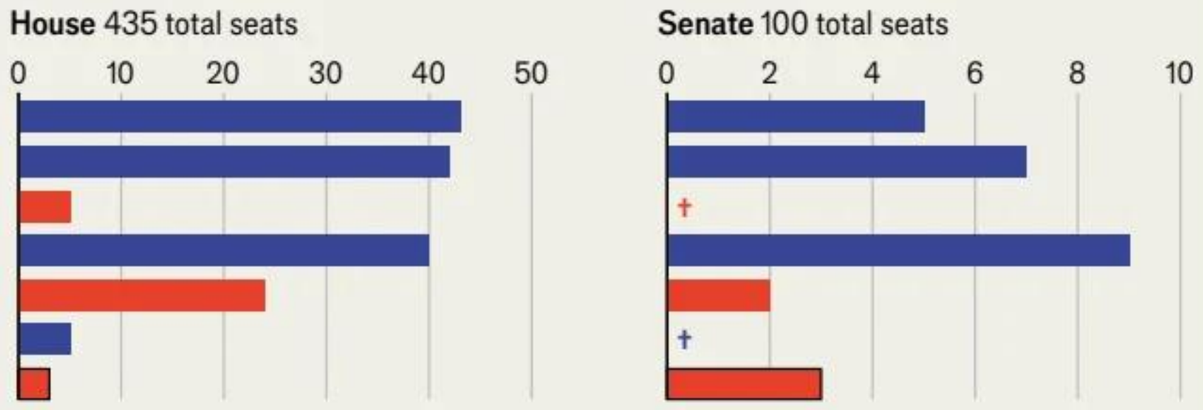
On the campaign trail Mr Trump came up with lots of ideas for tax cuts, many of which evoke more eye-rolling than enthusiasm on Capitol Hill. His main goal is to extend the tax cuts he pushed through during his first term as president, in 2017. That alone will cost some $5trn over a ten-year period, according to estimates from the Committee for a Responsible Federal Budget, a pressure group. Mr Trump also wants to exempt tips from income tax ($300bn), as well as overtime pay ($2trn) and social-security benefits ($1.3trn). Few observers expect all, or even most, of these expensive giveaways to become law.

In fact, some in Congress would like to revise or undo certain elements of the 2017 law. They have leverage, since most of the 2017 tax cuts will expire automatically unless Congress extends them. Mike Lawler, a congressman from New York, wants to lift the 2017 law's $10,000 cap on state and local tax (SALT) deductions. "There's more than enough members to prevent passage of a bill," he says of fellow blue-state Republicans pushing for an increase to the cap. "There's no room for error here...the reality is that if no tax bill passes, SALT comes back unlimited."

The 2017 law also raised the child tax credit from $1,000 to $2,000. Mr Trump says he supports another "significant expansion". Mr Vance, a keen natalist, thinks it should be lifted to $5,000. But the credit's biggest champions have left the Senate and other senators have different spending priorities. For instance, Roger Wicker, chairman of the Armed Services Committee, wants to boost defence spending by $120bn over the next two years. In the long run, he says, "It wouldn't hurt" to nearly double spending on defence to 6% of GDP—even though Mr Trump has reportedly talked about getting the Pentagon "to do more with less".

No room for argument

United States Congress, size of majority, number of seats*



*Number of seats over 217 in the House and over 50 in the Senate. Based on election-day results. Includes independents who caucus with majority party †Chamber evenly divided leaving vice-president with the tie-breaking vote

Sources: House.gov; Senate.gov

Congress is also likely to interfere with Mr Trump's plans to raise revenue. On the campaign trail he said that America could rake in "trillions" by increasing tariffs. He suggested a universal tariff as high as 20% on all imports except those from China, which would be subject to a 60% levy. Although Mr Trump may try to impose such rises by decree, it would be preferable to get Congress to adopt them, since he could then include the resulting revenue in his reckoning of the overall cost of a tax bill. That is important, since Republicans will only be able to get a budget bill through Congress using a process called reconciliation, which is not subject to the filibuster. Congressional rules, however, cap the cost of bills passed by reconciliation. So Congress would, in effect, be allowing Mr Trump to cut taxes or spend more if it went along with him on tariffs. Yet there is almost no chance that it will. An across-the-board tariff increase would be dead on arrival in the Senate, where free-trade Republicans still dominate.

The threat of the massive tax increase that will automatically occur if Congress does not reach a compromise should ensure that some sort of budget bill is passed. That bill is also likely to advance some of the policies Mr Trump has advocated on immigration, allowing the new president to claim victory on two counts. But on the details, Mr Trump may end up deferring to Congress, rather than the other way round. "He's more focused on just getting it done and keeping the promise," says Paul Ryan, a former speaker of the House who helped shepherd the 2017 tax cut through Congress. Sometimes the president-elect seems to want to save face by appearing to be in command, whatever the reality. "The tactic is always to say, 'This is horrible!' Then you get a tiny tweak, and he's like, 'Amazing!'," jokes a Senate aide. "It's an interesting dance."

Given the difficulty of getting legislation through Congress, Mr Trump will often resort instead to executive orders. Those are vetted not by Congress, but by the courts. In theory, this puts Mr Trump in a strong position, since the courts are broadly deferential to presidential authority and since Mr Trump himself appointed 226 federal judges in his first term, including three Supreme Court justices.

Yet even before Mr Trump takes office, he is being reminded of the independence of the courts. On January 9th the Supreme Court, despite its expansive view of presidential immunity, declined to stop a court in New York from sentencing Mr Trump for falsifying business records. This week it seemed minded to reject a plea from Mr Trump to delay a ban on TikTok, a popular video app that Mr Trump vowed to save during the campaign. Although six of the nine justices have been appointed by Republican presidents and are conservative in outlook, they clearly do not intend to act as a rubber stamp for Mr Trump.

Bloc and tackle

Although the conservative justices often vote together on prominent cases, such as their decision to overturn the right to an abortion, they do not always rule in lockstep. Statistical analysis from Dean Jens of the University of Central Florida shows that the 6-3 court is really a 3-3-3 court, with two conservative camps forming blocs as distinct as the liberal one. For example, over the past two terms John Roberts, the chief justice, voted with Elena Kagan, a liberal one, about as often as he did with two of the most conservative justices.

The courts routinely thwarted Mr Trump during his first term. The Supreme Court blocked his attempt to cancel a programme that had prevented the deportation of 700,000 undocumented immigrants brought to America as children. It also stopped him from adding a question about citizenship to the 2020 census. A federal court prevented him from using defence funding to build a wall on the border with Mexico. The courts rejected his initial attempts to ban visas for people from certain predominantly Muslim countries. In all, federal agencies faced legal challenges to 246 different policies during Mr Trump's first term, according to the Institute for Policy Integrity, a think-tank. His administration prevailed only 54 times, losing in court or retracting the disputed edicts in the other 192 instances.

Mr Trump has nonetheless signalled that he will keep trying to implement pet policies using untested legal theories. He has talked, for instance, of declaring America to be at war to permit the use of the army to help round up illegal immigrants. If he goes ahead with this ruse, it is certain to be challenged in the courts. Mr Trump may also seek to undermine Congress's power of the purse by refusing to spend money it has set aside for particular purposes—a step known as impoundment. His acolytes have also talked about invoking an obscure rule to sack bureaucrats en masse and replace them with more loyal lieutenants.

Erwin Chemerinsky, dean of the law school at the University of California, Berkeley, expects that Mr Trump's unambiguously unconstitutional policies, such as withholding American citizenship from babies born in America to illegal immigrants, will indeed be rejected by the courts. But he remains "petrified" since Mr Trump clearly intends to push the boundaries of his authority. He argues that despite some unusual splits, the Supreme Court has consistently ruled 6-3 in favour of conservatives on "the issues that ideologically divide society", from presidential power to gun rights.

However, Ilya Shapiro of the Manhattan Institute, another think-tank, thinks the courts' willingness to frustrate Mr Trump "depends on the specific issue". He is likely to have more luck reshaping the bureaucracy than attempting to evade or undermine laws he dislikes. "A president is always on much firmer ground in doing things that affect the executive branch rather than trying to create new laws or enact programmes through executive order that Congress rejected."

Mr Trump, in short, may appear a colossus, towering over national politics, but his own notional allies in Congress and the courts, let alone his ideological opponents, are not willing to let him have everything his way. Even on the right, Washington is full of people who intend to remain long after Mr Trump's term ends in 2029. Fawning deference to the president in public will often conceal the pursuit of agendas that differ from his in private. And America's founding fathers, for good or for ill, designed a system of government in which the gears were deliberately sprinkled with sand. Mr Trump will never get them running smoothly. ■



United States



Climate change

The fires—and next time

LOS ANGELES

How will catastrophe change Los Angeles?

"MY HUSBAND SAW a glow on the hill," explains Laurie Bilotta. She is standing in her backyard in Pasadena pointing at Eaton Canyon, where the Eaton Fire broke out on January 7th. In the few seconds it took for Bob, her husband, to yell "Fire!", the flames were as tall as she was. Then "the whole mountain just exploded. There were just flames everywhere." The couple grabbed their two Siamese cats and drove south towards safety. By a miracle their house survived.

The Eaton Fire is one of several that have swept across Los Angeles County. At least 25 people have died and more than 12,000 buildings have been destroyed. Parts of Altadena, a neighbourhood set ablaze by windblown embers, look as though a bomb has gone off. Only scraps—a toy truck, a swing, one very resilient lemon tree—are left amid the ashes.

After a week the fires were still burning, though firefighters had made progress in containing them. Already experts are predicting that they will prove the costliest in America's history, largely because of where they broke out. With nearly 10m residents, LA County is more populous than 40 of America's 50 states. Many Angelenos live in picturesque neighbourhoods, set against the mountains, that are extremely vulnerable to wildfires. A typical home in Pacific Palisades, a ritzy area razed by the flames, cost more than $3m before the fire.

Even as fire crews battle against the flames, locals are asking two questions. How could Los Angeles have prepared better for this calamity? And how will it change America's second city?

Fires are common around LA because of its terrain and dryness, but several factors have added to their destructive power. Climate change has increased the risk of conflagration. California is seeing more weather "whiplash", where fires follow heavy rainfall. Los Angeles has been bombarded by atmospheric rivers during the past two years, delivering heavier rain than usual. Its vegetation flourished. But a lack of rain since May dried out those plants, and primed them to burn.

Research from Patrick Brown of the Breakthrough Institute suggests that clearing flammable vegetation around Los Angeles could reduce fire intensity in 2050 by roughly 15% relative to today. But federal and state laws often require onerous environmental reviews that can delay prescribed burns for years.

The city's building code is strict, requiring new homes to be reasonably fire-resistant. But NIMBYism makes it hard to build new homes at all, so much of the existing stock pre-dates the stricter rules. Old

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neighbourhoods, full of homes with flammable wooden parts, stretch into the foothills. Narrow roads wind through the canyons, leaving little room for firetrucks. In the unincorporated parts of LA County, such as Altadena, nearly 90% of homes were built before 1990. In fact, the largest share of houses were constructed in the 1950s during LA's postwar building boom.

Californian politics has also hampered LA's response to the fires. Not because water was diverted from cities to save "an essentially worthless fish called a smelt", as Donald Trump claimed. But the state's penchant for policymaking by ballot measure (ie, referendum) has made it harder to fund public services, such as firefighting, and distorted California's home-insurance market. In 1978 Californians voted to cut the property-tax rate and limit future increases. Local tax revenues plummeted. To make up for the fiscal shortfall, cities slapped fees on development projects, which raised the cost of new construction.

In 1988 another ballot initiative, Proposition 103, limited how much insurers can raise their rates. So premiums do not reflect the true (and rising) risk of owning inadequately fireproofed homes in the most fire-prone areas.

Several insurance firms, unable to afford the cost of reinsurance, have left the state. California's insurance commissioner last week banned insurers for one year from cancelling the policies of clients living in areas affected by the fires, making the state even less attractive to insurers.

When the smoke clears, the fires could change Los Angeles in several ways. There will be political repercussions, for a start. Karen Bass, the mayor, travelled to Ghana despite fire-weather warnings. Her absence while the city burned may not play well with voters, and Ms Bass faces re-election next year. Her response to the fires will feature prominently in that campaign.

Some residents may leave. Recent polling from the Public Policy Institute of California (PPIC), a think-tank, suggests that a quarter of Angelenos have considered moving to avoid the effects of climate change. Yet Americans more broadly are moving into risky areas, not away from them. A bigger threat to LA's population growth is that housing costs may rise as Angelenos displaced by the fires search for somewhere to live. Some 47% of Los Angeles residents surveyed by PPIC in 2023 said they had thought about leaving because of housing costs.

Another big question is whether the city will rebuild better. Playing host to some World Cup games in 2026, the Super Bowl in 2027 and the Olympics in 2028 will focus minds. Officials will want to show the world that LA has recovered. Gavin Newsom, California's Democratic governor, says he is organising a "Marshall Plan" for the city, a reference to the aid America sent Europe to rebuild after the second world war. "We already have a team looking at reimagining LA 2.0," he says. To this end he issued an executive order streamlining the rebuilding of homes in burned areas.

New homes will be subject to modern fire codes, which will help. Stephanie Pincetl, who runs the California Centre for Sustainable Communities at the University of California, Los Angeles, thinks the city should seize this opportunity to ease its housing shortage by building denser, mixed-use neighbourhoods. You can have palatial apartments, she offers, "but then you have places where the cleaning lady can actually live and not have to take a bus for an hour and a half across town."

Looking across a charred Eaton Canyon, Mr Bilotta points out a few mansions on the hilltop across the way. After a big fire wiped them out in 1993, bigger ones were built in their place. He thinks the same thing will happen this time round. "There will be more larger homes over there," he says. "That's just a guess." ■



Burned area at January 15th 2025, 23:00 PST
Source: CAL FIRE

The LA fires, continued

Smoke alarm

How bad will the smoke be for Angelenos' health?

WHERE THERE is fire, there is smoke. For the people of Los Angeles, this will add to the misery. Some are already suffering from burning throats and irritated eyes. Many miles from the wildfires, people are wearing masks; shops are running out. The fires may also cause long-term problems.

When flames consume household items such as batteries and plastic, toxins are released into the air. A study in the Proceedings of the National Academy of Sciences in 2024 found that long-term exposure to wildfire smoke was linked to an increase in mortality from heart disease and diabetes. Other studies have found harmful effects, such as higher blood pressure and weaker immune systems.

Wildfires can affect learning, too. Nine schools have been damaged or destroyed by the LA fires, and over half a million children have been affected by school closures. After disruptions in New Orleans after Hurricane Katrina in 2005, maths scores dipped by between 0.10 and 0.25 standard deviations (the equivalent of 13 to 31 days of learning).

Breathing smoke may be bad for young brains. At small doses, the effect is barely detectable: a Stanford University study found that exposure to wildfire smoke at some point during a school year reduced pupils' test scores by the equivalent of less than a day of learning. But wildfires have grown more intense since 2016, when the study ended, notes Marshall Burke, one of its authors. He estimates that this month's fires could cause three to four days of learning loss for primary-school pupils whose schools were not destroyed. Not a catastrophe, perhaps, but an unwelcome extra burden for a suffering city.


Cloudy with a chance of sickness



The mightiest bureaucracy on Earth

How hard is it to run the Pentagon?

A look at the responsibilities Donald Trump would entrust to Pete Hegseth

"So vast is the [Department of Defence] and so multifarious are its missions," wrote Ash Carter, America's 25th secretary of defence, "that it dwarfs most institutions on Earth." The Pentagon owns or maintains almost 30m acres of property, he noted, an area larger than Pennsylvania. Its carbon emissions are about 1% of the country's total. Its annual budget, a little over $800bn, exceeds the GDP of Taiwan, Belgium or Argentina.

On January 14th Pete Hegseth, a Fox News presenter tapped by Mr Trump to be his defence secretary, was grilled by the Senate. Much of the session was about the nominee's alleged alcohol abuse, sexual assault and opposition to women in combat. But Mr Hegseth also promised to "restore the warrior ethos" to the Pentagon, reform its acquisitions process and deter China. Is he up to those tasks?

The secretary of defence is one of the most powerful individuals in government. The military chain of command runs from the president to the defence secretary and then—skipping the joint chiefs of staff and the heads of the army, navy and air force—on to the commanders who oversee different parts of the world. "It would be very hard for a president to override the advice he was getting from the secretary and the chairman [of the joint chiefs of staff]," noted Dick Cheney, who ran the Pentagon for George H.W. Bush.

Mr Hegseth would not have a role in the nuclear chain of command, which runs directly from the president to nuclear units, though he would expect to be consulted in a crisis. James Mattis, Donald Trump's first secretary of defence, is said to have slept in gym clothes for fear that the president might order a nuclear strike on North Korea in the middle of the night. "You're never on vacation, you're never on leave, you're always on duty," noted Caspar Weinberger, Ronald Reagan's secretary. Mr Cheney recalls riding to work every morning with a CIA briefer in the car and a copy of the president's daily brief.

The secretary's next task is to keep America's vast military enterprise ticking over. Parts of it are out of his hands. The Department of Veterans Affairs spends over $300bn annually. The Department of Energy designs and builds nuclear weapons. But the Pentagon has its own fingers in many pies. The National Security Agency, America's signals-intelligence service, dwarfs the CIA and reports to the Pentagon. The department employs around 700,000 civilians, around a third of the federal civilian workforce. It contains multitudes: in 2015 it transpired that the Pentagon had spent $84m—more than the defence budget of some small countries—on erectile-dysfunction drugs.

The secretary is not just a commander and manager. He is also a diplomat. "This turned out to be a bigger part of the job than I thought when I went into it," notes Mr Cheney. "You end up having to spend a fair amount of time dealing with other defence ministers, attending NATO quarterly meetings, doing all of those things." Lloyd Austin, Joe Biden's defence secretary, visited Asia a dozen times in four years. In October 2022 it also fell to him to phone Sergei Shoigu, his Russian counterpart, twice in three days, to warn him against using nuclear weapons.

In practice, Mr Hegseth would not have to run all this alone. "I'm gonna hire a lot of smart people to help with this," he promised the Senate. The Pentagon's chief operating officer is the deputy secretary of defence. He or she essentially runs the department on a day-to-day basis and organises its budget. Mr Trump has nominated Stephen Feinberg, a billionaire investor, for that role. But even if Mr Hegseth takes no interest in the minutiae of his department, he would need to offer a vision for its shape and direction. "It's like running a giant aircraft-carrier," noted Eric Edelman, the Pentagon's policy chief in 2005-09. "You can't just make...rapid course changes without having ripple effects throughout the whole organisation."

Mr Trump's enthusiasm for using the armed forces for domestic tasks, from border security to suppressing protests, has previously sucked the Pentagon into deeply sensitive matters. Mark Esper, Mr Mattis's successor, warned the head of America's national guard that the president might seek to use military forces to help overturn the result of the election in 2020. In Mr Trump's first term, his several defence secretaries largely acted as a brake on his instincts. At his hearing, Mr Hegseth repeatedly declined to say whether he would obey orders to shoot protesters in the legs, as Mr Trump had suggested.

The lot of the secretary is not always a happy one. Donald Rumsfeld, who served in the job twice, latterly under George W. Bush, compared the department to "one of the last decrepit dictators of the world", in thrall to central planning. Bob Gates, a former CIA chief who succeeded Rumsfeld, seems to have hated almost every minute of the job, complaining in his memoirs about the Pentagon's suffocating bureaucracy and the torment of dealing with Congress and the White House.

The magnitude of these responsibilities and the rigours of the job have weighed heavily on office-holders. Robert McNamara, who had excelled at corporate management and reform, demurred when first asked by John F. Kennedy to serve as secretary of defence weeks after becoming president of the Ford Motor Company in 1960. Despite having run one of the most important firms in the world, he thought it would be "a mistake to put a person as inexperienced as I in government in such a position". Mr Hegseth has no such qualms. ■

Damascene excursion

Tulsi Gabbard and the hunt for an American hostage

A trip to Syria in 2017 produced a sighting of Austin Tice, an imprisoned journalist

EARLY IN 2019 a Lebanese-American businessman tried to bring a stunning piece of information to the attention of Tulsi Gabbard, then a 37-year-old Democratic congresswoman from Hawaii. The man told her that two years earlier, while they were visiting Syria together, he had met Austin Tice, a freelance American journalist abducted in 2012 while working outside Damascus.

The man who delivered the news was Elias Khawam, who had contacts in the regime of Bashar al-Assad and had helped arrange Ms Gabbard's four-day visit to Syria in January 2017. According to sources familiar with the details, reported for the first time here by *The Economist*, Mr Khawam said that he saw Mr Tice in the flesh—which would make him the last known person to do so. (A thus-far fruitless hunt for Mr Tice has been ongoing since the fall of Mr Assad in December 2024.)

The contents of the conversation between Mr Khawam and Ms Gabbard, who is now Donald Trump's nominee for director of national intelligence (DNI), are contested. She denies that she learned of Mr Khawam's reported meeting with Mr Tice. "She didn't get that information," said Alexa Henning, a spokeswoman for Mr Trump's transition team, responding to questions for Ms Gabbard. "She got no actionable information about Mr Tice. Otherwise, she would have acted on it."

According to interviews with participants and others familiar with the episode, the Tice case gives a glimpse of the labyrinthine twists of the intelligence world that Ms Gabbard will enter if confirmed as DNI. The role involves assessing intelligence reports for the president and making recommendations about the multi-billion-dollar budgets of 18 different agencies. The ideal person for the job would be a savvy operator with institutional experience, who has a vision of how to adapt to the age of artificial intelligence. Ms Gabbard is not that.

Back then, Ms Gabbard was a lonely voice of understanding for Mr Assad, despite his record of brutality against his own people, which included the use of chemical weapons. On her trip in 2017 she became the first sitting member of Congress to meet Mr Assad since the Arab Spring. She did not inform her party's leaders in advance, citing security concerns. Nor did she co-ordinate her travel with the State Department. Adam Kinzinger, then a Republican congressman, called Ms Gabbard's visit to Syria "a shame and a disgrace". Her critics still see the visit as evidence of her poor judgment and a reason for the Senate to deny her nomination.

Yet there was more to Ms Gabbard's visit than has been previously reported. She was serving as a conduit between Mr Trump and Mr Assad, according to two people familiar with her trip. In mid-November 2016, after Mr Trump's defeat of Hillary Clinton, Ms Gabbard met the president-elect. They discussed Syria, Ms Gabbard said afterwards. On January 16th, four days before Mr Trump's inauguration, Ms Gabbard met Mr Assad and asked if he would speak directly to Mr Trump after the latter became president, according to one of the people familiar with her visit. (According to the second person, Ms Gabbard delivered a letter from Mr Trump.) Mr Assad said he would be willing to speak to the president-elect and provided Ms Gabbard with a phone number. (A version of this exchange was reported by a Lebanese newspaper in April 2017.)

Ms Gabbard denies that any of this took place, Ms Henning said. She reiterated a statement Ms Gabbard made about the Lebanese newspaper account soon after it was published: "The Trump Administration was not aware or involved in her trip in any way, and she did not relay any communications from the Trump administration." Ms Henning added that there was "bad intelligence" being circulated in Washington about Ms Gabbard from unknown sources.

Mr Khawam's reported encounter with Mr Tice occurred later in the same trip, while Ms Gabbard was meeting captured Islamist fighters who had come from abroad to join the rebellion against the Assad regime. At a facility in Damascus, Mr Khawam was reportedly taken to another room, where he was introduced to an American prisoner. The man did not identify himself. He appeared frail and unkempt. He quickly shouted at Mr Khawam to leave him, ending the exchange. The prisoner may have believed that Mr Khawam was another interrogator. Afterwards, Mr Khawam searched online for images of Mr Tice and recognised him as the prisoner, according to information Mr Khawam later gave officials in the Trump administration who were working on the case.

The prisoner

The encounter with Mr Tice was arranged by aides to Mr Assad. The regime's apparent motive was to show Mr Khawam, a trusted American interlocutor, that Mr Tice was alive and in Syrian custody at a time when Mr Assad hoped to negotiate humanitarian aid or sanctions relief with the incoming Trump administration, using the imprisoned journalist as a bargaining chip. (The Assad government continually denied that it held Mr Tice.)

The Trump administration wanted Mr Tice back. Mike Pompeo, the new CIA director, called a Syrian counterpart to ask about the journalist on January 23rd, three days after Mr Trump's inauguration. Mr Khawam later told associates that he felt apprehensive about being drawn into the ▸▸



The woman who will explain the world to Donald Trump

matter. After more than a year had passed, contacts in Mr Assad's regime urged Mr Khawam to tell Ms Gabbard that he had met Mr Tice, in the apparent hope that the information would kickstart negotiations.

Early in January 2019 Mr Khawam met Ms Gabbard at a charity fundraiser at the Wiltern Hotel in Los Angeles organised by Sean Penn, an actor. (Mr Khawam had worked with Mr Penn on a film project in Syria.) Mr Khawam pulled the congresswoman aside and told her for the first time about his encounter with the American prisoner he believed to be Mr Tice, according to people familiar with the episode. Ms Gabbard denies this happened.

Robert O'Brien, then the Trump administration's lead hostage negotiator, did not learn about Mr Khawam's report through Ms Gabbard. The information came through Mr Penn, who told him that Mr Khawam might be able to help with the Tice case. American officials assessed Mr Khawam's information to be credible, if uncertain. Mr Penn, Mr O'Brien and Mr Khawam met in late January and again the next month to explore whether Mr Khawam's contacts in Syria could create a channel through which to negotiate for Mr Tice's freedom. However, the effort foundered by the end of 2019.

Mr O'Brien declined to discuss specific sources of information he received about Mr Tice's case, but said: "My policy was to talk to everybody" who might have a lead. "We tried to exhaust every effort."

Mr Khawam's report did not provide definitive "proof of life"; he had not obtained a time-stamped photo or video of the prisoner. But it became a new thread of intelligence about Mr Tice's whereabouts and condition. Mr O'Brien, who became Mr Trump's national security adviser later in 2019, pursued a multi-track effort until the end of 2020, but was unsuccessful.

Debra Tice, the journalist's mother, said she has recently come to believe that, across three administrations, the American government sat on key leads and failed to push Assad's regime hard enough. "Now what I'm hearing is that the entire time they knew exactly where Austin was, who was taking care of him—everything," she said. "I just see what a huge failure our government deliberately has been for Austin."

The new details about Ms Gabbard's journey to Damascus show that she handled her diplomatic task professionally, a useful quality in a prospective spy chief. Yet other concerns cloud her suitability to become DNI. Three principal issues have been raised: her lack of relevant experience, her views about America's adversaries and her ability and willingness to analyse complex situations impartially, which is arguably the DNI's most important task.

Consider first her CV. Ms Gabbard has an admirable record of military service.



Austin Tice, in happier days

She enlisted in the Hawaiian National Guard before she earned a college degree, deployed to Iraq, gained admission to an officer candidate school, and is today a lieutenant colonel in the Army Reserve. In Congress, she served on the House Foreign Affairs Committee and the House Armed Services Committee. Even so, Ms Gabbard has never helped run a large organisation or worked in intelligence. Still, other members of Congress have done the job before. If Ms Gabbard's inexperience were the only worry, she would be all but certain to be confirmed.

More troubling is Ms Gabbard's "sympathy for dictators like Vladimir Putin and Assad", according to a letter signed by dozens of former national-security officials. This is a touch hyperbolic. Ms Gabbard, who was disillusioned by America's wars in the Middle East, does not evince "sympathy" for tyrants, but her ideology and policy views are certainly aligned at times with their interests.

What kind of intelligence?

Ms Gabbard has been a fan of Edward Snowden's whistleblowing and a sceptic of intrusive snooping by America's counter-terrorism and counter-intelligence officials. In 2019 she called Hillary Clinton, once her party's standard-bearer, "queen of warmongers". By backing anti-Assad rebels, Ms Gabbard argued, America had embarked on another "counter-productive regime-change war" in Syria that could empower Islamic State and al-Qaeda, and even lead to a nuclear war with Russia.

Ms Gabbard was hardly alone in these concerns, but her silence about Mr Assad's brutality gradually isolated her within the Democratic Party. She began to look sympathetically on Mr Trump's non-interventionism. She became an independent after a failed run in 2020 for the Democrat presidential nomination. In 2024 she endorsed Mr Trump for re-election.

Yet a DNI with unconventional foreign-policy views could be an asset. The most glaring problem with Ms Gabbard's nomination is that she cherry-picks information or rehashes undocumented propaganda to advance her views. The DNI's most important job is to provide the president and cabinet with vetted and impartial intelligence, including in the top-secret president's daily brief.

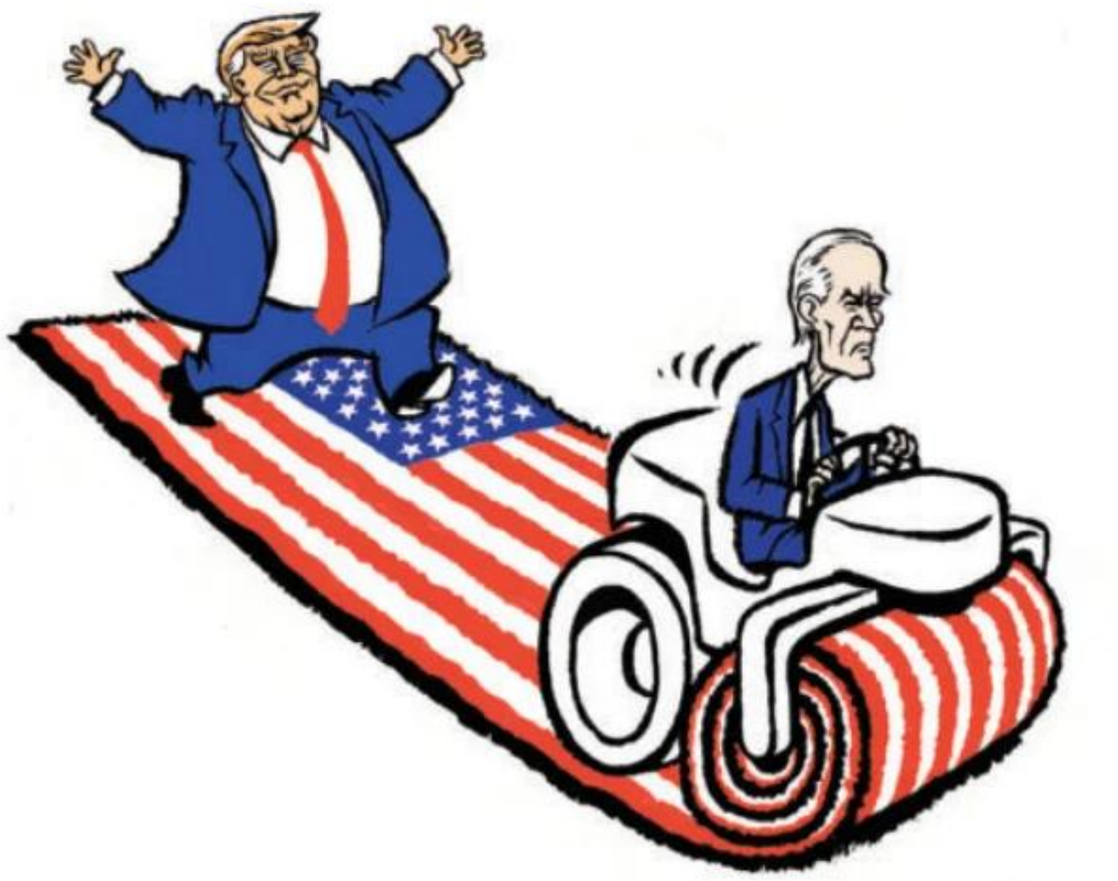
Like many others, Ms Gabbard has criticised the American intelligence system for publishing inaccurate intelligence about Saddam Hussein's arsenal. Yet Ms Gabbard makes similar errors when citing evidence to back up her provocative opinions. In 2019 she published a sceptical report about two chemical-weapons attacks in Syria attributed to Mr Assad's regime. After auditing the report, Eliot Higgins, the founder of Bellingcat, an open-source-investigations group, described it as Ms Gabbard's own collection of "fake intelligence, dodgy dossiers and lies". In 2022 she released a video suggesting that labs in Ukraine funded by America were developing dangerous germs, a spurious line of propaganda used by Russia to try to justify its unprovoked invasion.

The Senate's Republican majority, under pressure from Mr Trump, may well confirm Ms Gabbard. *The Economist*'s reporting showed that her trip to Syria in 2017 required her to navigate a poorly mapped landscape. But the possibility that she will distort sensitive intelligence to advance her views, or withhold information that undermines her opinions, would make her appointment a serious risk. Mr Trump is already not particularly well-informed. She would make him less so. ■

LEXINGTON

How Joe Biden wound up serving Donald Trump

In some ways, his administration was MAGA-lite



REMEMBER "INFRASTRUCTURE WEEK"? Donald Trump declared it in his first year as president to build support for fulfilling his pledge to spend prodigiously to fix America's roads and bridges. Within the political class, at least on the left, Infrastructure Week became shorthand for his haplessness as, year after year, he failed to persuade Congress to commit the funds.

Where he failed President Joe Biden succeeded, securing not just $1.2trn but the very sorts of "Buy American" requirements Mr Trump envisioned. But as Mr Biden lamented recently to *USA Today*, he never got much credit for the law because "It didn't have any immediate impact on people's lives." His administration did not spend most of the money, much less complete the projects.

Now, with the legislative obstacle overcome, the only challenge facing President-elect Trump, besides cashing cheques and cutting ribbons, is one at which he excels: branding. Do not be surprised to see his name appear on signs for public works paid for by Mr Biden's law. Do not be surprised, either, to see Mr Trump apply similar marketing savvy to Mr Biden's other landmark legislation, tweaking his laws to invest in energy and semiconductors just enough to lay claim to them, much as Mr Trump did during his first term with the North American Free-Trade Agreement.

The uncomfortable truth, for Democrats, is that there would be justice in Mr Trump's taking some credit. Though America may seem like a runaway car bouncing between guardrails as it veers from Mr Trump to Mr Biden and back again, Mr Biden advanced priorities that Mr Trump shares and often articulated first, and always more forcefully. On trade, industrial policy, energy, foreign affairs and even the rule of law, Mr Biden's term can be viewed less as a radical departure from Mr Trump's than as MAGA-lite.

In politics and diplomacy, style is also substance, and here the difference between the presidents is profound. Mr Trump's instinct is to inflame where Mr Biden's is to soothe; Mr Trump's madman theory of everything guarantees an exhausting change from Mr Biden's old-man execution of everything. Another caveat is that, because Mr Trump's priorities are not ideological but opportunistic, they can change: President Biden is about to deliver on former President Trump's executive order to ban TikTok from America or force its divestment from Chinese ownership. But President-elect Trump now sees things differently. Noting how much attention he gets there, he asked recently on his own social-media platform, Truth Social, "Why would I want to ban TikTok?"

But the jarring differences of style, and Mr Trump's volatility, belie an overlap on policy. Like Mr Trump, Mr Biden put America's economic interest, as he saw it, at the centre of foreign policy. He signed no new free-trade deals and made no effort to revive the Trans-Pacific Partnership, signed by Barack Obama, from which Mr Trump withdrew. Mr Biden kept Mr Trump's sanctions on China and piled on more. Though Mr Biden emphasised multilateralism, he blindsided allies in what he saw as America's interest. A French foreign minister compared him to Mr Trump "without the tweets" after Mr Biden revealed he had struck a deal to sell submarines to Australia, replacing a contract with the French.

Mr Biden fulfilled Mr Trump's plan to withdraw from Afghanistan, and it is hard to imagine how Mr Trump could have provided a freer hand to Israel as it waged war after the attacks of October 7th 2023. It is equally hard, of course, to imagine Mr Trump being as deft as Mr Biden in rallying support to frustrate Russia in Ukraine. Yet Mr Trump's decisions as president to provide Ukraine with lethal aid, to resist a new Russian gas pipeline to Germany and to nag NATO allies to increase military spending now seem consistent with Mr Biden's eventual approach, even far-sighted.

The two presidents differ on climate change, and Mr Trump says he will withdraw again from the Paris agreement to which Mr Biden recommitted America. Mr Trump has promised to do away with Mr Biden's subsidies for electric vehicles and other environmental regulations. Yet again the appearance overwhelms the substance: Mr Biden pumped record quantities of fossil fuels, and Mr Trump is not likely to withdraw Mr Biden's other energy tax credits, most of which are flowing to Republican districts and big oil.

Despite his own promises to repeal Mr Trump's tax cuts, Mr Biden did not touch them. He displayed Trumpian indifference to the national debt. Obviously, the two presidents are opposed in the culture wars. These increasingly define the parties, yet directly affect relatively few. Mr Trump will probably reverse Mr Biden's reversal of his ban on transgender people serving in the armed forces, scoring political points nationally at cruel, focused cost.

Fewer than three terms, more than two

Together with the related issue of abortion, the two presidents' competition over the courts differentiates them most sharply. Mr Biden managed, narrowly, to appoint more federal judges than Mr Trump. This contest, like Mr Biden's pardon of his son Hunter and Mr Trump's promised pardons of January 6th criminals, is persuading Americans that the courts are just another arena for politics. In that sense, Mr Biden and Mr Trump, not equally yet in tandem, have worked towards the same dismal outcome.

Mr Biden is handing Mr Trump a booming economy, along with falling rates of violent crime and of opioid-overdose deaths. Thanks partly to Trump restrictions that Mr Biden belatedly restored, fewer migrants are being arrested crossing the border than at the end of Mr Trump's first term, an implicit admission that he was right and Mr Biden was wrong—disastrously so, as a political matter—about illegal immigration. But Mr Trump owes Mr Biden thanks for more than keeping the seat warm. Far from marginalising the predecessor who is now his successor, Mr Biden has, in the end, increased his chances of transforming America. ■

The Americas



America's backyard

The influence games

NUUK, PANAMA CITY AND WASHINGTON, DC

America's neighbours must deal with a domineering Donald Trump

AT MIRAFLORES LOCKS trains guide a ship through the water as a gaggle of tourists looks on. More than a century after American engineers completed the Panama Canal, and 25 years after the United States handed it over to Panama, Donald Trump, the president-elect, says he wants it back. The canal, he says, was a "gift" that should never have been given.

Cargoes to or from the United States dominate traffic on the canal (see chart on next page). But it has been transformed since the handover. The legacy locks now account for just half of the goods by weight that pass between the Atlantic and Pacific oceans every day. Instead Neopanamax vessels up to 370 metres (1,215 feet) long pass through a new, larger set of locks. Liquefied natural gas cargoes can make the trip from Texas and Louisiana to Asia in under a month. The canal's upgrade was paid for by the Panamanian government and finished in 2016 at a cost of $5.2bn.

The canal is part of a bigger piece of real estate that Mr Trump is eyeing. He wants to influence territory and infrastructure close to the United States. He views Mexico as a source of unwanted migration, drugs and Chinese goods, Canada as a liberal dystopia and Greenland as a weak link. Some of his remarks are bluster. The Gulf of Mexico, he says, should be renamed the Gulf of America. Marjorie Taylor Greene, a congresswoman, has drawn up legislation for that purpose; Mexico's leader, Claudia Sheinbaum, has retorted that much of the continent should be renamed Mexican America. Mr Trump says Canada should become the 51st member of the United States, but among just a few other problems with that, absorbing relatively liberal Canada into the United States would dilute the Republicans' political clout.

Yet his remarks about the Panama Canal, Greenland and Mexico touch on real sensitivities and have tangible consequences. On January 7th Mr Trump said the canal was "vital to our country" and claimed that it is being "operated by China". On January 9th Dusty Johnson, a Republican congressman, proposed a bill to authorise the purchase of the canal from Panama's government, citing "China's interest in and presence around the canal". José Raúl Mulino, Panama's president, has responded to Mr Trump by saying that "every square metre of the canal" belongs to Panama and will continue to do so.

MAGA claims that China operates or owns the canal are false. Nonetheless Panama's government has become cosy with China in recent years. "China doesn't have control of the canal, but it has taken advantage of weak institutions and endemic corruption to increase its influence in national politics and business," says Alonso Illueca of Santa María La Antigua Catholic Uni-

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versity in Panama city. In June 2017 Panama's government ended diplomatic relations with Taiwan and established them with Beijing. The United States' ambassador to Panama found out an hour before the switch. Chinese firms had already won contracts to build a port, a power plant and a convention centre, but activity increased after the diplomatic realignment.

Panamanian politicians have enjoyed junkets to China. Xi Jinping, its president, visited Panama in 2019. The construction of a Chinese embassy near the mouth of the canal was scuppered after intense pressure from the United States. American attempts to regain commercial influence have flopped: Bechtel, an American firm, bid to participate in the canal-expansion project but didn't win. When a port concession held by a Hong Kong firm came up for renewal in 2021, Panama's government resisted calls to open the tender and renewed the contract.

Mr Trump also says "The United States of America feels that the ownership and control of Greenland is an absolute necessity" for "purposes of national security". He has refused to rule out using force. Mute Egede, Greenland's prime minister, says its 57,000 residents do not want to be either Americans or part of Denmark, as they are at present. Mr Trump's allies point to China's "Polar Silk Road", a spree of infrastructure-building in the Arctic, as a threat, but that is old news. Though Greenland's cash-strapped government did welcome Chinese investment a decade ago, pressure from Danish and American officials often blocked Chinese projects. Chinese mines have faced financial obstacles and local opposition. China's activity is now mostly confined to fisheries. A poll in 2024 showed that 25% of Greenlanders would welcome more co-operation with China, down from 47% in 2021.

That big island

It is undeniable that Greenland is important to America's national security. The shortest route for Russian nuclear missiles to reach America's east coast goes right over the island: Pituffik Space Base in the territory's north-west hosts part of America's missile-early-warning system. The so-called Greenland-Iceland-United Kingdom gap plays a central role in the high-stakes submarine contest between NATO members and Russia. "Frankly, this is our backyard...Actually, it's our front door," says Tom Dans, a former Trump appointee at the US Arctic Research Commission.

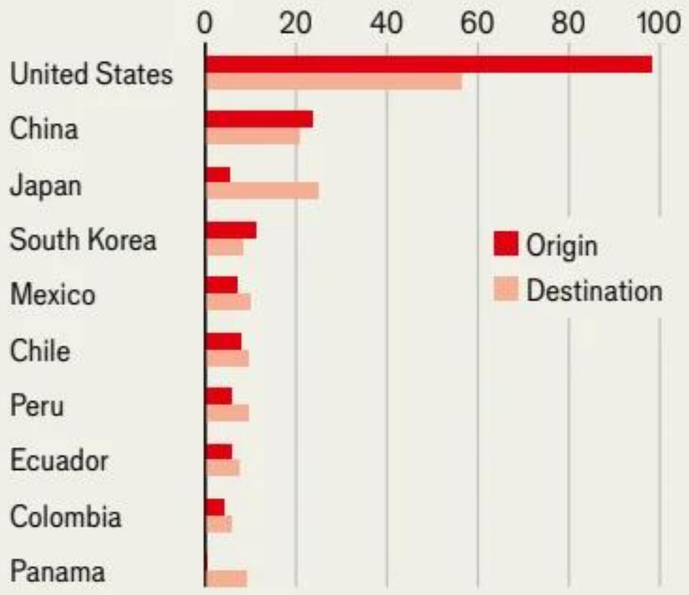
A majority of Greenlanders want independence from Denmark. Under a 2009 home-rule law they have a road map to achieving it, though they remain divided on timing and economic viability. An independent Greenland could be vulnerable to coercion and be an unreliable ally. Greenlanders can have a Panglossian view of geopolitics. The government has advocated non-militarisation. In 2024 only 2% of Greenlanders considered growing military tension their biggest challenge.

What next? As usual with Mr Trump's wildest pronouncements, deals are much more likely than extreme outcomes. There are ways to improve security without Greenland becoming part of the United States. A military and economic reset is looming. Denmark announced an Arctic military package worth $2bn in December. The Danes are buying more anti-submarine warfare kits, surveillance drones and ships, and plan to upgrade a civilian airport to handle F-35 fighter jets flown by Denmark and the United States. In Nuuk on January 13th Mr Egede said he had been "shocked" by Mr Trump's comments, yet at the same time signalled closer co-operation on defence, and welcomed American investment in mining. "The US doesn't need to own Greenland in order to support its presence there," says Kristine Berzina of the German Marshall Fund, a think-tank.

Likewise, an American invasion of Panama is not on the cards. Mr Mulino has rejected any negotiation over the canal, which brings in $5bn in annual revenue. Yet it seems likely that Panama will try to deepen commercial and diplomatic links with the United States, and to reduce its China connection. America's most important immediate neighbour sets an example here. On January 13th Ms Sheinbaum announced a new "Plan Mexico" aimed at reducing its dependence on inputs from China, and reaffirmed the centrality of the USMCA trade deal linking the United States, Mexico and Canada. Will it be enough to placate Mr Trump? She also revealed that she had not been invited to the president-elect's inauguration. Mr Trump is not about to invade his neighbours. But he is unlikely to prioritise building reliable partnerships either. The new doctrine is one of demanding deference. ■

American in nature, not name

Panama Canal, top ten countries by volume of cargo, 2024*, m tonnes



Source: Panama Canal Authority *Financial year ending Sep 30th

El Salvador

Crypto coup

MEXICO CITY

Tether's relocation to El Salvador is a win for President Nayib Bukele

"WELCOME HOME," crowed President Nayib Bukele on X, a social network. On January 13th Tether, the world's leading stablecoin firm, announced that it had chosen El Salvador as the location of its first physical headquarters. (Stablecoins are cryptocurrencies whose value is supposed to track that of another asset, such as the dollar or gold.) The move is a triumph for Mr Bukele, who has been trying to turn the Central American country of 6.3m people into a crypto oasis.

In 2021 El Salvador became the first country to make bitcoin legal tender. The government started buying up the digital asset. Many Salvadoreans were not impressed: cryptocurrencies are a volatile store of value for a country where GDP per person is just under $5,400. The IMF didn't like it either. But regardless of who likes it and who does not, El Salvador's bitcoin portfolio is currently worth some $585m. Mr Bukele has doubled his money. Nonetheless, a deal between the IMF and El Salvador's government announced in December saw Mr Bukele agree to curb his crypto embrace. Bitcoin will no longer be accepted for tax payments and businesses are no longer required to accept it as legal tender.

Bagging Tether is a real victory. Its market value is three and a half times El Salvador's GDP. If the firm pays tax and creates jobs, it will be a boon. Despite Mr Bukele's crackdown on crime, which has made El Salvador relatively more attractive to firms willing to overlook his authoritarian methods, economic growth remains lacklustre. The IMF reckons GDP will grow by 3% this year, more slowly than neighbouring countries. If Donald Trump does deport some of the millions of people who entered the United States illegally, it will hurt. Remittances are worth a quarter of Salvadorean GDP.

There are risks, too. Basing a valuable firm in a small, poor country may give its bosses excessive influence. James Bosworth, who writes the Latin America Risk Report newsletter, worries that Mr Bukele's relationship with Tether may become too cosy and that stablecoins may be put to uses that are less than transparent.

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Assisted dying in Canada

Choosing your moment

OTTAWA

Quebeckers are adopting assisted dying faster than anywhere else in the world

SANDRA DEMONTIGNY watched early-onset Alzheimer's transform her athletic father from a robust patriarch into a battered shell of a man. Once the disease took hold, his untethered energy compelled him to walk into walls and crawl aimlessly along floors. He died aged 53, his face streaked with tears of frustration. When Ms Demontigny was diagnosed with the same, fatal neurodegenerative disease at 39, she vowed that she would not endure her father's undignified death. Now she can take comfort in knowing she will not.

A new law adopted in the province of Quebec on October 31st allows Ms Demontigny to request what Canadians call medical assistance in dying (MAID) long in advance of her deterioration. It represents a significant expansion of Canada's federal laws on assisted dying, which require patients to provide consent immediately before they receive a set of lethal injections. In Quebec, patients with an illness that will eventually render them incapable of granting that consent can now make arrangements for MAID months or even years in the future, long before their condition deteriorates. Ms Demontigny, a radiant 45-year-old, says she is immensely relieved that her death will come at a point of her choosing, and feels that it will be more dignified for that.

Slightly over 1,000 Canadians opted for a doctor-assisted death in 2016, the first year in which it was permitted. By 2023 that number had risen to 15,343, 4.7% of the 326,571 deaths in Canada that year. No country that permits assisted dying has seen faster growth in the practice. (The Netherlands has allowed assisted dying for more than two decades, and it accounts for a higher share of deaths there than in any other country, 5.4% as of 2023.)

A popular practice

Nowhere in Canada has adopted MAID faster than the French-speaking province of Quebec. The share of deaths in the province that were doctor-assisted reached 7.2% in 2023. Michel Bureau, who heads a commission on end-of-life care that reports to the provincial legislature, says there is little doubt that the province carries out the highest number of doctor-assisted deaths in the world relative to its population. He says that Quebeckers now see MAID as a fundamental part of their medical system. Surveys suggest that three-quarters of Canadians support MAID. In Quebec that number is 86%. Dr Bureau says the number of people in Quebec choosing MAID will keep rising, now that consent may be given in advance.

That pleases Georges L'Espérance, a retired neurosurgeon who runs the Quebec Association for the Right to Die with Dignity. He says he has helped hundreds of people end their lives, and has noticed a rise in requests for his services since the law was changed in October. His relationships with patients seeking MAID tend to be very different from those shared with patients awaiting brain surgery. He usually met people going under the knife for a single consultation before surgery. Applying for MAID is a multi-step process that requires repeated meetings with patients and can run over several years.

Dr L'Espérance says MAID patients know there is no hope their lives can be improved, but that "people are smiling 15 minutes before they know they are going to die. They talk, share a glass of wine, and tell their family members how much they are loved." He stays with family members for at least an hour after patients die. He answers all their questions. Often they embrace him. "I never had that experience as a surgeon," he says.

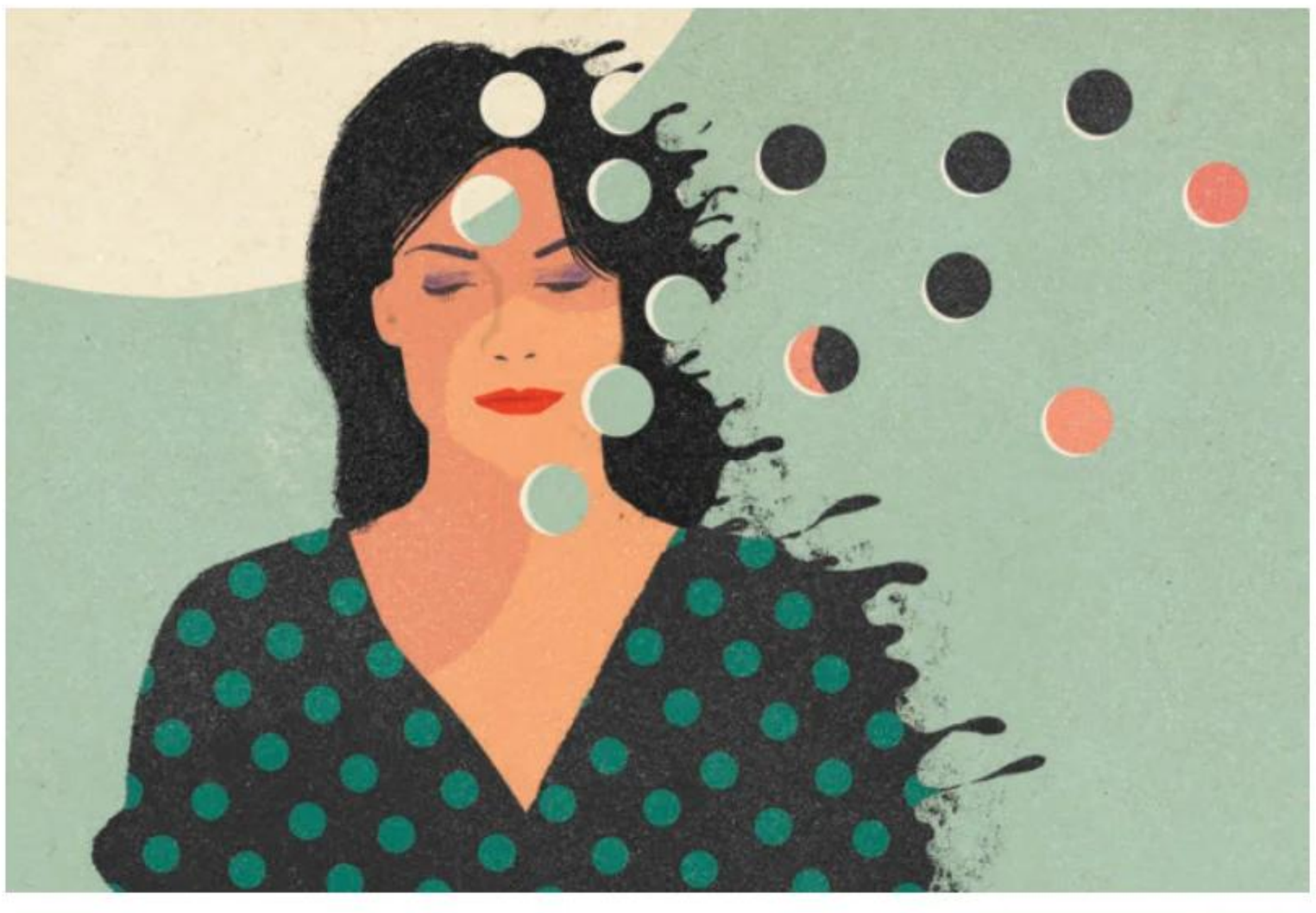
Opponents of MAID's expansion in Canada say that too few of the doctors recommend traditional palliative care as an alternative. Dr L'Espérance and others point to statistics suggesting that 78% of those who opt for MAID have tried palliative care first. Opponents also worry that some patients choose MAID because Canada's strained, publicly funded health-care system has failed them.

A report published in October by the coroner from Canada's most populous province, Ontario, stated that 116 people who were given MAID in 2023 (2.5% of the 4,644 in total) were struggling with disabilities, but not dying. One man in his late 40s who suffered from severe ulcers, multiple mental illnesses and chronic suicidal thoughts ended his life with the help of a doctor. The report found that people who opted for MAID tended disproportionately to have lived in areas with poor access to housing and labour markets, though it notes that this could simply be because old and disabled people tend to live in those areas. The coroner also found that people opting for MAID lived disproportionately in white neighbourhoods.

Live and let die

The federal government has deferred until 2027 a decision on allowing mentally ill patients to apply for MAID. But although it could have challenged Quebec's expansion of the practice, it has chosen not to. Canada's health minister, Mark Holland, cited the torment his grandmother endured in her final years with Alzheimer's in his decision to allow Quebec to go ahead.

Ms Demontigny has been speaking to her husband and their three children about the kind of life she wants to live before she dies. Those conversations have been a gift to a woman who feared an agonising death: "I am so relieved. I'm a naturally joyful person. I can find beauty in what others might find ugly." ■



Asia



Indian foreign policy

Old friends, new plans

India's Faustian pact with Russia is deepening

EVER SINCE the start of the war in Ukraine, the West has tried to persuade India to distance itself from Russia. India has consistently rebuffed the entreaties. Its officials have pointed out—in often testy exchanges—that the Kremlin has been a stalwart friend for decades. Russia also accounts for about 65% of India's arms imports over the past 20-odd years. Besides, they argued, India needs to nurture the relationship to offset warming ties between Russia and China, India's chief rival.

Western officials and observers concluded that this dynamic would change over time as India increasingly relied on America and its allies for commercial and military partnerships. Their governments decided to strengthen economic ties and provide more advanced defence technology rather than hectoring India. Thus followed deals such as one with America in 2023 to jointly manufacture fighter-jet engines on Indian soil.

India, however, sees its future with Russia very differently, as recent developments make amply clear. First came news that Vladimir Putin, Russia's president, would visit India in early 2025. A few days later, on December 8th, India's defence minister, Rajnath Singh, arrived in Moscow to discuss new defence deals, including the purchase of a $4bn radar system. That was followed by the two countries' biggest-ever energy agreement, worth roughly $13bn a year. Rosneft, Russia's state oil company, is to supply some 500,000 barrels per day of crude oil to Reliance, a private Indian refiner, for ten years.

India has for the past few years cheerfully bought Russian oil for less than the $60-per-barrel price cap imposed by Western sanctions, becoming the world's second-biggest buyer of the stuff after China. In 2021 just 2% of India's oil imports came from Russia. Between April and October 2024 nearly 40% did. ICRA, a rating agency, estimates that discounted Russian oil has saved India at least $13bn since the war in Ukraine began.

Rather than winding down an old cold-war friendship, as Western officials hoped, India is deepening defence, energy and other ties with a partner it sees as a source of prosperity and security and as a linchpin of its "multi-aligned" foreign policy. And it is hoping that this will become less controversial with the return to the White House of Donald Trump. The president-elect was friendly with India during his first term. His pledges to bring peace to Ukraine through negotiation with Russia, if he follows through and meets with success, could also help ease pressure on Russia—and thus India.

This bet could pay off. But the risks are severe. That was demonstrated on January 10th when America escalated sanctions on Russian oil. New measures target producers, insurers and traders, as well as the "dark" fleet of tankers that often carries ▸▸

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Russian shipments. India (and China) could be forced to buy pricier oil from the Middle East. Indian state refiners are now scrambling to speed payments for Russian crude and to secure delivery of 4.4m barrels currently at sea within a 48-day "wind-down" period allowed by American authorities, according to Bloomberg.

Mr Trump may ease the sanctions but that could take time, to preserve leverage in peace talks with Russia. If talks fail, the war could drag on. And even if they succeed, and sanctions are lifted, the new oil deal is likely to add to India's substantial trade deficit with Russia (see chart).

Turn next to defence. India has indeed become less reliant on Russian arms, buying from France, Israel and others. Yet the prime minister, Narendra Modi, continues to cut deals with Russia. In July 2024, just before Mr Modi visited Moscow, a Russian state arms manufacturer announced that it would make tank rounds in India. Mr Modi and Mr Putin then agreed to pursue joint weapons development and manufacture. Russian and Indian firms already jointly produce weapons in India, including tanks, fighter jets and missiles.

Mr Singh, the Indian defence minister, added substance on his own Moscow visit by discussing the purchase of Russia's Voronezh radar system. It can identify and track a range of threats, including ballistic missiles and aircraft, over distances of up to 8,000km (5,000 miles). That would greatly enhance India's capabilities, giving it coverage far into China, a range accessible only to a few powers. Perhaps as important for India, some 60% of its components would reportedly be made in the country.

All of which suggests that India continues to view Russia as its primary source of top-end weaponry, much of which America and its allies remain reluctant to share. And that Mr Modi sees Russia, alongside any willing Western partners, as a means to strengthen India's defence industry.

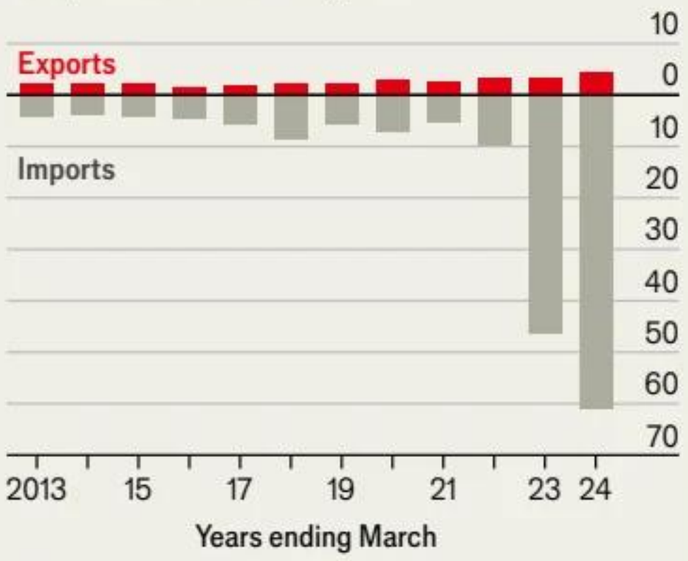
Yet here too India faces risks. Its defence co-operation with Russia has been plagued by problems, including the delayed delivery of the last two of five S-400 missile systems that it bought in 2018. Poor performance of some Russian weaponry in Ukraine has caused concern among Indian military leaders. And India has postponed or cancelled talks on several deals to buy or upgrade Russian equipment, citing logistical issues arising from the Ukraine war.

Mr Putin's India trip, meanwhile, has been presented as a routine exercise following the two leaders' vow to meet annually. Still, it would be his first trip to India since his full-scale invasion of Ukraine. And it could provoke the sort of PR disaster that marred Mr Modi's Moscow visit, when he bear-hugged Mr Putin shortly after a deadly Russian missile strike on Ukrainian sites including a children's hospital. Even without another such atrocity, the visit is likely to undermine Mr Modi's efforts to present India as a neutral party in the war.

For Indian officials the risks of strengthening ties with Russia appear to be acceptable. But they may be underestimating a longer-term problem. Russia is a useful short-term source of energy and technology. But its demographic and economic prospects are grim, even were peace to return. India is also exposing itself to fallout from Russia's inevitable domestic turmoil—Mr Putin cannot live for ever—to say nothing of further Kremlin misadventures abroad. ■

Not exactly drifting apart

India, trade with Russia, $bn



Source: Centre for Monitoring Indian Economy

North Korea and Russia

Blood debt

SEOUL AND WASHINGTON, DC

What Kim Jong Un gains by sending troops to fight for Vladimir Putin

NORTH KOREAN television viewers had a treat just after New Year's Day. The state broadcaster aired "72 Hours", a new film, according to NK News, a North Korean-focused news site. The movie tells the story of the first three days of the Korean war and how the conflict was started by the evil South. (In fact, North Korea's founder, Kim Il Sung, launched the initial attack.) Among the propaganda messages embedded in the tale, a big one is the importance of close ties with Moscow. The film's fans include the Russian ambassador in Pyongyang, North Korea's capital.

These days Russia and North Korea are writing a new battlefield history together. North Korea has dispatched some 12,000 troops to fight in Vladimir Putin's war against Ukraine. The soldiers are believed to be some of North Korea's most elite, hailing from the "Storm Corps", a special-forces outfit whose lineage may trace back to units sent on a daring but ultimately unsuccessful mission to assassinate South Korea's president in 1968. North Koreans began appearing at the Ukrainian front in early November and have entered in recent weeks into ever fiercer combat in Russia's Kursk region, where Ukrainian forces seized territory last year.

The idea to send troops to aid Russia apparently originated from the North Korean side. The deployment brings big risks for Kim Jong Un, the country's leader. The fighting has been gruelling. North Korean troops appear ill prepared for modern drone warfare and for the flat, open landscape around Kursk, unlike the mountainous terrain back home. On January 11th Volodymyr Zelensky, Ukraine's president, said Ukraine had taken two North Korean soldiers prisoner. South Korean intelligence agencies estimate that perhaps 300 North Korean soldiers have been killed and another 2,700 wounded. Ultimately such losses "may influence North Korean society as well", says Kim Yung-ho, South Korea's minister of unification.

What does Mr Kim get in exchange? Probably more of the assistance that was already being sent in exchange for North Korean ammunition: fuel, food and other resources, which help North Korea withstand Western sanctions. Since North Korea began aiding Russia's war effort around mid-2023, there have been "unprecedented levels of traffic" observed in satellite imagery of customs areas between the two, says Victor Cha of the Centre for Strategic and International Studies, an American think-tank. South Korean intelligence agencies reckon the North Korean state may be receiving as much as $2,000 per month for each soldier it sends.

North Korea is also seeking higher-end capabilities. Designs for intercontinental ballistic missiles and re-entry vehicles, as well as submarine and satellite technology, are thought to be on the wishlist. Such assistance can be harder to spot. "It's a blueprint in a suitcase; we won't necessarily see it," says Bruce Klingner of the Heritage Foundation, another American think-tank.

Western governments assess that Russia has become more willing to share technical knowledge that it once considered off-limits. During a recent visit to South Korea, Antony Blinken, America's secretary of state, said that America believes Russia intends to share advanced space and satellite technology with North Korea in exchange for battlefield help.

Yet the exchange goes beyond material goods or weapons designs. There is also a "softer tech transfer" taking place, says Peter Ward of the Sejong Institute, a South Korean think-tank. North Korea can see how its ammunition and missiles perform in real battlefield conditions and against Western air-defence systems. Soldiers are also getting rare real-world exposure to the ▸▸

front, and have an opportunity to learn from Russia's experience of modern warfare. But the most vivid lesson appears to be about the importance of drones and electronic warfare on modern battlefields. In November Mr Kim visited a North Korean factory to inspect drone demonstrations and ordered large-scale production of suicide-drones.

There are limits to what can be gleaned. Russia may be keener to use North Korean troops as cannon fodder than to involve them in sophisticated operations. Many of the soldiers will never make it back to North Korea, says Jenny Town of the Stimson Centre, a think-tank in Washington. Those who do survive may learn plenty that their regime prefers they had not. Controlling access to information among soldiers on the front is tricky. Troops may also be able to see how wealthy Russia and Ukraine are by comparison with their homeland. "They will come back with valuable experience, but possibly also dangerous ideas," says Andrei Lankov of Kookmin University in Seoul.

Mr Kim has clearly decided the potential rewards outweigh any risks. The ultimate prize may be forging a longer-term strategic partnership that outlasts the war in Ukraine itself. Sending soldiers to die for Mr Putin's ambitions is certainly one way to signal commitment. As Ms Town puts it: "There's a blood debt now." ■

Football in Turkmenistan

61-0

ALMATY

Is Arkadag the world's greatest football team?



ARKADAG ARE the undisputed champions of Turkmenistan. Founded in 2023, the football (soccer) team won every match in its first two domestic seasons, ending a hot streak of 61 straight wins only in November, with a loss to Kuwait's Al-Arabi in an international game. The team came close to the all-time record set by Scotland's Celtic FC just over a century ago, undefeated for 62 games. But some of Celtic's matches were draws. Arkadag can still claim the longest winning streak.

Yet Guinness World Records, a chronicler of such achievements, has denied Arkadag due recognition, granting the honour instead to Saudi Arabia's Al-Hilal, which boasts just 34 straight wins. Doubts about the Turkmen league's governance made it impossible to verify Arkadag's claim. Still, the self-reported streak is a remarkable feat.

What is the key to Arkadag's success?

The clue is in the name. "Arkadag", meaning "Protector", is also the honorific of Gurbanguly Berdymukhamedov, Turkmenistan's president from 2006 to 2022 and still the power behind the throne now occupied by his son, Serdar. The pair rule in tandem, though the father's ebullient personality eclipses his dour son's. Berdymukhamedov the elder is an action man, with a love of racing-cars and horses, the national symbol of Turkmenistan. A talented crooner as well as a high-performing sportsman, he once celebrated Turkmenistan's annual horse festival by rapping a paean to the steed with his grandson. Like the team that bears his title, he tends to win any contest he enters.

The sports-mad potentate oversaw the design of Arkadag's strip and logo (a white horse), and its state-of-the-art stadium sitting, naturally, in a place called Arkadag. The town boasts a 40-metre-tall statue of its namesake (the ex-president, not the football team) and a main street called Akhan, after his favourite horse. Hence Arkadag, the leader, goes to Arkadag, the town, to watch Arkadag, the football team.

Not everyone in Turkmenistan is pleased with the team's triumphs. There were mutterings of foul play after Arkadag poached players from other teams. There are suspicions that referees favour the newcomers. Despite—or perhaps because of—all that, Arkadag's sporting future looks rosy. The Protector will, after all, live up to his name.

South Korea

K-drama

TOKYO

South Korea's impeached president is arrested. Now what?

THE PRESIDENCY of South Korea can be a treacherous job. Past office-holders have been impeached and even assassinated. But until January 15th, when investigators took Yoon Suk Yeol into custody, a sitting president had never been arrested.

Mr Yoon's detention on insurrection charges stems from his attempt to impose martial law last month. Since that self-coup failed, Mr Yoon has barricaded himself inside the presidential residence in central Seoul. The National Assembly impeached him on December 14th, temporarily suspending him from office and triggering a trial at the constitutional court. Separately, investigators from the Corruption Investigation Office for High-Ranking Officials (CIO) opened a criminal case against him. (Insurrection is an exception to presidential immunity in South Korea.)

After Mr Yoon refused to appear for questioning, the CIO sought a warrant for his arrest. The first attempt to serve it, on January 3rd, ended in failure after an hours-long standoff between police officers and armed guards from the presidential security service, which chose to protect the president. In recent weeks the president's residence has been reinforced with barbed wire and buses, gearing up for a second standoff. The possibility of an armed clash appeared disturbingly real.

The police came back better prepared on the morning of January 15th. Some 3,000 officers assembled, according to Yonhap, a South Korean news agency. They pushed past crowds of Mr Yoon's supporters and breached the walls before dawn, using ladders to climb over fences. But this time the bodyguards put up little resistance, and Mr Yoon relented, saying in a video statement that while he considered the warrant "illegal", he co-operated in order to avoid "unpleasant bloodshed".

The arrest brings the embarrassing standoff between branches of the South Korean state to an end. But it is far from the finale in the unfolding drama. Investigators have 48 hours to question Mr Yoon; they must seek an additional warrant to hold him for another 20 days. If an indictment is upheld, it will trigger a criminal trial that could theoretically end with a sentence of life imprisonment or, though very unlikely, even the death penalty. Mr Yoon has pledged to fight the charges.

In the meantime the constitutional court is pressing forward with its trial. The ▸▸

process must conclude within 180 days of the day he was impeached; at least six of the eight judges hearing the case must vote in favour for the impeachment to stand. If Mr Yoon is ultimately removed from office, South Korea's constitution mandates fresh presidential elections within 60 days.

The sustained turmoil is straining the country. The consumer-sentiment index dipped to 88.4 in December, from 100.7 a month earlier, the biggest single-month drop since the start of the pandemic. The unemployment rate also rose from 2.7% in November to 3.7% in December, the highest rate since mid-2021. Following the impeachment in early 2017 of Park Geun-hye, one of Mr Yoon's predecessors, foreign direct investment fell by nearly 40% during the subsequent quarter; the current crisis could make investors similarly skittish.

Mr Yoon's intransigence in the face of the charges against him has helped rally his supporters and further polarised the country's politics. Many of his core supporters have come to believe his claims of election fraud; some have protested with signs reading "Stop the Steal".

Though a majority of South Koreans still support Mr Yoon's impeachment, their numbers have shrunk: 64% say the president should be impeached, down from 75% a month ago, while 32% say he should be reinstated to office, according to polling by Gallup Korea. That probably will not save Mr Yoon. But it suggests that the country's political strife will outlast him. ■

BANYAN

A fine mesh

Can Donald Trump maintain Joe Biden's latticework of alliances in Asia?

AN ATTEMPT TO stage a self-coup in a democratic country—and an American ally to boot—should be the sort of thing that causes the resident of the White House to have some strong views. Yet when Yoon Suk Yeol, South Korea's president, imposed martial law on his country early last month, President Joe Biden stayed mum. His national security adviser, Jake Sullivan, said events in South Korea raised "alarm bells". It took more than a month before Mr Sullivan could bring himself to call it "wrong".

Why the reserve? Mr Yoon went further than any leader in South Korea's modern democratic history in reconciling his country with Japan, a development sought by American strategists for decades. A summit between leaders of the three countries in 2023 seemed like a breakthrough. Amid the uncertainty around Mr Yoon's future in the immediate aftermath of the coup, the Biden administration hedged its bets.

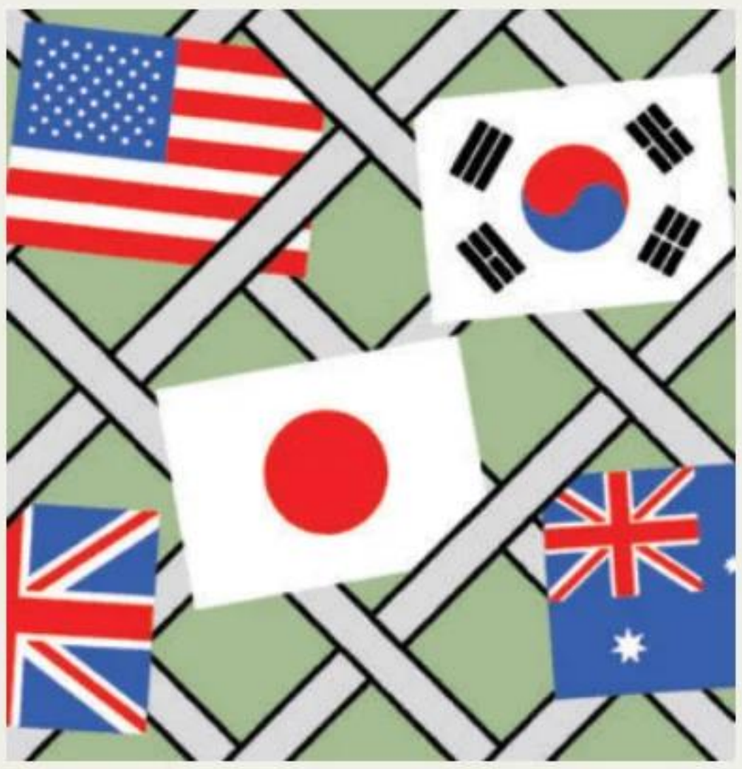
Now the trilateral seems more likely to break down. Its close association with the polarising Mr Yoon had made it unpopular in South Korea from the start. After his failed putsch, the stigma will be even greater. Any successor is likely to at least slow, if not reverse, the changes that America had so desired.

The link between South Korea and Japan was to be one strip in what Mr Sullivan has called a "latticework" of new, overlapping partnerships among American allies and security partners in Asia. This, he explains, differs from the traditional "hub and spoke" structure of security co-operation in the region, with America at its centre. The idea is for countries to reinforce each other, rather than simply rely on America. It is likely to be remembered as among Mr Biden's most important legacies in Asia.

The success of the policy is visible in the partnerships that have emerged in recent years. Japan and Australia are working closer than ever before. The Philippines has signed new security deals with both of them. The Quad, a security grouping that brings together the leaders of America, Australia, India and Japan, usually annually, has been given new energy and elevated in importance to the level of summit meetings. A submarine-building pact, known as AUKUS, brings Britain into the picture.

Yet the South Korean setback exposes a problem with the way Mr Biden and his team have woven their latticework. Though he wooed leaders like Mr Yoon, he tended to alienate their political opponents. Some left-wing legislators in South Korea say they got the cold shoulder when they tried to talk about security policy with Mr Biden's people. The same lawmakers may soon be in power in Seoul.

Another potential problem is the latticework's complexity. A better metaphor might be a mechanical watch, with its many moving parts of varying importance.



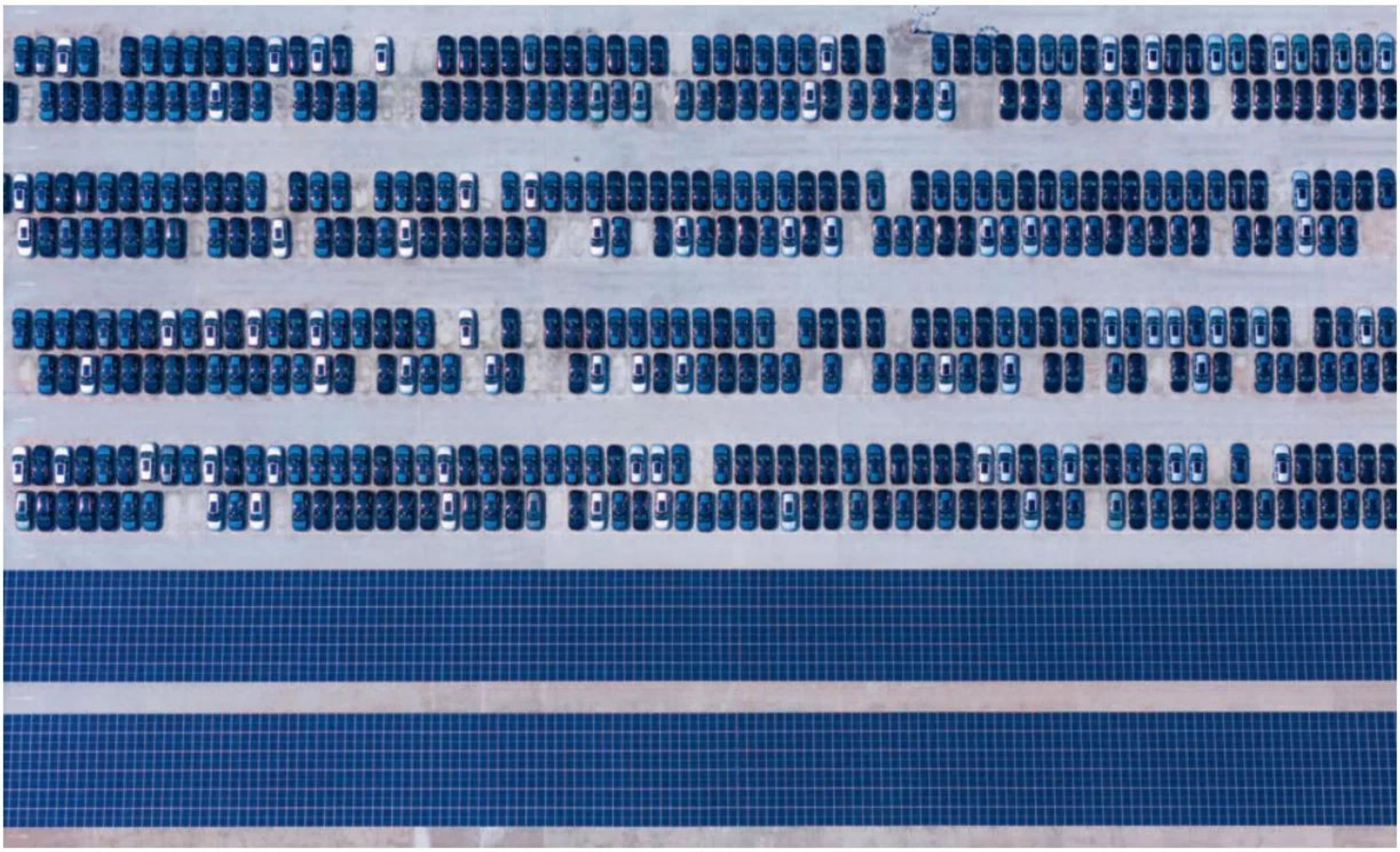
Mr Biden's aides argue it will keep ticking on, regardless of who is in the White House, powered by anxiety about China's rise. Others worry that without constant American attention and maintenance, it will begin to fall apart.

Which is the more likely under Donald Trump? The president-elect has little patience for complications, leaving them to his advisers. In the first term they worked to turn Mr Trump's instincts on Asia into a coherent approach, reframing American policy in the region around what they called "competition" with China. The new paradigm stuck. But their capacity to carry it out was limited because many Asia-policy roles went unfilled for long periods. Stray interventions by the president made it difficult to focus on what mattered.

A more disciplined second term might let Mr Trump maintain the machine. A creative team might even add to it. There was some of this in the first term. Mike Pompeo, Mr Trump's secretary of state, joined the first meeting since 2007 of foreign ministers from Quad countries. Mr Trump also put some life into diplomacy in the Pacific, becoming the first president to host the leaders of the Marshall Islands, Micronesia and Palau—all American protectorates—at the White House. The Biden administration built upon these initiatives.

Mr Biden's advisers wave away concerns about their successors' diplomatic finesse. In fact, they refuse to claim credit for the latticework themselves. They attribute it instead to their Chinese counterparts, whose audacity alarms America's allies and has them drawing closer to each other. The system, they say, works even in the absence of disciplined American leadership—provided that China gives it a kick now and then.

China



Made in China 2025

The consequences of success

BEIJING

An initiative so effective it has warped the Chinese economy and made the world shudder

LIKE LORD VOLDEMORT from Harry Potter, "Made in China 2025" is an initiative which induces so much fear and loathing abroad that Chinese officials dare not speak its name. The plan, introduced a decade ago, called for pouring money and resources into dozens of industries. The goal was to turn China into a green and innovative "manufacturing power", one that relied less on labour and Western supply chains, and more on automation and new home-grown technologies. This was Xi Jinping's vision for the Chinese economy.

It has, for the most part, been a resounding success. Aided by the government, Chinese firms have risen to the very top of some industries. They have grown more automated and sophisticated. The torrent of goods coming from Chinese factories (and weak domestic demand) resulted in a record trade surplus of nearly $1trn in 2024. But China's success has had consequences, ranging from economic distortions at home to a backlash abroad.

The details of Made in China 2025 are laid out in hundreds of official documents. A so-called "Green Book", published by a committee of China's top engineers, identified targets for government largesse. Ten sectors, ranging from information technology to aerospace, were chosen. Within these, hundreds of industries were designated for support in the form of direct subsidies, cheap credit and inexpensive land. Producers of such things as solar panels, chips and aircraft benefited. The project covered much of China's industrial base.

The goals were sometimes vague, but the plan also laid out dozens of statistical benchmarks. China appears to have exceeded most of these. It was already the world's largest manufacturer in 2015, accounting for 26% of global value added in this sector. In 2023 that number was 29% (see chart on next page). More impressive, though, has been China's performance in fields deemed important by the state.

Two of the clearest examples are electric vehicles (EVs) and drones. The plan called for Chinese companies to sell 3m of the former in 2025. That shouldn't be a problem: they sold more than 10m last year, accounting for nearly two-thirds of the global total. In the last quarter of 2024 China's biggest EV-maker, BYD, surpassed Tesla, an American firm, in worldwide sales of battery-only cars. China's biggest drone-maker, DJI, is even more dominant. Its share of the global market in consumer drones is over 90%.

In the area of clean energy the aims were fuzzy, but the gains of Chinese companies are unambiguous. Whereas in 2015 they produced 65% of the world's solar panels and 47% of its batteries, today they are responsible for around 90% and 70%. The government's support means they can make these things at lower cost than firms elsewhere. In much of the world, the green transition is powered by kit made in China.

Chinese manufacturers are making more stuff, but the government also wanted them to make more innovative stuff. So ▸▸

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the plan called on them to funnel 1.68% of their total revenue into research and development by 2025, up from less than 1% in 2015. They achieved that objective in 2023. A related aim, for firms to file more patents, has also been surpassed.

Which goals remained elusive? China hoped to be manufacturing its own large commercial aircraft by now. In 2023 the C919, a Chinese-made passenger plane, did have its first commercial flight from Shanghai to Beijing. But it was made with many foreign parts. Western firms still supply most of China's passenger planes.

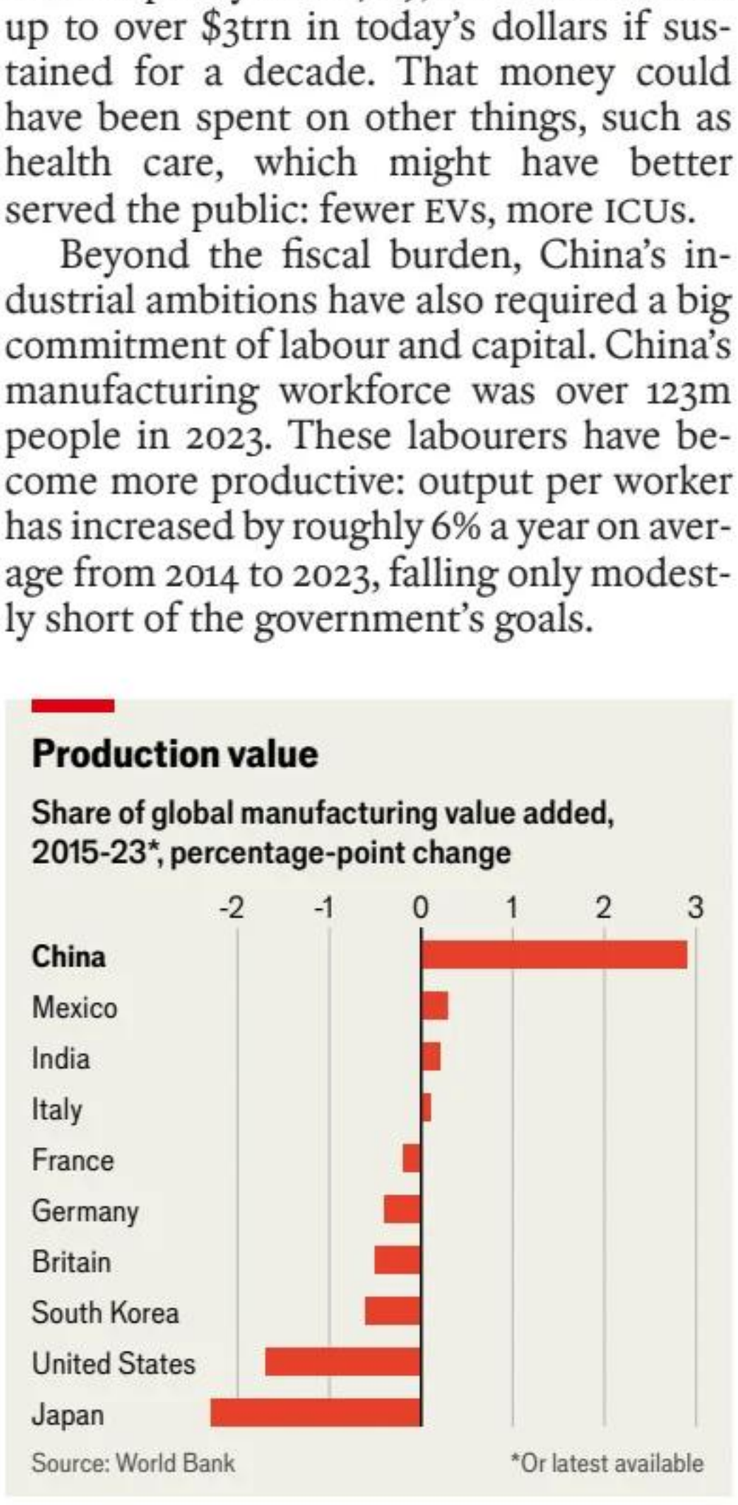
An even bigger disappointment has been the slow progress in semiconductor production. Most Chinese companies are still only capable of making mid-range chips. Things were gloomy in the sector even before America imposed export controls on chips and chipmaking equipment. Some argue that these restrictions have spurred innovative workarounds. In 2023 Huawei surprised America when it introduced a phone containing an advanced seven-nanometre chip. Meanwhile, China is increasing the subsidies flowing to companies such as SMIC, its largest foundry.

Made in China 2025 has, then, achieved most of its aims. But at what cost? The fiscal expense is impossible to calculate. One attempt by the Centre for Strategic and International Studies, a think-tank, estimated that China spent over 1.7% of GDP on industrial policy in 2017-19, which would add up to over $3trn in today's dollars if sustained for a decade. That money could have been spent on other things, such as health care, which might have better served the public: fewer EVs, more ICUs.

Beyond the fiscal burden, China's industrial ambitions have also required a big commitment of labour and capital. China's manufacturing workforce was over 123m people in 2023. These labourers have become more productive: output per worker has increased by roughly 6% a year on average from 2014 to 2023, falling only modestly short of the government's goals.

Production value

Share of global manufacturing value added, 2015-23*, percentage-point change



Source: World Bank

*Or latest available

But that performance required enormous inputs of capital. When this investment is taken into account, things look less impressive. The economy as a whole has fared badly on measures of "total-factor productivity" (TFP), which try to capture the growth in output that cannot be explained by increases in capital or labour. This disappointment has been felt in high places. It may lie behind Mr Xi's recent push to cultivate "new productive forces", which will supposedly contribute to TFP.

A different policy mix could have encouraged greater household spending, not capital spending, and flourishing services, not manufacturing muscle. These two shifts could have complemented each other nicely. As people grow richer, they devote a higher share of their budgets to education, health and recreation rather than manufactured clutter. Stronger consumer spending would, therefore, have been a boon to China's service firms, which account for the majority of employment. That, in turn, might have bolstered the labour market and created more of the kinds of jobs that China's millions of university graduates are equipped to fill.

Too much of a good thing

As it is, Chinese buyers do not come close to purchasing all of the things that Chinese factories produce. So the country is busy exporting the rest. Angry trade partners accuse it of flooding their markets with cheap goods, undercutting their companies and hollowing out their manufacturing sectors. They launched almost 200 anti-dumping cases and other trade investigations against China in 2024, according to official data. India, which has its own "Make in India" initiative, made more complaints than any other country.

The fears of China and its foreign critics tend to feed on each other. For Mr Xi, the primary goal of Made in China 2025 is self-reliance. He talks of taking things "into our own hands". That task has become more urgent in the face of foreign tariffs and export controls. Donald Trump's return to the White House, surrounded by China hawks, has undoubtedly reinforced Mr Xi's vision for the Chinese economy.

But even if America had not taken a hawkish turn, it is difficult to imagine the Communist Party under Mr Xi pursuing a different strategy. "They basically think that rich countries are those that make stuff and the richest countries are those that make the most advanced stuff," says Gerard DiPippo of the RAND Corporation, a think-tank. Although in many ways China's big bet on industrial policy has paid off, there have also been large downsides. Just as Voldemort twisted the behaviour of the people he possessed, the policy that must not be named has skewed the evolution of the economy it inhabited. ■

The legal business

Closing time at the bar

BEIJING

Why foreign law firms are leaving China

LAWYERS TEND not to inspire much sympathy, but spare a thought for the foreigners drafting briefs in China. For decades they have confronted a politicised legal system and navigated a difficult regulatory environment. Now they are facing new pressures. China's sluggish economy and geopolitical tensions have been bad for business, such that many big-name foreign firms are leaving the country.

Most notable has been the exodus of American outfits. According to Leopard Solutions, an analytics company, 35 of the top-tier American law firms that maintained operations in Beijing or Shanghai (and in some cases both) at the end of 2023 had, one year later, reduced their presence or shut up shop entirely. Among the most prominent is Paul, Weiss, Rifkind, Wharton & Garrison. The firm opened its Beijing office in 1981 and boasted of having "one of the longest continuous presences of any foreign law firm in mainland China". In December it said it was leaving.

The best explanation for all this is the simplest one: business has been drying up as China's economy cools down. "Work on mergers and acquisitions is not just slower, it's pretty much dead," says an American lawyer in Beijing. "It's the same with IPOs." Adding to the dismal picture is a decline in foreign direct investment, which had kept lawyers busy dealing with screening requirements and official reviews.

Other developments may also be affecting the calculations of foreign firms. Some lawyers worry about China's increasingly stringent rules on data privacy and the transfer of information abroad. Those working on international deals often have to keep foreign regulatory bodies in the loop. But they risk running foul of the law in China if they provide those bodies with information about Chinese firms. "People are not crazy to worry that they could end up in big trouble," says a foreign lawyer.

In the past American law firms thought it good for their reputation to have a presence in China. "Now everyone is really down on the country and that's no longer the case," says an American lawyer. In some ways, though, the friction between China and America has actually increased ▸▸

__Chaguan__, our China column, has been suspended. Our goal is to reinstate it when we have a new columnist resident in Beijing.

transnational legal work. Business involving sanctions, tariffs and export controls is expected to grow under Donald Trump, who has promised a trade war with China. But lawyers say such work is better done in Washington, as opposed to Beijing.

China's law firms are not immune to the country's economic woes. They have been lowering salaries and cutting staff. But the government helps them out. Many receive subsidies, and state-owned enterprises are encouraged to shun foreign firms.

Some Chinese lawyers see the foreigners' exit as a tacit acknowledgment that local firms are increasingly capable (and less expensive). During a lecture at Harvard University eight years ago, Tao Jingzhou, a French-trained Chinese arbitration lawyer, told the audience that "the golden age of foreign law firms in China" was coming to a close. Now that it is happening, he is sad to see his foreign friends go, but proud of his Chinese colleagues. ■

Human rights

Black jails and angry wails

A form of detention linked to torture and deaths prompts outrage

ON DECEMBER 19TH relatives of Xing Yanjun gathered in Beijing to mourn the businessman's death eight months earlier, allegedly by hanging himself while in police custody. At the event a document was read out. It was a statement by the police that Xing's case had been closed "in the absence of criminal facts". The outrage his death has caused, however, will take far longer to dissipate.

Even in coverage by China's normally supine media, Xing's treatment is cited as an example of abuses linked to a form of detention that has become increasingly common during the rule of Xi Jinping. It often involves holding people incommunicado for weeks on end in brutal conditions without charge. "Residential surveillance at a designated location" (RSDL), as the system is called, is used by police to extract confessions when evidence is flimsy, and to terrorise dissidents. In a country where people rarely dare to criticise human-rights violations by officials, RSDL has generated unusually outspoken debate.

It sprang from a legal provision of 1996 that allowed the police to keep suspects at a "designated" location in cases where they would normally be placed under house arrest but had no fixed abode. It was supposed to be less restrictive than being kept in jail. But police began taking advantage of this to keep any kind of suspect anywhere they wanted. A revision to the law in 2012 specified that designated locations could also be used in cases involving threats to national security, terrorism and serious corruption. The police took that as a green light to make the practice more regular, and to build special facilities.

After Mr Xi took power in 2012, use of it mushroomed. The Supreme People's Procuratorate, a body responsible for prosecuting crimes and supervising implementation of the law, has called out abuses. Last year it noted the use of torture, including starvation and sleep deprivation, in 2019 during RSDL in Jiangsu province.

But despite persistent calls from Chinese legal scholars for the system to be scrapped or curtailed, Mr Xi's sweeping campaigns against corruption and dissent have turbocharged its growth. In 2018 the Communist Party launched a parallel secretive system called *liuzhi* (retention in custody) for use in cases involving not only party members—who had always been subject to extra-legal forms of detention—but anyone in public service, including academics and hospital staff. RSDL and *liuzhi* can be used for up to six months.

Safeguard Defenders, an NGO based in Spain, says cases it has analysed show that fewer than 500 people were held under RSDL in 2013. In 2019 the number was over 6,000. According to research by a postgraduate student at Hunan University of Arts and Science, instances of RSDL doubled in the following year as police turned to it as a way of preventing the spread of covid-19 in jails. Last year a UN working group said the actual number of RSDL detentions could be more than three times higher than the number officially acknowledged. It called the use of RSDL or *liuzhi* "tantamount to an enforced disappearance". Safeguard Defenders has published a "conservative estimate" that 64,900 people were subjected to RSDL and 78,000 to *liuzhi* between 2013 and mid-2023.

Even before the legal revision in 2012, targets of RSDL included those who dared to challenge the party. One was Ai Weiwei, a dissident artist who was detained in Beijing for 81 days in 2011. He later put on exhibitions abroad featuring large dioramas of his padded cell, with two guards standing over him round the clock, even in the lavatory (pictured). Such confinement, often with no cellmates and no access to a lawyer, is typical of both systems.

Angling for entrepreneurs

RSDL is sometimes used in connection with another widely resented form of police behaviour, commonly known as "deep-sea fishing". It involves sending police from one jurisdiction to another to arrest someone, usually a businessman, in the hope that a spell of RSDL will prompt the target to confess to a financial crime. The aim is to use resulting fines and asset seizures to fill the jurisdiction's coffers. This has become more common as local governments struggle with enormous debt.

Xing, the businessman in Beijing, was a deep-sea catch. In November 2023 he was seized in the capital by police from Inner Mongolia who took him back to that province, accusing him of running a gambling website. The local authorities refused to approve his formal arrest, however, so the police confined him under RSDL. His death last April prompted yet more calls for the system's abolition. "RSDL: When will the tragedy end?" said a headline in a state-run newspaper. Many legal experts hope the answer is in the next round of revisions to the Criminal Procedure Law. But that may not happen before 2028—and the government is making no promises. ■



No-comfort station

Middle East & Africa



Gaza

A fragile deal

After 15 months of hell, Israel and Hamas agree to a ceasefire

AFTER MORE than 15 months of war and just five days before Donald Trump is inaugurated as America's 47th president on January 20th, a ceasefire in Gaza was at last announced. The deal, struck on January 15th, is essentially the same proposal Joe Biden extracted from Israel in May. It took eight months of tortuous mediation and the efforts of both old and new American administrations, Egypt and Qatar, to get Israel and Hamas, Gaza's Islamists, to accept it. On January 16th Israel said that Hamas was reneging on some aspects but it has not yet been abandoned.

Mr Trump seems to have been the X factor. He made it clear to the Israelis he has no desire to enter the White House having to manage yet more war in the Middle East. That seems to have helped secure a deal in Lebanon, and now one in Gaza.

During the first phase of the truce, meant to last six weeks, Hamas will free 33 of the 98 Israeli hostages still in Gaza, in exchange for hundreds of Palestinian prisoners. Further talks will be held to finalise the next stage of Israel's withdrawal and the release of the remaining hostages.

It is too soon to say the war is over. Each stage is fraught with risk. It is unclear how many hostages are still alive (Israeli intelligence believes around half of them). Nor is it certain that Hamas can deliver them all, since some were captured by other Palestinian groups. Israel, which currently occupies about a third of Gaza's territory, is demanding security guarantees in future phases, which Hamas will be loth to accept. And Israel's government still insists it is fighting for "total victory", refusing to accept officially that the war could soon end.

Meanwhile Hamas is divided between its leaders outside Gaza, who have proved more flexible in the talks, and its surviving commanders in the enclave, led by Muhammad Sinwar, a younger brother of Yahya, the mastermind of the October 7th attack who was killed by Israel last October. The younger Mr Sinwar now controls the fate of the Israeli hostages. He is eager to prove to Palestinians and the rest of Hamas that he can drive a tougher bargain in return for freeing the captives. He insisted on being the last to give his assent to the ceasefire and may yet scupper it.

In Israel, too, Binyamin Netanyahu, the prime minister, still has to bring the accord to his cabinet, where his more radical ministers remain opposed to ending the war. He will almost certainly win that vote, but his government may collapse as a result. Still, now that he has promised Mr Trump a deal, it will be difficult for him to wriggle out of it, as he has done so often before.

Mr Trump's approach is yielding results in part because his team has little truck with the diplomatic niceties of the outgoing bunch. When Mr Trump's new envoy to the Middle East, Steve Witkoff, a New York real-estate mogul, arrived in Israel for talks on January 11th, he brusquely informed the Israelis he would not wait for the Sabbath to end to meet Mr Netanyahu.

But it is not just manners. Despite his ▸▸

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five decades of support for the Jewish state, Mr Biden is less popular in Israel than Mr Trump. Mr Netanyahu could at least tell his supporters that by refusing Mr Biden's demands he was standing up for Israel's interests. His argument is less convincing when the Israeli right sees Mr Trump as friendlier than his predecessor.

If the ceasefire holds, what next? For over a year Mr Biden and his representatives have dangled the possibility of a grand bargain, which would include an official alliance between Israel and the Saudis, as an incentive for ending the war in Gaza and relaunching a diplomatic process that would lead eventually to a Palestinian state. Mr Netanyahu demurred. The deal with Hamas is a sign that he may finally be shifting in that direction, and not only because Mr Trump is more insistent.

In the past year Israel has gone to war with Hizbullah, the Iranian-backed Shia movement in Lebanon, destroying much of its military capabilities and eliminating its senior leadership. It has done the same to Hamas in Gaza. Mr Netanyahu claims to have "changed the face of the Middle East". He has taken credit for the fall of the regime in Syria. Now he may be ready to secure what he believes would be his legacy as Israel's long-serving leader: a deal with the Saudis which he hopes would weaken Iran and curb its regional ambitions.

To do so would probably mean losing his majority in the Knesset, Israel's parliament. His far-right allies have threatened to abandon him if Israel ends the war in Gaza. Itamar Ben-Gvir, the national security minister, called the deal with Hamas "terrible" and said it "squanders the achievements of the war so far in Gaza, which cost much blood of our fighters".

Mr Netanyahu is trying to keep his radical partners on side by promising them that the war is not yet over. But those close to the prime minister acknowledge that unless Hamas throws a spanner in the works, he is now prepared to go the full course, even if it means losing his majority. Some opposition parties have committed to supporting the government to ensure the Israeli hostages are released, and once the deal is done, he believes he will be in a better position to face an early election.

Israel's successes, against Hizbullah in particular, have revived Mr Netanyahu's flagging popularity, at least somewhat. And a clear majority of Israelis now support a deal to end the war. In talks with the far right the prime minister has emphasised that the second stage of the deal leading to a full Israeli withdrawal and permanent ceasefire is far from inevitable. This is true, but Mr Netanyahu knows that a return to full warfare in Gaza would mean incurring the wrath of Mr Trump, a president who, unlike the outgoing one, the prime minister fears crossing. ■

The Arabs, Iran and Israel

The Trump effect

DUBAI

Will Donald Trump seek a new grand bargain in the Middle East?

EVEN BEFORE the ceasefire in Gaza Donald Trump had begun to reshape the Middle East. He was influential in pushing Israel to a truce with Lebanon in November. The fragile deal struck between Israel and Hamas on January 15th further reduces the intensity of the fighting in the region and resets Israel's domestic politics. It will also reinforce the president-elect's power over the Arab states that helped broker the deal, and over Binyamin Netanyahu, the Israeli prime minister.

He will need all the leverage he can get. As Mr Trump enters the White House, he and his advisers face huge decisions about what policies to pursue in a region that has been transformed since his first term.

One dilemma is how much effort Mr Trump should expend on the region. In his first term he pushed the Abraham accords, which normalised relations between Israel and several Arab states, and drew up a peace plan for Israel and the Palestinians (which was quickly shelved). His second stint as president brings knottier questions, like who should govern the ruins of post-war Gaza. The other dilemma is choosing between competing visions of the region's future: whether to enable Israel's hard right, or constrain it in pursuit of a grand bargain with Saudi Arabia.

Such a bargain would potentially have a knock-on benefit, of creating a stronger grouping of Middle East countries opposed to Iran, making it easier for America and its allies to contain the Islamic Republic or weaken it further and force it to the bargaining table. Mike Waltz, the incoming national security adviser, calls it a "huge priority". Mr Trump sees it as his ticket to a Nobel peace prize.

The agenda of right-wing Israelis remains ambitious. They dream of rebuilding settlements in Gaza and of annexing the occupied West Bank, and are bullish about Israel's recent incursions into Lebanon and Syria. One of the most extreme individuals in Mr Netanyahu's coalition is Bezalel Smotrich, the hard-right finance minister. He has already spent the past two years trying to bring about a de facto annexation of the West Bank, pushing through bureaucratic changes that make it easier to expand Jewish settlements there. He has also worked to bankrupt the Palestinian Authority (PA), which governs parts of the territory, in part by freezing tax revenues collected on its behalf.

When the United Arab Emirates (UAE) normalised relations with Israel in 2020, under the Abraham accords, it extracted a concession from Mr Netanyahu, who abandoned a plan to annex parts of the West Bank. Emirati officials could claim they acted to support the Palestinians, staving off a plan that would have killed the hope for an independent Palestine.

But Mr Netanyahu had not sworn off annexation for ever. "The word 'suspend' was chosen carefully by all parties," said David Friedman, then America's ambassador to Israel. "It's off the table now, but it's not off the table permanently." In private, American and Arab diplomats said Israel had promised not to pursue annexation until the end of 2024.

The project of an expansive Israel also has sympathisers within Mr Trump's swirling group of advisers, among them Mike Huckabee, tipped to be the next ambassador to Israel, an evangelical Christian who believes there is "no such thing as a settlement". Yet for all that, the Gaza ceasefire points in a different direction. Many of Mr Trump's close advisers—including his son-in-law, Jared Kushner, and his Middle East envoy, Steve Witkoff—have ambitious plans for regional diplomacy. Allowing Israel to annex the West Bank would scuttle those and lay the groundwork for renewed conflict with the Palestinians.

A major consideration is Saudi Arabia. Muhammad bin Salman, the Saudi crown prince and de facto ruler, is eager for a deal that normalises relations with Israel. He sees it as the gateway to better relations with America, which has offered a formal defence treaty, nuclear co-operation and other sweeteners. The plight of the Palestinians does not move him as it does older Saudi royals. Before the war Prince Mu- ▸▸



What is coming down the road?

hammad was willing to make a deal that offered them few benefits: he wanted Israel merely to make a gesture towards ending its occupation. But the past year has forced him to take a tougher stance.

In a televised speech in September, Prince Muhammad said the kingdom would not normalise relations with Israel until a Palestinian state was established. Well-connected Saudis expect the crown prince will eventually soften his position. But for now the bar seems high.

Some officials in Washington and Jerusalem wonder if they might use the threat of annexation as a lure. The Saudis would be presented with a choice: normalise relations with Israel, or Mr Netanyahu will let his coalition partners move ahead with their plans. Perhaps such an ultimatum, the thinking goes, would give Prince Muhammad an excuse to do the deal.

But the crown prince cannot act as freely as his Emirati counterpart. He has plenty of enemies in the kingdom: royals, clerics and spies whom he crossed on his rise to power. He also has 19m citizens to worry about, compared with just 1m in the UAE. Some are already grumbling about an economic programme that has made them feel poorer. Many believe Israel is committing genocide in Gaza. Prince Muhammad is said to have told American interlocutors he fears going the way of Anwar Sadat, the Egyptian leader assassinated after he made peace with Israel.

A deal establishing diplomatic relations between Israel and Saudi Arabia will have to go far beyond ruling out annexation. The Saudis will want a credible Israeli commitment to Palestinian statehood. That, in turn, requires a reset of Israeli politics, with Mr Netanyahu facing down the hard-right parties that he has come to rely on in order to build a viable coalition.

The Gaza ceasefire showed a new dynamic in play, with Mr Trump putting pressure on Mr Netanyahu, who then overruled the extremists in his cabinet. But Mr Netanyahu has yet to fully cross the rubicon: he continues to maintain that the war has not ended and that Israel seeks a total victory over Hamas. Far-right lawmakers have threatened to leave the coalition over the ceasefire—although that might be an empty threat, with polls showing they would fare poorly in early elections.

What if Mr Netanyahu calls their bluff? He, or a future Israeli leader, could pursue a grand bargain backed by Mr Trump. But a huge outstanding question would still remain: the status of Gaza. Hamas has lost its top leadership and thousands of fighters during the war, but it has had no trouble finding more amid the strip's teeming misery. "We assess that Hamas has recruited almost as many new militants as it has lost," Antony Blinken, America's secretary of state, said in a speech on January 14th.

The group's past wars with Israel followed a familiar pattern. Gaza endured days or weeks of bombardment. Once a ceasefire took hold, donor countries stepped in to fix the damage. Hamas retained its grip on power. It hopes to do the same this time. If it does, though, it is unlikely Gaza will be rebuilt soon.

The UN estimates that there are now 40m tonnes of debris in Gaza, enough to fill New York's Central Park to a depth of eight metres. Hundreds of thousands of homes have been destroyed; experts think it will take until at least 2040 to rebuild them. With the economy in ruins, almost the entire population will depend on foreign aid. Reconstruction will cost tens of billions of dollars—but few Western or Arab donors will be willing to work with a Hamas-led government.

Saudi officials say they are keen to help the Palestinians, but they want Hamas out of power. So does the UAE, which has a warm relationship with Israel and loathes Islamist groups. Qatar is friendly with Hamas, but it worries about the diplomatic consequences of funding the group, especially with Mr Trump returning to office.

Hamas will not find it easy to wield power in post-war Gaza—but there are also no easy alternatives to its rule. Mr Biden had been keen for the PA to take control of the territory. Mr Netanyahu refused even to discuss the idea, let alone pursue it; he hoped to dump the job on Arab states. Mr Trump's views are a mystery. If he does not pursue a viable plan for governing the strip, the ceasefire will remain fragile: reconstruction is meant to be part of the deal. Israel will remain isolated. Ending the war will not buy it much goodwill if Gaza still resembles an enormous refugee camp.

Much has changed in the Middle East. That does not mean anything is possible, though. A Saudi-Israeli deal is a realistic goal in the next four years, but it may not be possible to strong-arm the Saudis.

Nor will Mr Trump negotiate that deal in isolation. He has also promised another round of "maximum pressure" aimed at forcing Iran into a diplomatic agreement that restrains its nuclear programme and, perhaps, its support for regional militias as well. The events of the past year have left those militias deeply weakened. Hizbullah, the Iranian-backed Shia group in Lebanon, is no longer in a position to menace Israel. The Assad regime in Syria has collapsed, yielding to an interim government that seeks accommodation with Israel.

Empowering Israel's far right would jeopardise these gains: the Palestinian cause can still mobilise violence and unrest across the region. On the other hand, a durable peace in Gaza and a fair settlement for the Palestinians would get Mr Trump the deal he covets—and probably the peace prize, too. ■

Syria

A new leader under pressure

DAMASCUS

Frustrated jihadists are giving Ahmed al-Sharaa a hard time

THE NEW commander of the old city of Damascus was miffed. Syria's new de facto leader, Ahmed al-Sharaa, had just reversed his order to take over a grand old Ottoman palace. The arthouse within it had been used for "improper behaviour", the commander insisted. Its resident female artists would sinfully come and go at all hours of the night, so he had posted two armed jihadists to make them remove their books, sketches and sound system by New Year's Eve—and then get out.

Had the intervention been an exception, the commander might have stomached it. But since he and his fellow jihadists advanced from Idlib, their northern enclave, and toppled the Assads on December 8th, such rulings by Mr Sharaa have come thick and fast. He ordered the commander to leave crosses on top of churches, to protect the Christmas decorations of Christians and to respect the shrines of Shia Muslims (or "rejectionists", as the Sunni jihadists call them). Mr Sharaa even told them to leave alone the bars where tipsy men and women were dancing together to ring in the new year. In Idlib those committing such depravity would have been killed, converted or expelled.

Frustration with Mr Sharaa is mounting among the Sunni fighters who toppled the Assad regime. Zealots among them, like the commander, worry he is ditching the ji- ▸▸



Badgered and bearded

hadist faith he championed for 20 years. His supporters in the countryside, which was his heartland, fear they will be forgotten. Veterans who risked their lives, homes and jobs to join the rebellion worry that they have empowered another despot. The country has many discontents. But "the Sunni veterans could be the biggest faultline in the new Syria," says Malik al-Abdeh, a Syrian analyst in Damascus with ties to the new order.

Religion is perhaps Mr Sharaa's biggest challenge. In the past decade a new generation who fled to the hills have been brought up as Salafists, puritans who seek to replicate the mores of the Prophet Muhammad. Today's jihadists are taking over mosques and spreading their bile from the pulpit. At least one moderate Sunni cleric has been killed since Mr Assad's fall. At a recent Friday service in a mosque in an upmarket part of Damascus, the ambassadors of Saudi Arabia and the United Arab Emirates (UAE) were shocked to hear a preacher castigate their rulers and warn that their fate would be the same as the Assads'. Women are worried, too. Notices have appeared on lampposts ordering them to wear the veil. The new justice minister has talked of imposing Islamic law. Female judges fear losing their jobs.

Moderate Syrians fear a new autocracy may be emerging. "He who liberates, decides," say Mr Sharaa's men. But many who suffered under Mr Assad are loth to see Mr Sharaa hijack their cause.

Tugged to and fro

Mr Sharaa found controlling his men hard enough in Idlib. For months before the breakout from that enclave, they marched through the streets chanting against Mr Sharaa's despotism, calling for him to step down. His group, Hayat Tahrir al-Sham (HTS), of which the aggrieved commander in Damascus is a member, has a reputation for discipline. It is thought to have between 13,000 and 35,000 men. But it is thinly spread across a country that Mr Assad failed to control with a much bigger army.

Mr Sharaa relies on the same hotchpotch of rebel militias who may yet challenge his hold. Some 50,000 militiamen control the borderlands east of Idlib. Their commanders are likely to do what Turkey, their paymaster and Mr Sharaa's chief ally, tells them. They have tentatively agreed to hand over their heavy weapons in return for posts in Mr Sharaa's new army. But some prefer the profits they make from smuggling to slimmer salaries under the fragile and cash-strapped new regime.

The southern Sunni factions who beat Mr Sharaa's northern alliance in the race to the capital are another force unto themselves. Their commander, Ahmed al-Awdeh, is still paying salaries to his 15,000 fighters, but says he is open to joining Mr Sharaa's army, as long as his men keep their weapons and retain control of their turf. Mr Sharaa has also turned for help to a bunch of foreign fighters who have come down from the north. Hostile pockets of Islamic State, even more extreme jihadists, pepper Syria's east.

The jihadists' frustrations are finding an outlet in attacks on the Alawite sect that propped up the Assads. In Homs, a largely Sunni city where Mr Assad resettled Alawites en masse, Sunnis from the north are forcibly reclaiming their homes. Sunni preachers are reported to have marched through nearby villages demanding that *kuffar*, or unbelievers, convert to Islam. Unverified footage shows them shooting captured army officers, leaving them handcuffed by the roadside. "When we hand over our weapons, they kill us," says an Alawite who had been trying to make a deal.

Still, Mr Sharaa is a master of Sunni politics. In Idlib he both wooed and eliminated his foes. To keep rivals close, he has given a handful of foreign jihadists senior posts and appointed a justice minister who, while serving as a judge in Idlib, had a prostitute shot dead. At the same time, he has named his chief enforcer in Idlib, Anas Khattab, as his intelligence chief.

Idlib is no blueprint for a modern state, so Syrians hope that tolerance may prevail. Bars remain open. Waitresses in the capital's smartest hotel, where Mr Sharaa hosts foreign dignitaries, have yet to wear veils, though alcohol is no longer available. An art show at the national museum is set to reopen, nudes included. Marwan Tayyar, the director of the disputed arthouse, is still confident the city's old ways will seduce its new arrivals. "You can conquer Damascus, but you can't beat it." ■

Alcohol in west Africa

Spirits of resistance

AHAFO REGION

How women entrepreneurs are turning local tipples into luxury products



WEST AFRICA has long been a source of booze. In Yoruba mythology Obatala, a deity sent to create humans, stumbled on palm wine and fell into a drunken slumber before completing the task. Some of the world's first rums were made by Africans enslaved in the Caribbean, who may have brought knowledge of local tipples with them. Yet today there are few African names in the global market for high-end spirits. Some entrepreneurs are trying to change that.

Amma Mensah, the British-Ghanaian owner of Reign Rums, and Lola Pedro, of Pedro's ogogoro in Nigeria, see the business as an act of reclamation. Ms Mensah's distillery sits on a former colonial plantation that she says was owned by white Europeans until a decade ago. Her bottles are decorated with war horns, crowns and golden stools, insignia of power among Ghana's Ashanti kings. Ms Pedro seeks to popularise ogogoro, a smoky, spicy spirit made from fermented palm sap, partly because it was once a symbol of anti-colonial protest (in the early 20th century British colonisers banned the drink, because it was seen as a threat to pricier imports).

Both women are targeting the luxury market. Unlike informally produced ogogoro, which is cheap and has not quite shed its illicit reputation, a bottle of Pedro's costs at least £60 ($74). Ms Mensah's rums, aged in repurposed barrels previously used to make cashew-apple brandy, retail at between £48 and £96 a bottle. She serves fancy shops and bars in Accra, Ghana's capital, as well as in London, and has plans to expand to America. Besides Nigeria, Pedro's is sold in Ghana and Britain, with Kenya, South Africa and France next on the list.

For now, both distilleries produce only small batches, partly to emphasise that they are selling something special. Scaling up and competing with established global brands will be challenging. But if they manage, maybe one day floral rum and smoky ogogoro will be as representative of west Africa as wine is of France and tequila of Mexico.



Sudan's civil war

Heading for a break-up

KAUDA

A visit to the Nuba mountains provides a glimpse into the country's future

TO GET TO Caen refugee camp in the Nuba mountains in Sudan, travel first to Juba, the capital of neighbouring South Sudan. Then catch a UN plane to fly 900km north. From there it is a day's drive to Kauda, the de facto capital of a mountain statelet in South Kordofan state in southern Sudan. Once registered with the rebel group that runs it, drive four hours to Caen, passing through mud-brick villages along rocky crags, with no market or petrol station in sight.

Largely cut off from the outside world since a group of Nuba rebels launched the latest phase of their struggle against Sudan's Arab-dominated Islamist government in 2011, the mountains have become something of a sanctuary from the country's bloody civil war that began in 2023 (see map). As the war threatens to split Sudan into rival mini-states, it not only offers an insight into the humanitarian catastrophe unfolding in the country, but also a glimpse of its possible future.

The region has been under siege by the Sudanese Armed Forces (SAF), the national army, for the best part of two decades. Run by a rebel group known as the Sudan People's Liberation Movement–North (SPLM-N), the region has no mobile-phone network, no paved roads and no electricity infrastructure. But as it is in effect being governed separately from the rest of Sudan, it is one of the few parts of the country largely untouched by fighting. Roughly 1m of the 11m people displaced by the war have fled there.

Unlike countless other rebel groups and tribal militias that have entered the fray, Nuba's rebels have not picked a side in the conflict that pits the SAF against the Rapid Support Forces (RSF), a paramilitary group led by Muhammad Hamdan Dagalo (known as Hemedti) from the western region of Darfur, whose campaign of ethnic cleansing there was classified as genocide by America on January 7th. "There is no difference between them," says Nasardin, a teacher in Kauda. "We categorise both the RSF and the SAF as enemies."



Though the region is under pressure from both groups, fighting remains limited to periodic skirmishes. But the influx of refugees, combined with bad harvests, locust swarms and the SAF's blockade of humanitarian supplies, has spelled disaster. In Caen camp, nearly 4,000 refugees from other parts of Sudan were living in wooden shacks without even plastic sheets for roofs when your correspondent visited in December. There was neither food nor medicine. Refugees said they were eating leaves and roots to survive.

NGOs quietly supply the Nuba mountains out of South Sudan, taking care not to anger the SAF. But they bring only a fraction of what is needed. "I don't understand why more don't come," complains Dawud Eshaya al-Full, the deputy governor. Towards the end of 2024 the UN declared famine in the western Nuba mountains, the first place outside North Darfur to be officially given the label.

The situation in the region may be a harbinger of the future for the rest of Sudan. Since mid-2024 territory from the deserts of Darfur in the west to the farmlands of Sennar in the south-east has been occupied by the RSF. As in 2011, when the SPLM-N resumed its campaign against the army in Nuba, the SAF's response has been to combine air strikes with a punishing siege. Aid to RSF-held areas is tightly restricted and payments for civil servants have been halted. Mobile-banking, internet and other services have been shut off.

As a result, the partition of Africa's third-largest country is becoming entrenched. There are now "at least four de facto areas of administration" in Sudan, says Jonas Horner of the European Council on Foreign Relations. They include the Nuba mountains as well as another rebel-run enclave in central Darfur.

The RSF has set up its own bureaucracy, complete with civilian governors and a system to register and tax international NGOs. In response to the SAF's attempts to choke the supply of money into areas it occupies, the RSF also plans to print its own currency. It may soon announce a government to rival the internationally recognised one led by Abdel Fattah al-Burhan, the general who leads the SAF. "Sudan's break-up is on the horizon," says Mr Horner.

If history is any guide, it may prove impossible to reassemble the pieces. Decades of war with the north led South Sudan to secede in 2011. In Nuba, many struggle to imagine living alongside their fellow Sudanese again. Nuba's rebel leaders insist that they are fighting for a united "new Sudan" where all citizens—Muslim or Christian, Arab or African—are equal. But the longer the war drags on, the harder that will be to accomplish. ■

Europe



German politics

Rightwards and upwards

BAUTZEN AND WEISSWASSER

The AfD is gaining support even as it radicalises

IT IS A bitingly cold evening in Bautzen, a handsome town nestled in the hills of the Oberlausitz, deep in the east German state of Saxony. But spirits are high at the election stand of the hard-right Alternative for Germany (AfD). "Our land first, because we love Germany!" proclaim banners in the party's trademark bright blue. "The mood inside the party is really good," beams Frank Peschel, who sits in Saxony's parliament. The AfD took 39% of the vote here at last year's European election, and your correspondent struggles to find any local not planning to vote for it at the national election on February 23rd. "The left calls us Nazis, but we just want a normal life," says Simon, a 20-year-old. He will deliver his first vote to the party next month.

There is a swagger to the AfD these days. Having fallen back in early 2024, the party has engineered a well-timed recovery. Its current polling, at around 20% and climbing, could double its representation in the Bundestag. Party spirits have been lifted by events in Austria, where an AfD-like party is set for power after a centrist attempt to block it fell apart. Elon Musk, a plutocrat close to Donald Trump, recently conducted a rambling interview with Alice Weidel, the AfD's co-chair. Party insiders cringed, but say his endorsement will spark the interest of younger voters and German business, many parts of which remain deeply AfD-sceptical. Once-bitter divisions inside the party have been muted in the service of election discipline—largely in favour of its more radical wing.

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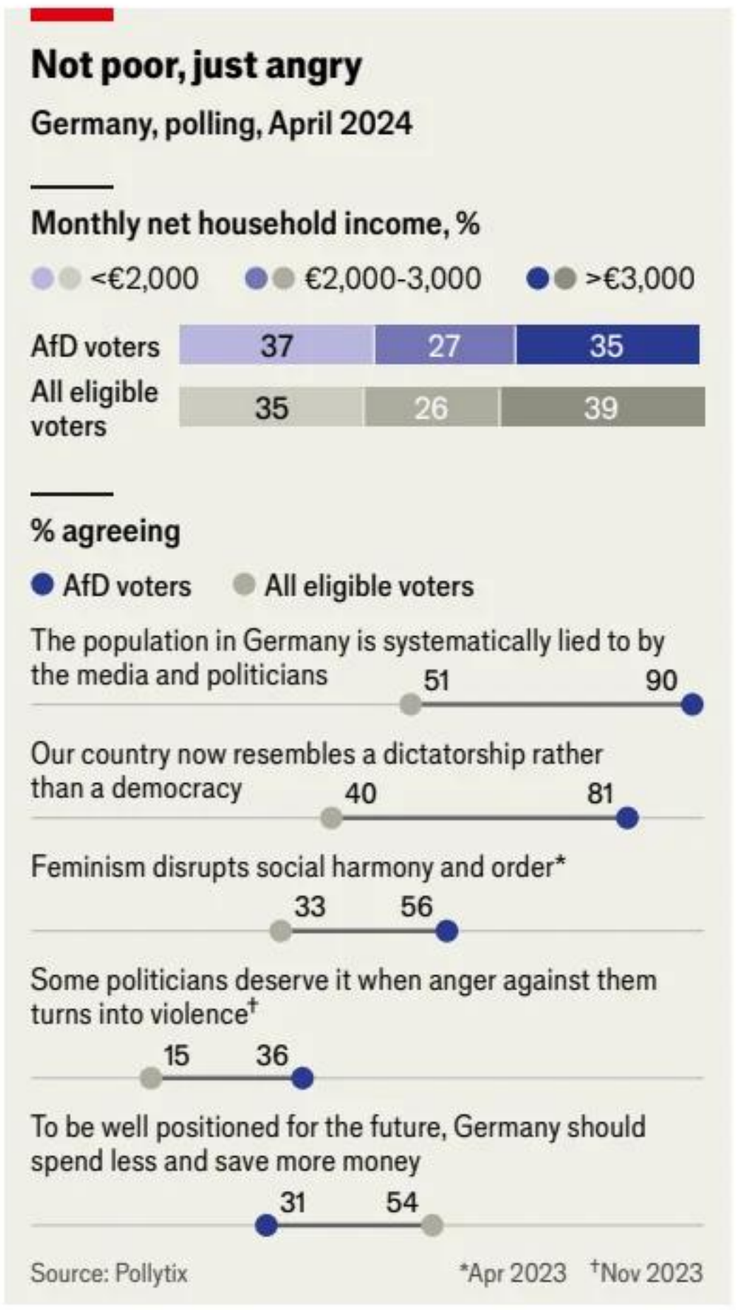
This points to a puzzle. Comparable hard-right outfits in Europe, like the National Rally in France or Giorgia Meloni's Brothers of Italy, have moderated to broaden their appeal. But the AfD has grown even as it radicalises. At its pre-election conference in Saxony last weekend Ms Weidel, an ex-banker once seen as a comparative moderate, thrilled delegates with a red-meat speech culminating in a call for the "remigration" of illegal migrants, a controversial term she lustily emphasised. The party anointed her its first-ever candidate for the chancellery: a signal of its confidence, if not an ambition that will be fulfilled any time soon. "*Alice für Deutschland!*" hollered the crowd, a pun on "*Alles für Deutschland*", a banned Nazi-era slogan. "There aren't really any moderates left in the party," says Anna-Sophie Heinze, a political scientist at the University of Trier.

The AfD's rebound has been powered by the government's failures on migration, energy prices and the economy, says Tino Chrupalla, who shares the leadership with Ms Weidel. Just 22% of Germans think the country is up to the challenges of the future. The AfD is honing its message for angry voters, muffling issues that excite passions inside the party but have little broader appeal, such as quitting the EU, while playing up concerns over immigration and energy. Yet speaking out of both sides of its mouth is essential to its success. Scan- ▸▸



dals help: in the latest, an AfD branch distributed election flyers in the form of fake plane tickets pledging to deport illegal immigrants, a stunt with roots in the Nazi era. The party says it simply wants adherence to the law. But the dog-whistle is audible. "Yes, our rhetoric has sharpened," says Mr Chrupalla. "But we just reflect political reality. People are fed up."

The AfD's electorate has grown more heterogeneous as its support has risen. In parts of the east it commands well over a third of the vote, yet it has far more voters in the (larger) west. The archetypal AfD voter is a middle-aged blue-collar worker in a small town, but the party is making inroads among youngsters. Its voters are not notably poor members of the "left behind". But they tend to see themselves as badly off. The AfD's big weakness is with female voters, and candidates: just one in nine in next month's election is a woman.

AfD voters tend to be loyal. Most do not see themselves as radical. Instead, many regard other parties, including the conservative Christian Democrats (CDU), as having gone soft. But they are disproportionately likely to hold extremist views, including tolerance towards political violence (see chart). The party is under surveillance by domestic spooks for "suspected right-wing extremism". More than 100 MPs have backed a proposal to ban it.

It is surely too late for that. But the AfD does remain locked out of power. Elsewhere in Europe, centre-right parties' firewalls against the hard right have tumbled. But Friedrich Merz, head of the CDU and Germany's probable next chancellor, says to work with the AfD would be to "sell the CDU's soul". In eastern states the CDU has formed ideologically outlandish coalitions to keep it out. Many Germans turned off by the party's fascist aura vote tactically for its opponents. The anti-AfD firewall may even have advanced the party's radicalisation by removing an incentive to moderate.

Few AfD insiders think its polling can get much higher this time around. Yet no one in the party thinks it can be blocked from power for ever. "If you make firewalls, you'll get burned behind them," says Mr Chrupalla about the CDU. And although Mr Merz has tacked right, he will probably have to govern with a leftist party in coalition. That, says Krzysztof Walczak, from the AfD's Hamburg branch, means he will be unable to deliver his promised (and AfD-adjacent) policies, such as rejecting asylum-seekers at Germany's borders. The party is campaigning hard on this message.

The firewall is most at risk in the east. Mr Chrupalla expects a new CDU-led minority government in Saxony to fall apart, presenting an opening. An election next year in Saxony-Anhalt, another AfD stronghold, looks appetising. Nationally the task is harder; Mr Merz knows the risks of even hinting at an opening to the AfD. But his aides fear that if they fail to get on top of Germany's problems, notably illegal immigration and economic stagnation, the AfD could win the next election in 2029. That would not necessarily open the door to power. But it would be a grim milestone. ■

France's government

Left turn

PARIS

François Bayrou gambles with President Macron's economic legacy

THERE ARE two ways to look at the new French government run by François Bayrou, the 73-year-old centrist prime minister who took office last month and laid out his plans to parliament on January 14th. One is that the minority government is constructively seeking compromise among the three rival blocs that make up the deadlocked National Assembly, with particular attention to the left. The other is that it is opening the way to unravelling President Emmanuel Macron's economic policies, including his flagship second-term reform, an increase in the pension age.

The centrepiece of Mr Bayrou's speech was a decision to reopen talks "without taboo" on the pension reform. Forced through parliament without a direct vote in 2023 after it prompted weeks of crippling strikes and political opposition, this raised the legal minimum retirement age from 62 to 64. He has now handed discussion about adjusting the rules governing pensions, which consume nearly a quarter of all government spending, to representatives of employers' federations and the unions. If within three months they cannot reach agreement at net zero cost, declared Mr Bayrou, he will keep the existing rules.

With this offer, Mr Bayrou is hoping to secure at least the tacit support of the Socialist Party, and to peel its deputies away from the radical wing of parliament's four-party left-wing alliance. The prime minister runs a minority government, composed of ministers ranging from ex-Socialists to conservatives, which is not based on any formal coalition pact. Faced with the same problem, his conservative predecessor, Michel Barnier, was toppled by a no-confidence vote in December after just three months in office. He was brought down by an unholy alliance of the left and Marine Le Pen's hard-right National Rally (RN).

This time, Mr Bayrou is hoping he can use pension talks to buy time and get a revamped 2025 budget drafted and through parliament, without courting the RN. In a nod to the left, his fiscal plans are already less ambitious than Mr Barnier's, which were designed to curb the budget deficit from 6.1% of GDP in 2024 to 5% this year. Despite devoting a big chunk of his speech to France's dismal history of excessive public debt, Mr Bayrou promises a more modest deficit reduction in 2025 to 5.4%—far above the European Union's 3% limit. This would mean some €50bn ($52bn) of budget savings and tax increases, probably on the rich and on big firms. Eric Lombard, the new technocratic finance minister, is to reveal details in the coming weeks. For now the government has rolled over the 2024 budget, without inflation adjustments.

In the short run Mr Bayrou is expected to survive his first no-confidence motion, tabled by three of the left-wing alliance's parties and scheduled for January 16th. The fourth, the Socialists, are divided; some think Mr Bayrou has not compromised enough. The RN may not want to bring down another government yet. But such caution may not apply to the budget.

France remains under surveillance. On January 13th the spread of French ten-year sovereign bonds over Germany's ten-year benchmark bond widened to 0.88 percentage points, the same level it reached last month amid worries over the previous budget. The new pension talks may fail. But there is a real risk that the price of passing a new budget could be the undermining of the business-friendly policies that have hitherto defined Mr Macron's presidency. "People in government aren't worried so much about his legacy," says one centrist figure, "as about their own survival." ■



Italian TV

Mussolini's message

ROME

A new series presents *Il Duce* as a figure with all too much relevance today

IN 1937, WHEN Benito Mussolini, then Italy's fascist leader, opened Cinecittà, a sprawling film complex in Rome, his government adopted a variant of a slogan first ascribed to Lenin: "Cinematography is the most powerful weapon." On January 10th that weapon was turned with relish against any who might be tempted to follow in the dictator's footsteps. Sky Italia, a satellite-TV platform, began televising "*M—Il Figlio del Secolo*" ("M—Son of the Century"), an eight-part dramatisation of Mussolini's rise to power. The work of a British director, Joe Wright, it is based on a bestselling novel by Antonio Scurati. The series has dazzled critics. Angela Calvini wrote in *Avvenire*, a Catholic daily, that "its incisive, unsettling cinematographic style leaves [one] truly speechless."

The violence it depicts will shock many Italians who have been lulled into believing that Mussolini's rule was pretty harmless. "Mussolini never killed anyone," declared Italy's late prime minister, Silvio Berlusconi. "Mussolini used to send people on holiday in internal exile."

"M" is not just a bloodstained period drama, though. It is a cautionary tale of the seductive power of authoritarianism. It opens with Mussolini, played by Luca Marinelli, telling viewers: "There is always a time when lost peoples lean towards simple ideas [and] the wise brutality of strong men." That is a controversial message in a country whose voters have handed power to a party, the Brothers of Italy (FdI), with roots in neo-fascism. Conservatives have bristled at the implied comparison.

Giorgia Meloni, the prime minister and leader of the FdI, does not seek a fascist dictatorship. Her policies have been solidly Atlanticist and no more radical than those of many other conservative governments. But with Donald Trump about to re-enter the White House, she may be tempted by a more radical approach. Ms Meloni is friendly with Elon Musk, a major backer of Mr Trump. On January 4th she made an unannounced visit to Mr Trump's Mar-a-Lago residence. The incoming president called her "a fantastic woman".

With hard-right parties in government or sharing power in half a dozen European countries, the relevance of "M" goes beyond Italy. Its depiction of the storming by Mussolini's militia of the Socialist daily *Avanti!* recalls the assault on America's Capitol four years ago. At a dinner, the future dictator tells guests: "We are an anti-party. We practise anti-politics." And inside parliament, he offers the most enduring message of all. "Democracy is lovely," he tells viewers. "It gives you a load of freedoms. Even the freedom to destroy it."

Ukraine's army

Brigade betrayed

KYIV

A French-trained model unit is botched by superiors

THE FORMATION of Ukraine's 155th army brigade was announced at the D-Day anniversary ceremony in Normandy last June, complete with photo-ops with the French president, Emmanuel Macron. Paid for, trained and equipped by France, it was a showcase of NATO support, the first of what Volodymyr Zelensky, Ukraine's president, hoped would be 14 new brigades sponsored by Western allies. Its deployment six months later was a disaster.

Starting in November, articles by Yuriy Butusov, founder of the news website Censor.net, revealed gross mismanagement: 1,700 men, about a third of the brigade, had gone AWOL (some back to their old units), and 50 deserted in France. France had delivered the Caesar howitzers, armoured vehicles and anti-tank missiles it promised, but Ukraine failed to provide crucial drones and electronic-warfare capacity. On its return the brigade was splintered: units and kit were hived off to other brigades, trained specialists were reassigned to infantry platoons, and desertions spiked as inexperienced units were sent to forward positions and took heavy losses.

Mr Butusov notes that all seven new brigades Ukraine raised in 2024 suffered similar problems when first deployed. But the 155th's desertions have spotlighted Ukraine's struggling mobilisation process, its unresponsive high command and the increasing dismay of its allies, who underwrite the war effort but have no say in strategy. The 155th is said to have cost around €900m ($930m). "For better or worse, Ukraine makes all the decisions," says Jeffrey Edmonds, a former Pentagon official now at the Centre for a New American Security, a think-tank in Washington.

"Nick" (his military call sign), a battalion commander in the 155th, said he trained three tranches of recruits last year, only to see them sent to other brigades. When the 155th went to France it instead brought raw recruits. Only a dozen of his unit's soldiers had combat experience before going to France. The brigade's return was jumbled; some officers stayed for additional training. Nick and his soldiers were immediately sent to areas of heavy fighting. At one point he personally led ten men to retake a position, to demonstrate tactics to soldiers with no experience.

Mr Zelensky is now said to be overseeing an investigation into "abuses of power", to soothe French irritation. General Myk-



Stinging criticism

hailo Drapatyi, appointed commander of Ukraine's ground forces in November, stressed that the French side "fully fulfilled its obligations to Ukraine". He promised to bolster the brigade's officer corps and encouraged soldiers to contact him directly.

But for Mr Butusov the problems show failures in Ukraine's high command. A new mobilisation law enacted last spring has not stopped people being summarily drafted on the street; desertions rose last year. Some generals close their ears to bad news: an internal report rating the brigade "unsatisfactory" was revised to "satisfactory" before it was deployed. Others blame subordinates. After the scandal broke, the brigade's well-regarded chief was fired.

Many argue the army should be reinforcing existing brigades rather than forming new ones. Commanders are loth to part with their best soldiers, so new brigades struggle to attract veterans. America has pledged to create two new brigades and the Germans one, but with both governments in transition timetables have grown vague. After meeting Mr Macron in December, Mr Zelensky announced France would create a second brigade; France says this is still "under discussion". The scandal has since reportedly led Mr Zelensky to order a temporary halt to new brigades.

Nick talked to *The Economist* at midnight via a video call from his bunker three kilometres from the front line. A screen behind him showed night-vision surveillance of the battlefield and the 155th's banner, with its scorpion emblem. The brigade is training on the job. There are still desertions, but over the past two weeks Nick has sensed the start of a "sense of brotherhood". The day, he sighed, had been much like the last 40. He has not seen his wife for five months. "We are holding on." ■

Spanish housing

Scarce as houses

The government is struggling with Spain's biggest social problem

ALICIA BOCUÑANO, a taxi driver, was living in a van in an encampment of hundreds of people on the outskirts of Ibiza town last year when the police came to force them out after neighbours complained. The eviction was chaotic: families scrambled to collect belongings, and children cried as their parents pleaded with officers. Ms Bocuñano had been homeless since her landlord doubled her rent. Now she is waiting for the next eviction.

The lack of housing on islands like Ibiza and other Spanish beach zones is partly due to tourism. Landlords have been turning homes for locals into tourist flats. But in Madrid, too, rents rose about 60% in real terms in the past decade. When rental contracts expire, professional couples are forced out to distant suburbs. Much of Europe faces housing shortages, but Spain's is especially acute. It is not just rents: 75% of Spaniards own property, but for young people the prospect of a first-time buy is receding into middle age.

Only 15 years ago the country had a massive housing surplus. The bursting of that construction bubble in 2008 contributed to the great recession. Since then, supply has plunged: Spain has built just two houses per 1,000 people, while the average in Western countries is between three and four, notes Ignacio de la Torre of Arcano, an investment bank. A labyrinthine permit process, a shortage of skilled workers, the rising cost of materials and scarce finance are all to blame.

At the same time, Pedro Sánchez's left-wing government has favoured immigration. The result is that around 250,000 new households are formed each year but fewer than 90,000 new homes are built, according to the government. The Bank of Spain reckons there is a shortage of 500,000 homes. Worse, housing demand is concentrated in cities while much of rural Spain is depopulating. And public housing is only 2.5% of the total stock, compared with an average of 9% in the European Union.

Big demonstrations last year forced politicians to take notice. Housing is at the top of public concerns, according to a survey in December by the Centre for Sociological Research, the state pollster. On January 13th Mr Sánchez responded by proposing a dozen measures. A previously-announced state housing company will buy several thousand empty homes left over from the property crash. The government has begun to give subsidies to young renters and will offer tax breaks to landlords who let at below-market rents. He wants to levy VAT at the top rate on tourist apartments and impose a 100% tax on property purchases by non-residents who are not from the EU. That is a swipe at Britons, but also rich Latin Americans who are buying *pieds-à-terre* in Madrid. Whether the minority government can push the tax changes through parliament is unclear.

The impact will be limited. Sales to non-resident foreigners (including from the EU) totalled only 27,000 in 2023, Mr Sánchez said. His plans focus on regulating demand because control over land use and housebuilding lies with regional governments and mayors. The centre-right opposition People's Party (PP), which runs 11 of Spain's 17 regions, had unveiled its own proposals the previous day. These would expand supply by cutting red tape and offering tax breaks for housebuilding.

"The West faces a decisive challenge if it wants to avoid becoming a society divided into two classes, of rich landlords and poor tenants," Mr Sánchez proclaimed. His rhetoric will doubtless strike a chord among many Spaniards. But since taking office in 2018 he has done little to tackle the housing problem. A law of 2023 allowed regional governments to impose rent controls where housing is scarce. In Catalonia, the only region to apply them fully, the main effect was to shrink the number of new rental contracts by almost a fifth as landlords pulled out.

The housing problem requires a national plan, which can only come from an agreement between Mr Sánchez's Socialists and the PP. But that is not the prime minister's way. Public anger over housing is likely to grow before it subsides. ■



Housing non-solutions

CHARLEMAGNE

Lost at sea

The good ship Europe is navigating rough waters. Now for the Trumpnado



THE CREW of a boat whose rudder has fallen off can do little but pray for calm weather and a speedy way to safe harbour. Democracies caught in political gales similarly hope for more placid times as they work out how to chart a new course. Alas, Europe finds itself in the midst of a perfect storm. Not only is its economy facing stiff headwinds; voters are routinely tossing their leaders overboard, and war on the continent has rocked the boat for three years now. Amid these heavy waters, an even more concerning prospect is focusing minds. A superstorm of uncertain severity—call it the Trumpnado—seems to be headed straight in this rickety craft's direction. All hands are on deck to try to limit the damage. But the prospects for plain sailing look as distant as ever for the good ship Europe.

Navigators worry most about sailing uncharted waters. But Europe is actually familiar with the treacherous seas that await it come January 20th, when Donald Trump will be sworn in as America's president. A nativist, America-first president will again fray the links that bind the two main parts of the West, and the international order the Atlantic alliance struggles to uphold. In 2017 Europe somehow managed to stay on course. But Mr Trump's first term came under favourable conditions for Europe: its undisputed captain, Angela Merkel of Germany, had been at the helm for over a decade and its economy had entered calmer seas after the choppy years of the euro-zone crisis. Even so, it struggled. In 2019 Emmanuel Macron, France's president (and, like Charlemagne, a fan of metaphors) told *The Economist* that Europe was teetering on the edge of a precipice, and that NATO was "brain-dead".

Europe is in far worse shape as it awaits its second dose of Trumpism. Politics are at their most chaotic in years. Germany is headed to the polls on February 23rd, and will probably dump Chancellor Olaf Scholz—but a new government is unlikely to be in office before late April. France is facing its deepest political crisis in recent memory. A new government led by François Bayrou may prove longer-lasting than the previous one, which sank after a mere three months, but seems hardly seaworthy. Poland, another one of the European Union "bigs", is due to elect a president in May. Should the candidate favoured by Donald Tusk, the liberal prime minister, fail to win, several years of paralysis could ensue. Belgian politicians are still haggling to form a government more than 200 days after elections were held.

What political strength exists is hardly of the reassuring sort. A slew of hard-right politicians, including Herbert Kickl in Austria and Viktor Orban in Hungary, seem intent on capturing or scuttling the EU. They are being overtly supported by Mr Trump and his acolyte Elon Musk; space has been found for several nationalist European politicians to attend the inauguration in Washington. In recent years the most stable part of the continent's political apparatus has been its central institutions in Brussels. But Trumpians hate the supranational Eurocracy. Worse, its figurehead Ursula von der Leyen, the president of the European Commission, has spent the first half of January hobbled by pneumonia, including a discreet stint in hospital.

This is not a good time for Europe to take on foreign adversaries. Yet it now faces three global geopolitical powers at the same time. Russia is the most menacing, following up its big-gun salvo in Ukraine with cable-cutting in the Baltic. China and the EU have been edging towards a trade war; Europeans also resent China's support for Russia in Ukraine. Mr Trump now promises a trade war of his own, along with vague threats against NATO (unless its members spend vastly more on defence) and outlandish provocations towards Greenland. Tech titans who have the ear of the president want him to neuter European regulations on social media. The mood below Europe's decks is grim. A poll of 24 countries by the European Council on Foreign Relations, a think-tank, shows many places including India and Russia think Mr Trump's return is good news. Europeans in contrast are panicked.

The EU's leaders know they need to chart a new common course—but do not yet agree what that might be. For Mr Macron, what matters is the "strategic autonomy" of Europe, meaning its ability to get stuff done without American support, for example by ensuring the continent develops its own military kit. Others, notably in central Europe, think that is delusional: to them it is clear America will be, for the foreseeable future, indispensable to guaranteeing the continent's security. Buttering up the MAGA crowd by buying American jets and missiles is the surest way to show Mr Trump that Europe is a worthy ally.

Keeling over

Through the pelagic fog, are there signs of hope? Perhaps. Mr Trump's team has given up trying to end the war in Ukraine "within 24 hours", as he had repeatedly promised on the campaign trail. A rushed end would have favoured Russia, which currently has the upper hand militarily. Mr Trump still wants to impose a peace on both sides quickly, but is alluding to looser timelines—100 days, or even six months. Europeans are trying to persuade him that abandoning Ukraine would be a replay of America's hasty retreat from Afghanistan under his predecessor, Joe Biden: a failure that would highlight American impotence.

Mr Trump's arrival may yet lead to Europeans finally rowing in the same direction. On February 3rd the EU's 27 leaders will meet at an informal retreat outside Brussels to discuss defence. The bloc has belatedly agreed that far more needs to be spent on military preparedness. (Sir Keir Starmer, prime minister of a former EU member and former great maritime power, will attend too.) By then the Trumpnado may have struck, or remain just a threat. Either way the choice facing Europe is simple: sink or swim. ■

Britain



The economy

A shaky start

The government has spooked markets and riled businesses

WHEN POLITICIANS start talking about bond yields it is a sure sign that trouble is afoot. By that measure, the new year has been troublesome indeed for the Labour government. Yields on 30-year gilts (British government bonds) have spiked to a near-three-decade high. Sterling has tumbled. Businesses are grumbling, too, about chunky tax rises and a higher minimum wage due to bite in April—as well as the lack of a convincing plan for boosting growth. The last time firms were this downbeat, surveys say, was after Liz Truss's brief and disastrous premiership in 2022 (see chart 1 on next page).

Six months after the government entered office, politicians are debating how much it is to blame for this gloomy picture. Labour is hardly responsible for "global volatility in markets", said Rachel Reeves, the chancellor. Her Tory counterpart, Mel Stride, insisted it was "a crisis made in Downing Street". On January 15th softer-than-expected inflation figures soothed things a little. But eyeballs remain glued to Bloomberg terminals, or other, cheaper streams of market data.

On the narrow question of why gilts have been sold off so sharply, Ms Reeves has a point. A contrast with Ms Truss's 49-day tenure is that gilts have moved in tandem with sovereign bonds globally (see chart 2). Treasury yields shot up after Donald Trump's win in November as markets absorbed his inflation-inducing plans for tariffs, tax cuts and deportations.

But yields have risen furthest and fastest in Britain. Sterling has also been particularly wobbly, falling against most other currencies. That suggests that investors are fretting about Britain's ability to keep government debt under control. Given the country's recent record, such worries are hardly unreasonable. In that light, Ms Reeves's choice to deliver a big-borrowing budget in October looks increasingly reckless (see Bagehot).

However blame is divided, Ms Reeves is stuck with the consequences. Most immediate is the prospect of breaking her own fiscal rules, which constrain how much Britain can borrow. She loosened them substantially in the budget, but gilt moves since then have eaten all that space away, estimates Capital Economics, a consultancy. The Office for Budget Responsibility, the fiscal watchdog, will publish its own assessment, along with broader economic forecasts, on March 26th. Unless bond yields come down again, Ms Reeves may have to pencil in further tax rises or spending cuts for the final year of the parliament.

Businesses are also in a sour mood. One gripe is the main tax rise of the budget: an annual £25bn ($31bn, or 0.9% of GDP) increase to employers' national insurance, a payroll tax levied on firms. That, along with new labour-market regulations and a minimum wage that is now two-thirds of average earnings, will make it more expensive for firms to hire and keep workers. Some firms are already holding back. Giving workers sick pay and parental leave as ▸▸

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soon as they start a job will cost businesses £5bn a year, according to the government's own analysis.

In November more than 80 British retailers including Boots, Next and Tesco criticised the budget, warning that job losses and price rises would be "inevitable". Following the latest turmoil Rupert Soames, the chair of the CBI, Britain's biggest business lobby, told the government to "stop digging". That is a striking volteface, given that bosses cosied up to Labour before the election. Some of their disappointment may stem from having previously seen the party through rose-tinted spectacles. It was obvious, for example, that Labour would find ways to raise money for creaking public services.

More surprising has been the lack of a convincing narrative for boosting Britain's economic prospects. In her first speech as chancellor, Ms Reeves warned of "difficult choices" and "the worst set of circumstances since the second world war". "They need to be very careful that the political need to keep hammering the Tories doesn't turn into a self-fulfilling prophecy around the state of the British economy," says one City boss. Firms want reassurance. "Business confidence is at rock bottom," says Anna Leach, chief economist at the Institute of Directors.

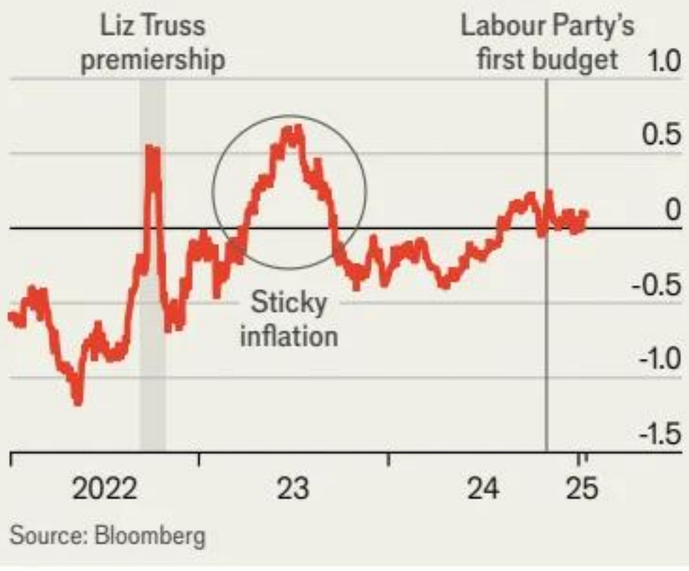
Despite Ms Reeves's insistence that "growth is the number-one mission", the government's approach has been piecemeal at best. Ms Reeves passed up the opportunity to use the budget to reform Britain's tax system in a more growth-friendly direction. Entreaties to the European Union to boost trade links and undo part of the economic hit from Brexit have been slow and muddled. The much-touted "stability dividend"—Labour's hope that merely ending the recent chaos in British politics would be enough to make investment flow in—has yet to amount to much.

There are some brighter spots. Efforts to cosy up to China could yield a small export boost. A plan to attract AI investment looks promising. Most significant of all could be much-trailed reforms to Britain's sclerotic planning system, due to be introduced in Parliament this spring.

After the latest wobbles, Ms Reeves has promised to go "further and faster" in pursuit of higher growth. Regulators have been cajoled to cut red tape. Wonks and lobbyists are pushing the government to sign off on shovel-ready infrastructure projects. The spurt of energy is welcome—if it results in a more convincing plan for Britain's economy, the country will owe the bond vigilantes a "thank you". ■

Along for the ride 2

Britain, ten-year government-bond yield, spread over US Treasuries, percentage points



Source: Bloomberg

The Foreign Office

Cultural revolution

David Lammy plans radical changes to the diplomatic service

FOR EUROCRATS, Sir Olly Robbins seemed like a relic of an age before Brexit sent the British establishment loopy. Theresa May's chief negotiator was self-assured, fiercely intelligent and several steps ahead of the politicians, writes Michel Barnier, his EU counterpart. He sends sweet text messages and invitations to dinner. And few British officials, Mr Barnier gushes, "boast such a deep understanding of domestic security and intelligence issues".

That last quality explains Sir Olly's imminent return to Whitehall from the private sector, as the permanent under-secretary, or top official, of the Foreign, Commonwealth and Development Office (FCDO). He is the first non-career diplomat to lead the service in its history after a series of security-related posts in the Treasury, the Home Office and Downing Street.

Breaking open the closed shop is intended to be disruptive. David Lammy, the foreign secretary, wants to increase the clout of the FCDO within Whitehall after years of marginalisation. (Even its grip on diplomatic posts is eroding: Peter Mandelson, the incoming ambassador to America, and Jonathan Powell, the new national security adviser, are both outsiders.) Someone who understands the wiring of government, Mr Lammy's logic runs, can restore his department's influence.

The fixation of Sir Keir Starmer's Downing Street on "delivery" for marginal voters makes the FCDO's predicament more acute. The summer spending review is a moment of danger: the Treasury will assess all government budgets against how they contribute to domestic policy "missions". Already, the FCDO faces a budget crunch as a pot for capital works, raised by selling old embassies, runs dry by 2027. Old justifications about spreading Britain's influence in the world may not be enough.

Mr Lammy's answer is to make the FCDO the "international delivery arm" of the prime minister's twin goals of expanding the economy and cutting immigration. Ambassadors will need to put more heft into trade diplomacy (not just occasional cocktail parties) and negotiating deportation deals. He intends to employ the performance-management techniques used under New Labour. A Foreign Office "delivery unit" will monitor embassies' performance against headline targets.

That will doubtless chafe those diplomats who argue that the building of in-country knowledge and influence cannot be quantified like hip operations. Some may not stay: the Treasury has agreed to fund a round of voluntary redundancies. Mr Lammy recently told MPs that the department is "top heavy" and its upper ranks will have to "move out and make way" for a new generation. He wants a culture that is less hierarchical and London-weighted and more open to outsiders.

AI, it is hoped, will do some of the heavy lifting. Mr Lammy sees two practical use-cases. One, already employed by the American State Department, is to help draft briefings for diplomats. The more ambitious, being pioneered by British spy agencies, is to combine in-house files with open-source data to analyse a counterpart's vulnerabilities and interests ahead of a negotiation.

All this is a more difficult cultural shift for the diplomatic service than might have been expected from Mr Lammy, an ebullient figure who in opposition talked of boosting the morale of a downtrodden service. It will fall to Sir Olly to make it work, but even those who admire his intellect and Stakhanovite work ethic worry about his faults. Mrs May's doomed Brexit deal was cut in a tiny secretive circle, with key ministers and officials frozen out. "He likes to be in the centre, and in control," says one who knows him. If only he can charm his colleagues as much as he charmed Mr Barnier. ■

Buyer's remorse 1

Britain, business confidence
Standard deviations



Sources: Haver Analytics; Institute of Directors; *The Economist*

BAGEHOT

The credibility trap

Who can believe Rachel Reeves?



IF THE LABOUR PARTY had a two-word pitch going into the last general election, it was "economic credibility". Rachel Reeves, the then shadow chancellor, said it at every turn. Labour was "the party of economic credibility", said Ms Reeves in one interview. "Out of the wreckage of Tory misrule, Labour will restore our economic credibility," declared the shadow chancellor in another speech. There would be no tax rises on working people, Ms Reeves told Middle England. There would be no spending cuts, she reassured her base. And there would be iron-clad fiscal rules, she warned one-and-all.

A peculiar thing has happened since. In government, pledges designed to make Labour look credible now do the opposite. Measures to bind the chancellor to a steady course guarantee an erratic one. Rules aimed at reassuring voters instead create political hysteria. The chancellor is caught in a credibility trap, where abiding by one promise made in the name of credibility undermines another. The government's credibility relies on incredible promises that cannot be met.

At the heart of the problem are Labour's fiscal rules. Ms Reeves has pledged not to borrow for day-to-day spending and to have debt falling as a percentage of GDP by 2029-30. In March the Office for Budget Responsibility, a watchdog, will judge whether she is on track to meet them. A recent jump in the cost of British borrowing, which was met with a flurry of gloomy headlines, means she may well not be. Looking credible can be a curse if it is based on things over which the chancellor has little direct control, like a global increase in the cost of government debt. Or as Mark Blyth, an economist at Brown University, puts it: "If your fiscal rules are in charge, you're not in charge."

An easy, if incredible, solution exists: a few tweaks to long-term spending plans for 2029-30 and Labour's fiscal rules are unbroken once more. Everyone from Treasury civil servants to bank analysts to the Institute for Fiscal Studies, an influential think-tank, knows that the spending plans are meaningless. Yet each must pretend they are on some level real. Two civil servants discussing spending plans for 2030 may as well be in a dialogue from "Alice's Adventures in Wonderland": "Why, sometimes I've believed as many as six impossible things before breakfast."

If the fiscal-credibility problem—as seen through over-caffeinated journalists examining a gilt chart for the first time—disappears, a problem of political credibility appears. Labour was elected on a platform of improving threadbare public services. For the sake of short-term political credibility, the government may pledge to go against its fundamental purpose. This rarely works.

The alternative of tax rises is just as incredible. Ruling them out is how Labour thinks it wins elections. Labour was duly elected on an incredible pledge not to increase any of Britain's main taxes: income tax, value-added tax, national insurance and corporation tax. This pledge is already broken, yet Labour seems determined to glue it back together and pretend it is as good as new. Labour's first budget raised £40bn (1.5% of GDP) in taxes. Since then, Ms Reeves has toured television studios and C-suite breakfast meetings, assuring every audience that it was a one-off. A ploy to look credible comes off as anything but.

When caught in a credibility trap, media hysteria is inevitable. After all, it is easy to see when promises have been broken. Difficult economic questions (why have borrowing costs shot up globally?) are replaced by more comprehensible, if inane, political ones (should the prime minister sack his chancellor?). The prime minister, who has outsourced economic policy almost entirely to Ms Reeves, could decide to sack his chancellor. In the same way he could decide to walk out of Downing Street, lay down on Whitehall and wait for a Number 159 bus to crush him.

Perhaps Labour, with its proclivity for spending on public services, cannot govern in a time of genuine fiscal constraints. Yet there is nothing new about Labour's predicament. For all its spendthrift stereotype, it has a long tradition of fiscal conservatism to draw on, point out Colm Murphy and Patrick Diamond of Queen Mary University of London, in a forthcoming paper.

Before the coalition government of the 2010s, austerity was most associated with Clement Attlee, the sainted former Labour leader, whose government implored Britons to "produce more and consume less". Even New Labour, which eventually showered public services with cash, was at first an austere project, sticking to tight spending plans left over by the outgoing Conservative government. Gordon Brown called it "prudence with a purpose".

Ms Incredible

Whenever Labour has governed in an austere manner, it was framed as a project of morality rather than the performance of credibility. Fiscal conservatism was pursued by centre-left governments not merely because it was a pragmatic course, but because it was, they argued, right—just as it is today when unemployment is low and debt is both high and expensive. By contrast, under Ms Reeves, difficult choices are made on the basis of foolish rules designed to make the government look credible—even when their actual effect does the opposite. Rather than a tool for social democratic ends, looking credible has become a goal in itself.

Ugly choices will befall Ms Reeves in the coming year and beyond. The government can still be the master of its destiny, rather than the victim of it. If Labour wishes to reform Britain's failing benefits system, it can do that, rather than reverse-engineering a welfare system around fiscal rules everyone admits are a farce. If Labour wants to rejig Britain's tax system, it can make the case for that rather than being forced into it by a market wobble. Stop trying to look credible. Try to do right. ■

International



Freedom of the high seas

Shipping shakedown

After the ceasefire in Gaza, the Houthis may continue running their lucrative Red Sea protection racket

"IT'S A REALLY surprisingly user-friendly experience," says Stephen Askins, a shipping lawyer, of his interactions with the Houthis, the militia that has been attacking commercial ships in the Red Sea for more than a year. "You write to them, respectfully. They write back, respectfully, and wish you a happy passage."

Not everyone is greeted cordially. In 2024 the Houthis took aim at almost 200 vessels, damaging more than 40, and attacks have continued into 2025. With Iranian weapons and Russian intelligence, the Yemeni rebels partly control what enters Bab al-Mandab, at the mouth of the Red Sea, and thus the Suez Canal through which 12% of world trade normally flows. Not since the second world war have merchant ships faced such peril.

To get a sense of how the Houthis operate *The Economist* has interviewed two dozen participants in the Red Sea drama including representatives of the militia, naval officers, insurers, shipping firms and diplomats. We have also analysed satellite-tracking data and vessel ownership records. The picture that emerges is one of dramatic change. Cargo volumes in the strait have fallen by two-thirds, the ultimate nationality of vessels has shifted, container routes have been redrawn and the costs to the global economy amounted to some $200bn in 2024. The other finding is that the Houthis are surprisingly sophisticated, are exploring new weapons technology—and are in it for the long run.

The ceasefire in Gaza on January 15th will probably lead to a lull in attacks, given that one of the Houthis' notional motivations is solidarity with the Palestinians. Yet few people involved in the Red Sea crisis believe it will eliminate the Houthi threat. Their capabilities remain intact and Yemen will remain a failed state. Their ideological motivation extends far beyond Gaza: they have attacked other targets including the Gulf Arab states. And having created a successful new business model to extract lucrative rents from global trade, they have a strong incentive to continue to act as gatekeepers to Suez.

Throughout 2024 the Houthis forced ships to divert around Africa. Journeys from Asia have lengthened by 3,000-3,500 nautical miles (6,000km), or 10-14 days. Containers are lost to the choppy southern waters. Longer transits at faster speeds burn more fuel, adding $1m in costs per voyage, according to an American-intelligence brief. Still, that is cheaper than using the Red Sea, where insurance prices have shot up 20-fold, says Thomas Nordberg, of The Swedish Club, an insurer.

The cost to the global economy is reflected mainly in higher freight rates and days lost. The price of sending a container from Shanghai to Rotterdam peaked in July at $8,200, a five-fold increase on the average figure in 2023, and global freight costs remain high (see chart 1 on next page). Accounting for global container volumes, Houthi attacks added at least $175bn to shipping costs in the ten months to October 2024. The entire global con- ▸▸

→ ALSO IN THIS SECTION

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tainer market was worth around $122bn in the same period in 2023. Higher prices for shipping oil and gas, as well as dry bulks like wheat, make the overall bill probably bigger still. For now, shipowners are raking in profits as longer transit times soak up capacity. Maersk, a Danish shipper, reported $3.3bn in operating profit in the third quarter, up from $0.5bn a year before.

For the most part, supply chains have proved resilient. Spare shipping capacity, ordered during the supply crunch of 2021-22, prevented shortages, says John Stawpert of the International Chamber of Shipping, an industry body in London. And since freight costs account for just 3% of an average finished product's value, even big increases have not sparked inflation.

The fiscal costs are more pointed. A drop in the number of ships using the canal has cost Egypt $7bn in revenue, equal to a third of its current-account deficit. Navies from America, Britain and the EU patrol the Red Sea. In all, America has spent almost $5bn trying to protect shipping.

Some firms and countries are benefiting. Though the number of ships going through the strait has fallen by half, Chinese transits have increased and now make up a fifth of the 800-900 ships still transiting the Red Sea each month, according to an analysis of satellite data and ownership records (see chart 2). Most of the crude oil going through the Suez Canal is Russian, up from less than half (see chart 3).

China has friendly ties with Iran, the Houthis' main source of money and weapons, and Chinese vessels are not on the Houthis' list of targets This creates a geopolitical arbitrage. Whereas American and British firms face insurance premiums of up to 2% of a vessel's value. Chinese boats are reportedly paying as little as 0.35%, since their risk is lower.

On January 15th the Houthis stated that their strikes on shipping would halt following a Gaza ceasefire, according to reports by Mohammed Albasha, an analyst of Yemen. But its leaders attached onerous conditions, including a complete cessation of "all Israeli military activity" and an end to all Western military strikes on Yemen. Many observers are sceptical that the Red Sea shakedown will end. The Houthis have been negotiating with Saudi Arabia to end their decade-long conflict. Whenever the Saudis offer concessions, the Houthis ask for more. Now they have a weapon that can disrupt world trade, they might put it to other uses, distracting Yemenis from worrying about their miserable economy.



The temptation to keep firing

Before the ceasefire Maersk said it expected the Red Sea to stay closed "well into 2025", a view reflected in analysts' profit forecasts for shipping majors. Though attacks have slowed recently, a rebel official says this proves the blockade is working. "The number of sanctioned vessels transiting the Red Sea", he says, "has declined significantly." It is also lucrative. A panel of experts told the UN Security Council in November that a few "shipping agencies co-ordinate with a company affiliated with a top-ranking Houthi leader" to buy safe passage. "There's clearly some deal-cutting," says Tim Lenderking, America's special envoy for Yemen.

The UN experts reckon the fees are worth $180m a month, or $2.1bn a year. In effect, that doubles the Houthis' income, though others in the industry, including Mr Askins, question these numbers. Such protection, if paid for by every vessel that entered the strait in December, would cost more than $200,000 a voyage, which would make it financially unviable for some. Though the Houthis admit asking shipowners to apply for "permits", claims that they are charging "illegal fees" are "purely fabricated", says a Houthis spokesperson.

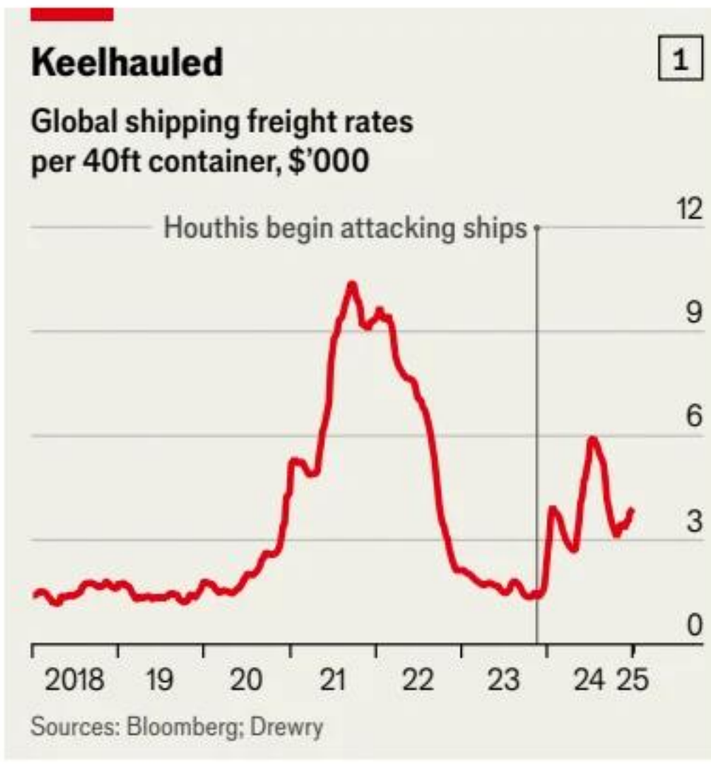
Even if this is true, any agreements struck with the Houthis by firms or governments risk legitimising the principle that littoral states can interfere with traffic on the high seas. America and its allies strongly oppose leaving "vital waterways in the control of any non-state actor, let alone the Houthis", says Mr Lenderking.

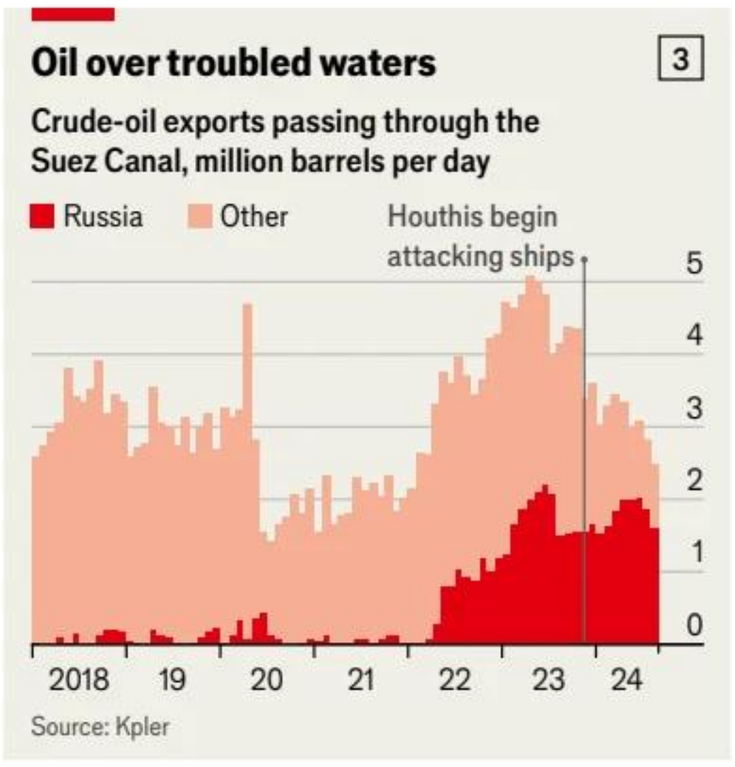
Such sentiments are echoed by Arsenio Dominguez, the boss of the International Maritime Organisation, a UN agency. "I don't want the situation of the Red Sea to become the new normal," he says.

Yet few countries seem willing to do what is needed to prevent this. America's resources are stretched thin. Little of its own trade passes through waters threatened by the Houthis. Regional powers with much at stake, such as Egypt, Saudi Arabia and the United Arab Emirates, have generally kept their navies away to avoid being seen to be supporting Israel. The EU has set up Operation Aspides to protect the waterway and its commander is urging shipping companies to return to it. But Aspides lacks muscle and has escorted less than half the ships that have asked for help; some were advised to go faster and zigzag. Even some NATO warships take the long way home around Africa from Asia.

Although officials in Beijing have told American diplomats that they support freedom of navigation for all, they appear to have an arrangement with the Houthis, brokered by Iran, to protect their own ships. Moreover, China has ignored American requests to enforce sanctions on the Houthis, who are doing "a brisk trade" with some Chinese firms to feed their war effort against Israel, says Mr Lenderking. America has imposed sanctions on several Chinese firms and one Chinese person for providing the rebels with technology for missiles and aerial drones, and for giving them access to international finance. "If we're going to get serious about reimposing order in the Red Sea," he says, they must "choke off those supply chains."

Yet despite the efforts of America and its allies to restore security, it seems likely the Houthis will continue to exert control over the Red Sea as they please. They have opened the creatively named Humanitarian Operations Co-ordination Centre, which offers a "safe-transit service", according to a Houthi official. The centre, he added, "is always ready to respond to any inquiries or provide advice". ■







Global finance: a fragmented future

Supported by Swift

The landscape of global finance is like completing a puzzle: the more the pieces come together, the better the picture looks. However, forces driving the components of global finance apart—incompatible systems, uneven regulations, and geopolitical divides—pose a threat to economic growth, jobs, and prosperity. A new report from Economist Impact, "Growth at a crossroads: measuring the cost of financial fragmentation," supported by Swift, warns that tackling these divides will require a unified global effort.

According to Economist Impact forecasts, if financial fragmentation escalates, world GDP in 2030 will be nearly 6% lower than it would be under a baseline scenario.

Financial fragmentation occurs when disruption of cross-border investment, credit, and payments reduces international capital flows. This could damage the complex web of linkages keeping the modern economy humming. According to Economist Impact forecasts, if financial fragmentation escalates, global GDP in 2030 will be nearly 6% lower than it would be under a baseline, business-as-usual scenario. As a result, it estimates that the global economy would have nearly 280 million fewer jobs.

But none of this is inevitable. Stakeholders can take steps to ensure that even in a world of increasing financial fragmentation, the hit to lives and livelihoods will be mild. To do this, policymakers must strengthen international cooperation and collaboration. Financial institutions must enhance their resilience to shocks, which blunts fragmentation in times of stress. Multilateral organisations must promote open markets to improve competition. And technology providers must develop integrative solutions that enable financial institutions to become comprehensive financial hubs for their customers.

The stakes could not be higher. The gears of the modern economy depend on a smooth, well-integrated financial system. Read the full report for more about financial fragmentation and how the picture of global finance may evolve in the years to come.

Read the full report

https://impact.economist.com/projects/cost-of-fragmentation

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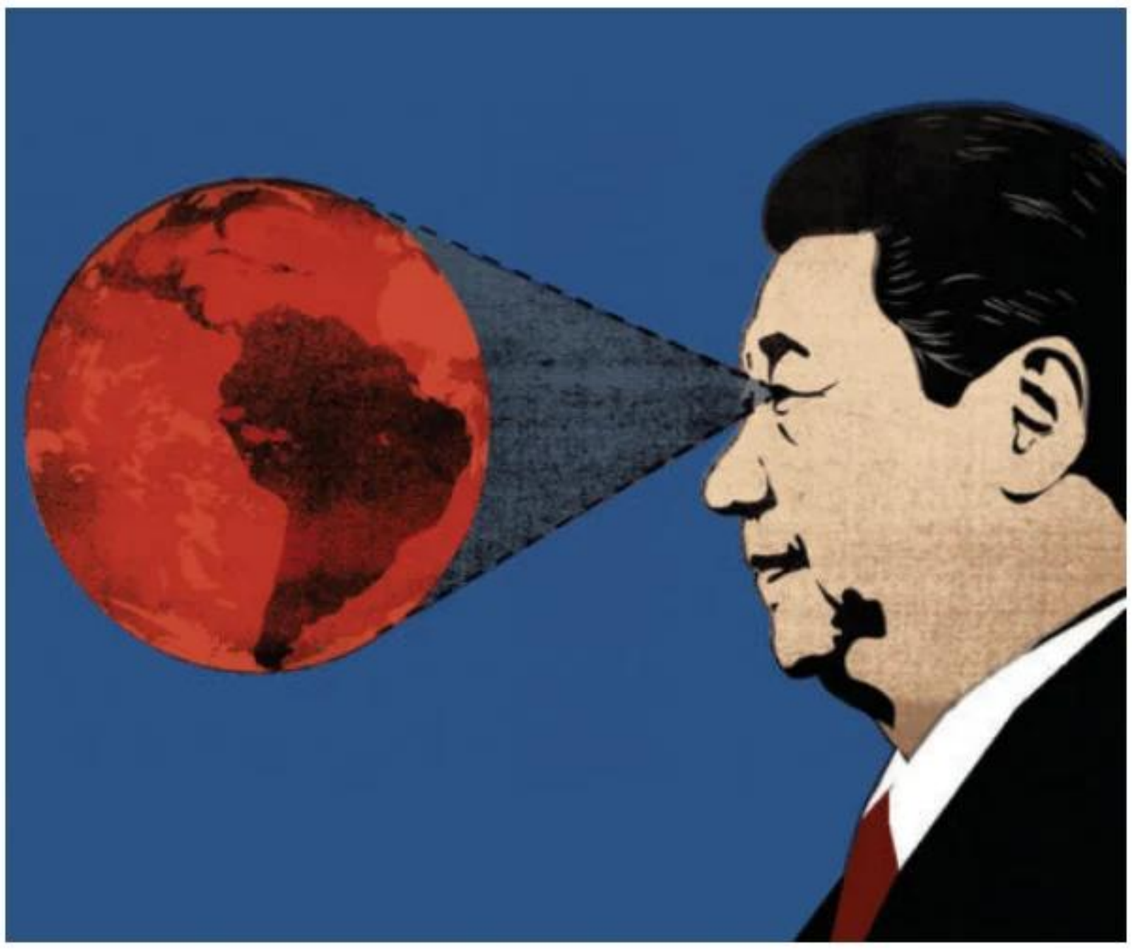
THE TELEGRAM

Why China is hard to beat in Latin America

To advance its strategic interests, China is happy to cut deals with right and left alike



SINCE ITS founding by landowners in 1866, the Rural Society of Argentina—motto, "To Cultivate the Soil is to Serve the Nation"—has been a potent ally for governments of the right and a daunting foe for the left. The society's campus in Buenos Aires, home to a big annual agricultural fair, dominates a city block in the heart of the capital. Hosting The Telegram for a chat about geopolitics, society officers deplore decades of economic mismanagement by populist left-leaning governments, which caused inflation to soar and the Argentine currency to sink. On the way out, they show him some of the society's historic treasures, including a carved armchair used by the late Pope John Paul II.

Yet when asked about the People's Republic of China, they purr. "China is a bottomless barrel. Whatever you can offer, they will take," says Nicolás Pino, the society's president. He describes rising exports to China of Argentine soyabeans, frozen beef, semen from prize bulls and other farm goods worth billions of dollars. Latin American farming barons are often selling to state-owned agencies, guided by orders to enhance Chinese food security and self-reliance handed down by Communist Party leaders. If the Rural Society has qualms, they involve not the political leanings of Chinese officials, but their hard-nosed approach to commerce. When selling to Europeans, once the price and quality of exports have been established "the trade flows", says Mr Pino. In contrast, Chinese importers decided not long ago that they were paying too much for beef and unilaterally cut the price by more than two-thirds, "and not only for future sales, but for meat that was already at sea". Alas, lower prices created new perils for Argentina, Brazil and other Latin American countries that sell millions of tonnes of meat to China each year. In the final days of 2024, Chinese regulators announced a probe into imported beef prices at the demand of hard-pressed domestic producers.

Still, cattle barons and other conservative interests call China an invaluable partner. In interviews with politicians, industry bosses and diplomats from across Latin America, there is praise for China's business-friendly "pragmatism". That was not always a given. When China first showed a serious interest in Latin America, a generation ago, it caused alarm in Washington and other Western capitals by channelling some of its largest investments and loans to left-wing anti-American regimes, notably in Venezuela. In the years since, prominent conservatives have continued to worry about enemies of the West colluding in the Southern hemisphere. In late 2023 Marco Rubio, a Republican senator from Florida, demanded that President Joe Biden impose sanctions on a former left-wing Argentine president, Cristina Fernández de Kirchner. Noting Ms Kirchner's conviction for graft, Mr Rubio accused her of enabling "malign actors like China and Iran to deepen their corrupt influence in a critical US ally, Argentina". He pointed in particular to "nebulous agreements for public works contracts that compromise both the United States' and Argentina's security". In particular, Mr Rubio pointed to a satellite-tracking radar station built by China in a remote Argentine desert, operated by a branch of the People's Liberation Army.

Mr Rubio, a flinty Cuban-American conservative, will soon be making his case in person to Latin American leaders, for he is President-elect Donald Trump's nominee for secretary of state. He has friends across the region, including in Argentina, whose libertarian president, Javier Milei, campaigned for office in 2023 by threatening to break relations with China's government, saying: "I don't make pacts with communists."

Mr Milei has changed his tune as president, declaring the Chinese "a very interesting partner; they don't ask for anything, except that they should not be bothered". Soon after his victory Chinese envoys did raise Mr Milei's campaign rhetoric, say well-informed Argentines. But they expressed understanding about his disastrous inheritance, involving vast foreign debts and a wrecked domestic economy, and declared that China would not be "an obstacle to Argentina's recovery". In June 2024 China extended a currency swap equivalent to billions of dollars for two more years, giving Argentina's foreign reserves some breathing room.

For China, friends come and go, interests are enduring

Local bigwigs are unsurprised, noting that China's investments increased after a pro-business, American-educated centrist, Mauricio Macri, defeated Ms Kirchner to become Argentina's president from 2015 to 2019. China's interests in Latin America are unquestionably strategic, says Carlos Ruckauf, a former Argentine vice-president and foreign minister. He points to Chancay, a Chinese-built and controlled port in Peru, which will be the largest and deepest on South America's Pacific coast. He acknowledges warm Chinese ties with the Kirchners, who lavished praise on China's governance. But "with China, ideology is clearly in second place", he says. "We are lithium, copper and food for them." The challenge for the continent is to cut business deals with China that do not cross America's red lines, he suggests. Allowing Chinese firms into telecommunications networks "may be a red line". Chinese ambitions to develop a port near Antarctica were "appalling" to America, he says. China's space-peering radar station is a "very hard" problem because it is governed by a bilateral treaty.

Bigwigs from several Latin American countries have the same message for the Trump team. To compete with China, America must offer alternatives. In Chile, the Biden administration scored a win when a Chinese bid to build a submarine internet cable from Chile to Asia was beaten by a Western consortium including Google. The first Trump presidency saw many threats and lectures directed at southern neighbours. To curb China's influence, "The Art of the Deal" would be a better guide. ■

Business



American business

Peak MBA?

Why elite business-school graduates are struggling to find jobs

IN BUSINESS THERE is no surer sign of distress than when a firm delays its financial results. That also appears to be true of business schools. Around Christmas—and in many cases behind their usual schedules—America's leading business schools published their equivalent of annual reports, which include data on the new jobs of graduates from their Master of Business Administration (MBA) programmes, typically two-year courses for students with professional experience. We have crunched the numbers. At the top 15 business schools, the share of students in 2024 who sought and accepted a job offer within three months of graduating, a standard measure of career outcomes, fell by six percentage points, to 84%. Compared with the average over the past five years, that share declined by eight points.

Some declines are jaw-dropping. The Massachusetts Institute of Technology (MIT) has a decent claim to be the world's top university. But at its business school, named after Alfred Sloan, a giant of the car industry during the 20th century, the wheels are coming off. During the decade to 2022, on average 82% of its students searching for a job had accepted one at graduation, and 93% had done so three months later. In 2024 those figures were 62% and 77%, respectively. At some elite schools the reality may be even worse than it looks. One professor worries that some students who are counted as entrepreneurs are in fact unemployed. American business may be booming. But those who imagine themselves as its future leaders are suffering a recession.

America's business schools are used to criticism. The argument that business is something which is done and not taught has been around at least since the first Harvard Business School (HBS) class convened in 1908. "Union cards for yuppies", is how MBAs are described in "Snapshots from Hell", a memoir by Peter Robinson, a former Stanford student, published in 1994. "Today it is possible to find tenured professors of management who have never set foot inside a real business," snarled a 2005 article in, of all places, *Harvard Business Review*. Some hold business schools responsible for everything wicked about capitalism. Others, meanwhile, accuse their graduates of being ineffective capitalists. Elon Musk has lamented the number of MBAs running big firms.

The stereotype of profit-maximisation is not entirely unfounded. One study by Daron Acemoglu, Alex Xi He and Daniel le Maire, three academics, shows that managers with business degrees are less likely to share profits with workers than their less commercially experienced peers. What are these folks like on weekends? Another paper from 2007 by Nicole Stephens, Hazel ▸▸

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Markus and Sarah Townsend found that when compared with firefighters, MBA students were orders of magnitude more likely to be upset if a friend knowingly bought the same car as theirs.

What is beyond doubt, however, is the enormous success of America's business-school graduates. Entire classes of HBS graduates have been eulogised: *Fortune* magazine dubbed the graduates of 1949 the "the class the dollars fell on". The class of 1982 included Jamie Dimon, the boss of JPMorgan Chase, Jeffrey Immelt, the former boss of General Electric, and Seth Klarman, a notable investor. Nearly half of companies in the S&P 500 index are run by an MBA graduate.

That is a deep well of prestige. But it must be continuously replenished by students snaring great jobs. Business success is, after all, the main object of business education. And as recent employment data suggest, that success is now less secure.

Consulting and finance industries have long absorbed the majority of graduates from elite business schools. Every year McKinsey, Boston Consulting Group and Bain, the top consultancies, send lots of their promising employees to business schools. Many return after their degrees, along with new converts to the industry.

The business-school-consulting complex allows the firms to bag qualified students of an enthusiastic but obedient bent; business schools get a steady stream of quick studies and reliable fees. The share of students opting for jobs in finance, particularly at banks, has fallen since the financial crisis. But there remains a sizeable cadre of private-equity bros on campus. Some describe themselves arithmetically: one career path is the "2+2+2", a succession of two-year stints in investment banking, private equity and business school, which serves as a well-paid and punishingly fast treadmill for some of America's brightest.

When consultancies slowed their hiring after a boom during the pandemic, business schools felt the squeeze. Our analysis of data from four schools (Chicago Booth, Columbia, MIT Sloan and NYU Stern) finds that the number of graduates ending up at the big three consultancies declined by a quarter last year, compared with the three years before.

Just as worrying for business schools is tech, which is also hiring fewer MBAs. Declines in hiring by technology giants (Alphabet, Amazon, Apple, Meta and Microsoft) are particularly stark. At the four schools in our analysis students ending up in big tech fell by more than half last year, compared with the average between 2018 and 2022, to about 50.

Some of these troubles are doubtless cyclical. The technology sector is prone to booms and busts. After the dotcom bubble burst, the share of graduates from the Wharton School at the University of Pennsylvania who entered "high tech" industries collapsed from 17% to 8%. This time the decline in big tech's interest in MBAs seems to have predated the post-pandemic market correction. It is possible, then, that firms are beginning to sour on professional managers. Even if the consulting industry springs back to life, few think the MBA will be as critical to getting on in the future. Advanced degrees, particularly in science and in engineering, are seen as more credible by consultants' clients today.

What other options do students have? A small but growing number are choosing to run a small business, rather than work their way up a big one. Investors are handing over cash to "search funds", where recent business-school graduates attempt to acquire and operate a firm. Investors' returns are impressive, even if numbers are small—a survey from Stanford says 94 funds were launched in 2023. "It's a lower-risk way to try entrepreneurship; the results are not as binary as if you start a new company," says Lacey Wismer of Hunter Search Capital, which backs such funds. "Some of the best MBA students pursue this path. It's not the McKinsey rejects," says Mark Agnew of Chicago Booth. Judging by the interest on campus, many more are likely to try it.

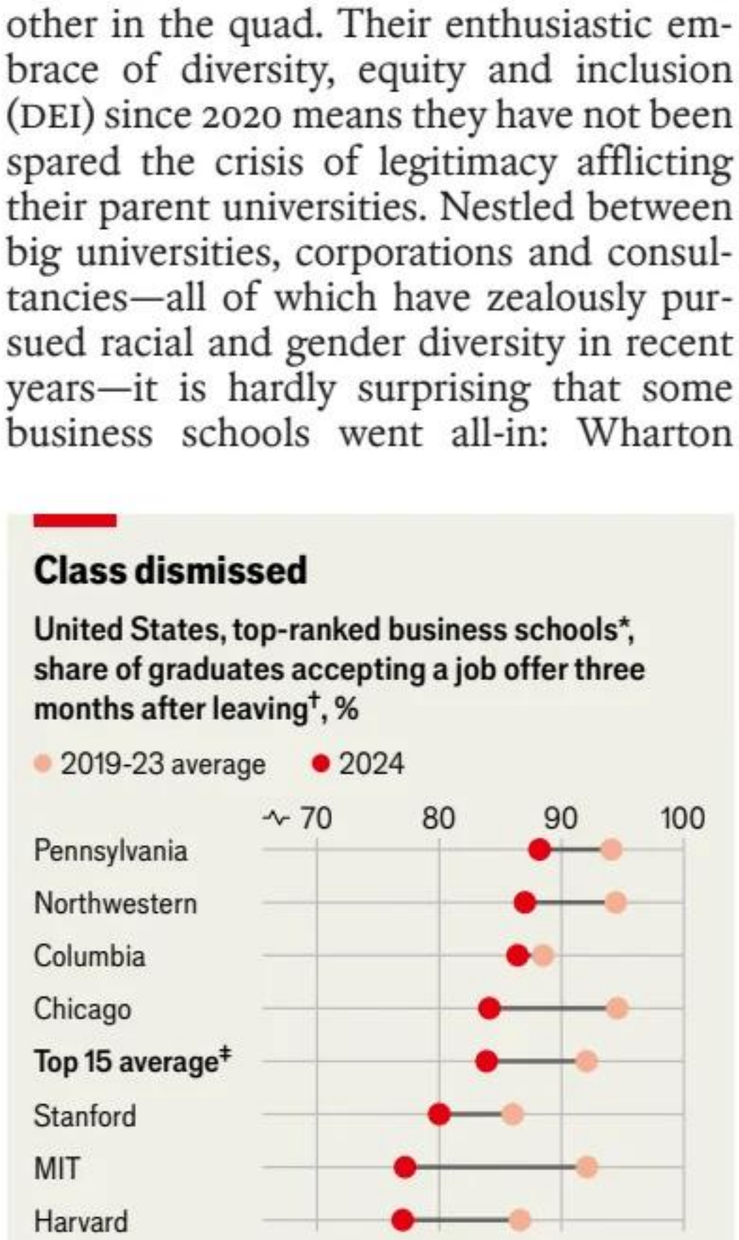
Donald Trump, MBA

Convulsions in white-collar industries are only half the story. After all, business schools have one foot in commerce and the other in the quad. Their enthusiastic embrace of diversity, equity and inclusion (DEI) since 2020 means they have not been spared the crisis of legitimacy afflicting their parent universities. Nestled between big universities, corporations and consultancies—all of which have zealously pursued racial and gender diversity in recent years—it is hardly surprising that some business schools went all-in: Wharton even allows MBA students to major in DEI.

In other ways, too, business schools are out of step with the moment. If America is reindustrialising, word has not yet reached the campus. Business is the most common field of graduate study in America, with around four times as many students doing master's degrees in the subject as engineering. Will business schools be as keen to change their teaching to reflect the rules of doing business in Donald Trump's America? Probably not. Even if hiring does improve, that will leave them exposed and out of touch. ■

Class dismissed

United States, top-ranked business schools*, share of graduates accepting a job offer three months after leaving†, %



*According to US News & World Report
†Excludes those who become entrepreneurs or return to a sponsoring firm ‡Cornell data unavailable for 2024
Sources: Business schools' employment reports; *The Economist*

Tech in the Gulf

From oil to AI

DUBAI

Can the Gulf states become tech superpowers?

FEW MIDDLE powers have the towering technological ambitions of the rich Gulf states. As they seek to shift their economies away from fossil fuels, the Emiratis want to lead the world in artificial intelligence (AI) and the Saudis want the kingdom to become home to startups in cutting-edge areas such as robotics. Those aspirations, however, are about to collide with geopolitical reality.

The fascination with tech is not new, but the scale of the plans is. In March the United Arab Emirates (UAE) created MGX, a tech-investment company with a target size of $100bn, which will invest in AI infrastructure, such as data centres and chips. It has also set up a $10bn AI venture-capital fund. In Saudi Arabia a number of different funds with a combined firepower of $240bn will splurge on AI, data centres and advanced manufacturing.

The rulers are making bets in three areas. One is model-making and applications. The Technology Innovation Institute, a research unit backed by Abu Dhabi, released Falcon, an impressive large language model (LLM), in 2023. It is now working on new versions, as well as smaller models. Last year G42, an Emirati-backed firm, unveiled Nanda, a Hindi model, while the Saudi Data and AI Authority launched Allam, an Arabic LLM. Mubadala, the main sovereign-wealth fund in Abu Dhabi, has invested in Anthropic, a top AI startup, among a string of other AI firms.

The Gulf's companies are also beefing up the region's infrastructure. E&, an Emirati telecoms company, will help to build part of a 45,000km-long subsea cable that makes its way around south Asia, Africa, the Mediterranean and Britain. A data-centre construction boom is under way, too,

with the likes of Khazna, a unit of G42, and Damac, an Emirati property developer, building facilities.

Gulf companies are building data centres abroad, too. Damac is a longstanding business partner of Donald Trump, helping him manage golf courses in the Middle East (Hussain Sajwani, its boss, is known as the "Donald of Dubai"). On January 8th Mr Trump said that Damac would invest at least $20bn in data centres in America. In August Mubadala invested in Yondr, a Los Angeles-based data-centre developer.

A third area is chip manufacturing, which the UAE seems especially keen on. Samsung, a South Korean electronics giant, and TSMC, the world's largest chipmaker, have held talks with officials to build plants in the UAE. Sam Altman, the boss of OpenAI, has convinced the UAE's sheikhs, among other investors, to fund his chipmaking plans.

There are early signs the strategy could come together. The total capacity of all data centres currently in construction in Saudi Arabia and the UAE has grown about ten-fold in the past five years. Investment has flowed in. The Gulf recorded almost $8bn of foreign direct investment in tech infrastructure and another $2bn in software in 2024, up three-fold from 2017, according to fDi Markets, a data firm. Talent is moving, too. BCG, a consultancy, says that the AI talent pool in the UAE and Saudi Arabia has grown by over one-third and almost a fifth, respectively, since 2022.

But a big risk looms over the Gulf's ambitions: souring relations between America and China. The rulers have leaned heavily on America's big technology firms for partnerships. At the same time, they have struck plenty of deals with large Chinese firms, including Huawei, a tech company, and China Telecom, communications firm. Saudi Arabia has invested $400m in Zhipu AI, one of China's most prominent AI companies. Moreover, the data-centre boom relies on China: about a third of imports of servers, chips and storage devices by Saudi Arabia and the UAE come from the country.

American policymakers are clearly wary of this relationship. Last year Cerebras Systems, an AI chipmaker that counts G42 as its biggest customer and a minority investor, was forced to postpone its public offering reportedly because of America's concerns about the Emirati firm's links with China. And then on January 13th Joe Biden proposed tighter controls on American exports of leading-edge semiconductors. That would involve capping chip orders for countries that are not deemed allies—such as the Gulf states.

The Gulf's rulers may hope their close ties to big American tech firms will help insulate them from such machinations in Washington. Google, for instance, plans to set up an AI hub in Saudi Arabia. Microsoft has invested $1.5bn in G42.

But ultimately they will face an uncomfortable choice. Geopolitical tensions are likely to intensify during Mr Trump's second term. America's tech giants already see themselves in a race with China. Brad Smith, Microsoft's president, says that "the real key to American leadership from a long-term perspective is to put American technology around the world—and to do it faster than China does." If the Gulf's rulers want their tech dreams to materialise, they may eventually be forced to pick a side. ■

Venture Global

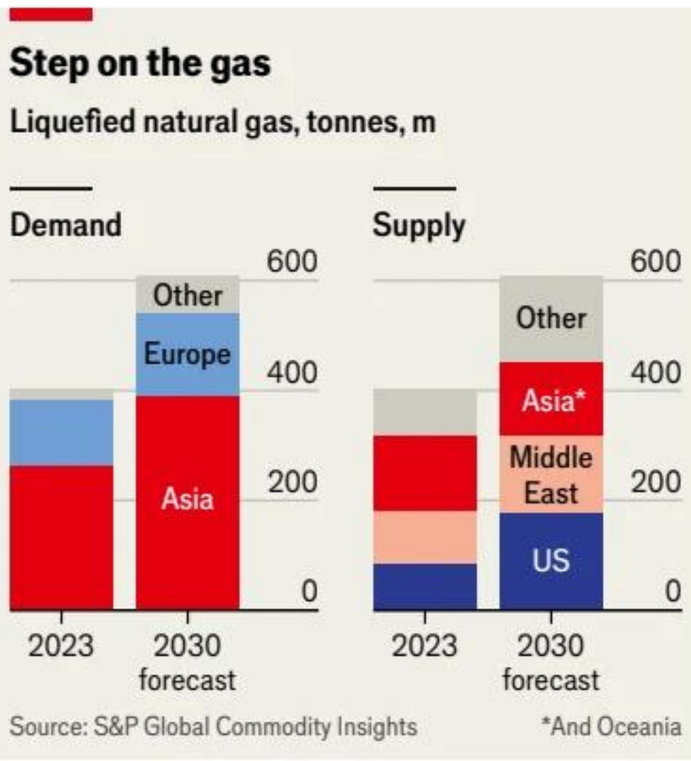
Hot stuff

NEW YORK

One of the biggest energy IPOs in a decade could be around the corner

THE DISRUPTIVE innovator of the global gas industry is stepping out of the shadows. On January 13th Venture Global, a privately held exporter of liquefied natural gas (LNG) based in Virginia, unveiled details of its planned flotation in New York. About a decade ago it sprang from obscurity and shocked incumbents in America's Texan oil patch by using scalable, modular equipment made in factories rather than costly, bespoke techniques used by its competitors. In doing so, the upstart reduced the time required to build a massive LNG terminal by about half, to less than three years. That helped it to undercut rivals on price and win early contracts with prestigious customers including Shell, a British oil major.

Since then the firm has only grown in stature. When its second export terminal in Louisiana comes fully online, it will become the second-biggest LNG exporting firm in America, whose share of the world's supply of LNG is set to grow (see chart).



Venture Global has already raised a whopping $54bn in capital to fund its investments and expansions. Now the firm wants to tap public equity markets. It aims to raise roughly $2.2bn, which would make it one of the biggest energy public offerings in over a decade. The proposal would value the company at more than $100bn, leapfrogging the valuations of such giants as Britain's BP and China's Sinopec.

If that sounds ambitious, consider three tailwinds. The first is that Venture Global has proved itself. Its agile technical approach could revolutionise the LNG business; competitors are now looking to adopt modular technologies. That helped it earn $4.9bn in operating income and $7.9bn in revenues in 2023 (the latest full-year figures available), up from $3.6bn and $6.5bn, respectively, in the previous year. On one estimate, its long-term contracts are expected to rake in revenues exceeding $100bn over the next two decades.

Second, the rise of artificial intelligence is proving to be a boon for natural gas. Gas is much cleaner than coal, which matters for big tech firms that are aspiring to meet their net-zero targets on carbon emissions. Gas plants run reliably regardless of whether the wind blows or the sun shines, which gives them an edge over intermittent renewables (unless those are deployed with big batteries).

The final factor, and the reason Venture Global's bankers and lawyers toiled through the Christmas holidays on their listing documentation, is the most important. It is no coincidence that shares of the firm are expected to start trading on the New York Stock Exchange next week—just days after Donald Trump is inaugurated as president on January 20th. He is an unabashed supporter of fossil fuels, and has explicitly called for boosting LNG exports. He has vowed that one of his first acts in office will be to end a controversial "pause" imposed by President Joe Biden on the approval of certain LNG projects. A reversal would remove a cloud hanging over the industry.

Of course, not all will be smooth sailing. The firm may be too ambitious in the pricing of its shares, and its listing may fall flat as a result. Its aggressive commercial tactics have led big customers including BP and Shell to file arbitration claims worth over $5bn combined. They say, among other things, that when prices spiked Venture Global sold gas on the spot markets rather than fulfilling its contractual obligations to the oil giants (something the firm vigorously denies). Moreover, analysts predict that within a few years the global LNG market will suffer from a glut that could prove painful for suppliers. Venture Global may have to come up with yet more innovations if it is to fare as well as a public company as it has as a private one. ■

Tesla in Mexico

Mexican stand-down

MEXICO CITY

Are Tesla's plans for a gigafactory in Mexico on permanent hold?

ELON MUSK likes to think big, from giant rockets to blockbuster pay packets and massive, if misguided, investments in social media. In Mexico's case it was an investment, announced in March 2023, in "the biggest EV plant in the world". Tesla's boss said that he would spend $5bn to build a "gigafactory" in Nuevo León, a state bordering the United States, that on completion in 2026 would churn out more electric vehicles (EVs) than any of his existing facilities in America, China and Germany. Almost two years later, however, Tesla has yet to break ground. Why has the mercurial Mr Musk's interest cooled?

Many of the world's biggest carmakers have set up shop in Mexico. Its attractions include cheap labour, a well-established supply chain and a large home market—sales hit almost 1.5m vehicles in 2024. Free-trade agreements, not only with America but with 50 other countries, make it a base for exports. The country has also had an edge in the switch to battery power. America's Inflation Reduction Act (IRA) makes free-trade partners such as Mexico eligible for subsidies for EVs made with raw materials sourced on their soil. And even though it nationalised its reserves in 2022, Mexico has plenty of lithium, which is used to make EV batteries.

Yet Donald Trump's election victory puts the IRA in jeopardy, dimming the prospects of Ford and General Motors, which are making EVs in Mexican plants, and Mr Musk's gigafactory. The billionaire had already judged that politics might be an impediment. In July 2024 he said that he was "pausing" Tesla's plans. Were Mr Trump to win the presidential election it would not "make sense" to build a factory in Mexico, he said. Mr Trump has threatened tariffs of 100-200% on cars made south of the border, in part to encourage firms to bring production back to America and also to head off Chinese carmakers. BYD and others might have hoped that building factories in Mexico would have helped them sidestep hefty tariffs on Chinese imports that have, in effect, banned their cars from America.

Mr Musk has since become the president-elect's bosom buddy. Even so it is uncertain that he would be able to persuade Mr Trump, a keen fan of tariffs, to drop his plans. But another reason why Mr Musk is in no rush to make cars in Mexico is a change in strategy. Tesla is now betting its future on Robotaxis rather than the Model 2, a cheaper mass-market EV that would undoubtedly have occupied a factory with capacity to make perhaps 1m cars a year.

Mexican officials hope that Tesla will eventually revive its scheme. Marcelo Ebrard, Mexico's economy secretary, has said he is urgently seeking a meeting with Mr Musk to see how the government can help. "Mexico cannot afford to lose Tesla's investment," says Antonio Ocaranza, a consultant, as it would be a powerful showcase to attract other foreign companies.

Mexico needs all the help it can get. Since Mr Trump started a trade war with China during his first term, it has sought to position itself as an alternative site for manufacturers beyond carmakers. Yet shortages of water, energy and workers with the right skills are a challenge. Mr Musk's changes of mind are one thing. A failure to fix these basic problems means that Mexico will be more exposed to the even mightier whims of Mr Trump for four long years. ■

Food fads

Sweet treats

BERLIN

Germany is going nuts for Dubai chocolate. Will the hype last?

IT SOLD OUT in four days. The "Aldon Schokolade Dubai Style" was created by *patissiers* at a fancy hotel in the centre of Berlin. It came in 500g bars with ingredients like home-roasted pistachios and French Valrhona chocolate. Only 50 were made and they went for the princely sum of €69 ($71) apiece in November.

Germans usually resist food fashions. But since the end of last year they have been hit with the Dubai chocolate craze. All over the country people have feasted on imaginative treats based on the richly textured chocolate bars. At Christmas markets the young and old queued for Dubai chocolate crêpes, hot Dubai chocolate, Dubai-style roasted almonds and Dubai churros. A stand at one of Berlin's markets even sold a half-metre Dubai Bratwurst for €8. And when Lindt, a Swiss chocolatemaker, launched a limited edition 150g bar called Lindt Dubai Style Chocolade for €14.99, people queued for hours at shops in Düsseldorf and in Berlin.

Dubai chocolate was created by Sarah Hamouda, a British-Egyptian entrepreneur based in Dubai, when she was pregnant in 2021 and craved an unusual chocolate bar. She concocted a mix of pistachio cream, sesame paste and *knafeh*, a crispy filo dough, which she encased in milk chocolate. The colourful creations of the company she subsequently created, Fix Dessert Chocolatier, became a viral sensation after Maria Vehera, a food influencer, posted a video of herself eating a Fix chocolate bar on TikTok in 2023. It has since been viewed more than 100m times.

The success of the product is stirring up trouble at the border. Last month customs officials confiscated 90kg of Dubai chocolate from a woman at Hamburg airport. She had not paid import duties, and the sheer scale of the haul (the chocolates were distributed between three suitcases) suggested that she intended to sell them.

It is also the cause of corporate litigation. A court in Cologne recently sided with Andreas Wilmers, an importer of chocolates from Dubai, who sued Aldi, a discount supermarket chain, over its sales of the low-cost "Alyan Dubai Handmade Chocolate". Aldi sold the chocolate bars, ▸▸



Middle Eastern delight

which are made in Turkey, for €3.79, vastly undercutting the €29.99 Mr Wilmers charges for his imported handmade wares. The judge concluded that consumers might assume the chocolate was made in Dubai because of its name. Aldi has since dropped Dubai chocolate from its online offering. Mr Wilmers is also suing Lindt (the firm argues that Dubai chocolate is a generic term, like "Wiener sausage").

Whatever the courts decide, the bigger question is whether the craze's days are numbered. Germans are notoriously frugal shoppers—which is one of the reasons why Aldi and Lidl, another discount supermarket, are so successful in the country. According to a recent survey by the Institute for Generation Research, a German firm, more than 95% of respondents said that Dubai chocolate was too expensive, and more than 60% said that they were not planning to buy any more.

Undeterred, Alois Müller, a dairy firm, is launching "Müllermilch Dubai Chocolate Style" next month. Much like Lindt and the Adlon hotel, Alois Müller is hedging, in case the popularity of the treat proves as ephemeral as other social-media crazes such as the cronut (a cross between a croissant and a doughnut) or the crookie (a croissant and a cookie). The chocolate-milk drink will be available in shops for eight weeks. The secret to sustaining consumers' interest in confectionery in Germany may be keeping production runs short—and sweet. ■

BARTLEBY

A new year message from our CEO

From the desk of Stew Pidd

DEAR FRIENDS and colleagues,
A belated happy new year to you all! This is my 11th new-year message to you, but the first to come so late in January. As you know, I have been recovering from a freak accident sustained during an equine leadership course that I attended in Wyoming. I'd like to thank all of you who sent good wishes, and reassure those of you who did not that I bear no grudges towards you.

I have had a lot of time to think about what 2025 will bring over the past few weeks. As I say every year, the business environment is more challenging than ever. The only thing we know about the future is that it is coming. (And that it never arrives, but let's forget about that for now.) In 2024 I coined the term "permavucalution" to describe the uncertainty we all face. Although it has not caught on at all, I will be talking about it on a panel at Davos next week. I would like it to be your constant watchword.

As I wrote in 2024 the biggest permavucalutionary trend by far is AI. I am more and more convinced that artificial intelligence is the most important technology in history since mankind discovered how to harness the power of fire. It makes me wonder what the people who invented fire compared that breakthrough to, assuming they could speak at all. (Maybe oxygen?) Anyway, it really is a privilege to be alive at such a pivotal period in the story of our species.

By using machine learning to make our budgeting processes a bit more efficient we are already playing our part in history. Our task this year is to keep up the pace of experimentation. Please keep sending your ideas for how to incorporate this remarkable technology into our work to Denise and the PRAIRIE team. Their motto—tinker, tailor, amplify, nothing beats the power of AI—is one for all of us to follow.

This era of permanent upheaval is why I have been thinking a lot about our culture as we begin the new year. Put simply, the world may change but we must not. Our core values remain openness, humility and digital. I know some people think that digital is not a value. But I believe that digital changes everything, including grammar. That is why I'm pleased to announce that we are changing the order of our values to literally put digital first. Digital. Openness. Humility.

I have also been reflecting on my own leadership style. The equine course had an unfortunate ending but it was an immensely meaningful experience in so many ways. Horses do not care about titles. They do not care that I am the chief executive of a major corporation. They do not know about my work as a thought leader and philanthropist. It's not clear to me that they have any real appreciation of the business environment at all.

But in the time I spent with these magnificent creatures, I learned two things. One is not to get too close. The other is that they respond instinctively to someone with a whip. There are lessons here for any aspiring leader. I am sending all of the senior leadership team on the same course this summer, and as long as they make it back safely, I am sure we will all benefit from the results.



The equine course also convinced me that we will make real strides as a team only if we are physically together. I know many of you are upset by the requirement to be back in the office five days a week, but we simply cannot build a thriving culture if many of us are working remotely. There is a saying that you can lead a horse to water but you cannot make it drink. But I have a follow-up question. How can a horse drink if it is not near water *in the first place*?

Some of you have asked me whether we remain committed to causes that we have championed in the past. I want to reassure you that we do. The task of fighting climate change and saving our planet is not some kind of corporate fad. Diversity also matters more to me than ever. Those who know me will tell you that groupthink is my second-least-favourite thing, after anchovies. But as so many of my fellow Davos attendees have observed, we went too far in pushing an agenda that was nakedly political. We will no longer be funding the Centre for Responsible Business, and will use this money to set up a new foundation that promotes two long-standing passions of mine: free speech and space exploration.

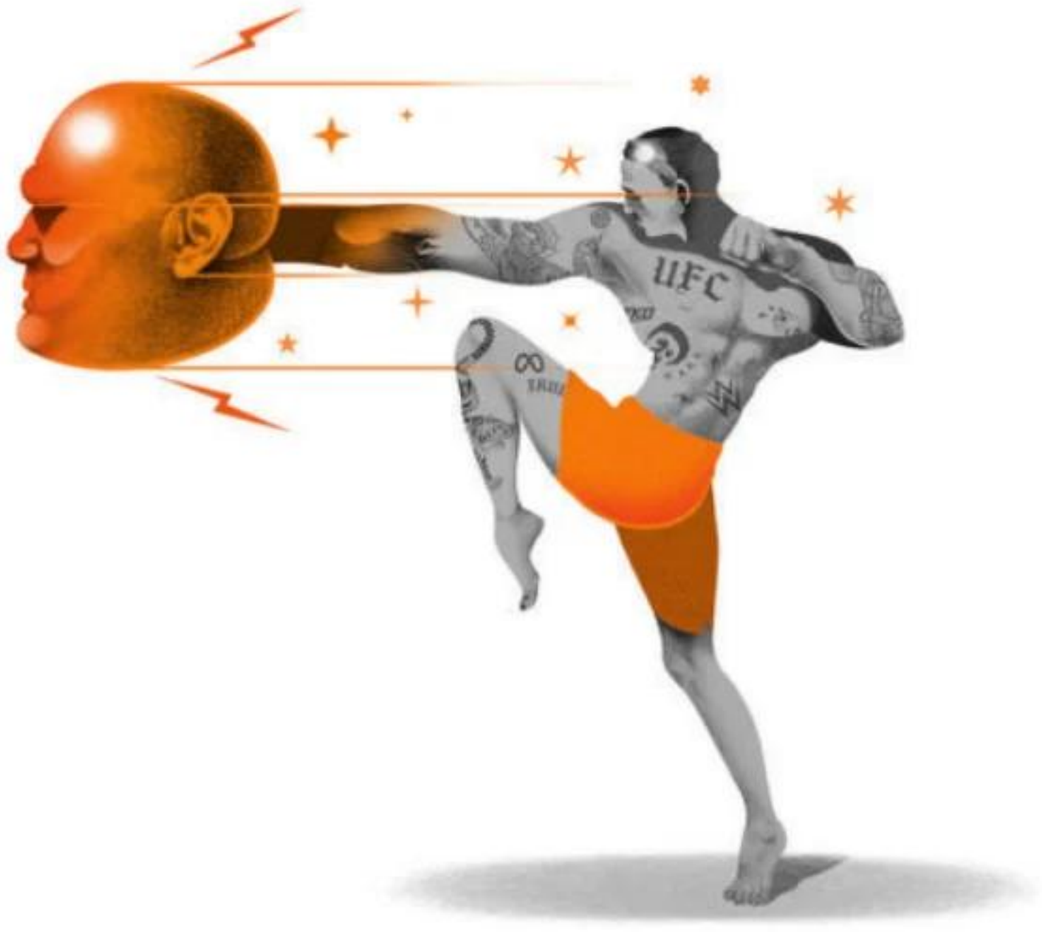
It is time for me to pack the merino gilet and head to the mountains. I feel humbled to have led this company for so long after succeeding my father as chief executive all those years ago. Thank you for your support and effort.

Here's to 2025! Stew Pidd, CEO

SCHUMPETER

The king of the cage fight

There is more to the UFC boss than his friendship with Donald Trump



"YOU LOOK thicker" sounds like a slight. Coming from Joe Rogan, the thick-set podcasting megastar and martial artist, it is high praise. Directed at Mark Zuckerberg, the uber-nerd behind Meta's $1.5trn social-media empire, it may seem highly misplaced. But it is true. Mr Zuckerberg does look beefier than five years ago. During the covid-19 pandemic he got into Brazilian jiu-jitsu, a rough combat sport. Now he would like to see more "masculine energy" in the corporate world, too.

A few days before he sat down with Mr Rogan, Mr Zuckerberg invited Dana White, chief executive of the Ultimate Fighting Championship (UFC), to Meta's board. No other big sport league reeks more of testosterone than the UFC, in which fighters square off in an eight-sided ring, (almost) no holds barred. Few American business figures ooze in-your-face masculinity more than the bald, bulky and brash Mr White. And not even Elon Musk is as close to America's alpha-male-in-chief.

Some observers point to Mr White's decades-long friendship with Donald Trump as proof that Mr Zuckerberg's newly thick neck conceals a weak spine. Meta has been the target of Trumpian ire since it banned the former president from Facebook and Instagram after his bogus claims of a stolen election led his followers to sack the Capitol four years ago. Having someone with a direct line to the White House, where Mr Trump will be moving back in on January 20th, is therefore mightily convenient.

This no doubt occurred to Mr Zuckerberg. Yet making Mr White's elevation at Meta out to be purely about toadying is to give neither man his due. Whatever you think of his neck or spine, Mr Zuckerberg has a head for commerce. He rightly sees in the UFC a growth business—and in Mr White a canny businessman.

A Boston street brawler and amateur boxer turned gym operator in Las Vegas, Mr White became enamoured with mixed martial arts some 30 years ago. At the time the multi-discipline sport was being banned in many American states and banished from big arenas. By the late 1990s some fights were held in the car parks of third-rate gambling parlours in places like Mississippi. Mr White spied an opportunity and in 2001 persuaded Lorenzo and Frank Fertitta, childhood friends who ran a successful casino business, to help him buy the struggling UFC for $2m.

At first red ink flowed as profusely as blood from fighters' noses. But the trio stanched the losses, cleaned up the sport and gradually won over mainstream audiences. In 2016 they sold it for around $4bn to a consortium led by Endeavor, a talent and sports-marketing powerhouse. Even adding the $50m or so that the Fertittas chipped in to cover initial losses and to bankroll "The Ultimate Fighter", a reality-TV show now in its 32nd season which helped humanise what critics had disparaged as "human cock-fighting", this translates to an average compound annual return of over 40%. Not quite what Mr Zuckerberg made Facebook's early backers, but tidy by most other measures.

In 2023 Endeavor and WWE, a pantomime wrestling franchise now streaming on Netflix, combined their assets into a publicly traded company, TKO Group. Since then the UFC has earned its listed parent $1.3bn in revenue and $770m in gross operating profit and helped nearly double its market value to $24bn over the past year. Some 700m people in 170 countries are fans. They are young, mostly male, with a median age in America of 37, compared with 39 for the NBA (basketball), 41 for NASCAR (motor racing) and 46 for the NFL (American football). Nearly half are aged 18 to 34, the knock-out demographic group for advertisers.

Analysts expect an almighty bidding brawl when the UFC's broadcasting rights come up for renewal in the next few months. With no other big rights up for sale until 2028, these could fetch more than $1bn a year, double its current deal with Disney's ESPN sports network. Sales of tickets to live fights and money from sponsorship deals, including with Monster Energy drinks, Bud Light beer and Timex watches, are up.

The UFC might not be where it is without Mr White. He is no teddy bear. Last year TKO reached a $375m settlement with ex-fighters alleging the UFC suppressed their pay. In 2022 a video surfaced of him slapping his wife. His mother has called him a "tyrant". But as a businessman, he displays two important talents.

The first is his ability to spot trends. He filled a gap in the market for controlled aggression left by a disarray in the world of boxing. The UFC has fewer rules but more sway than that more genteel sport's disparate federations. It is commissioner, owner and promoter all in one, says Mark Shapiro, TKO's president. Mr White was also early to grasp the power of reality-TV and social media to paint fuller pictures of the fighters outside the ring, and of streaming to bring it all to audiences. This, plus clever match-ups, makes him "a mastermind of unscripted drama", says Gareth Balch of Two Circles, a sports-marketing agency. Ampere Analysis, a research firm, reckons 61% of UFC fans would pay to watch it, better than NASCAR (44%) and not far off the NFL (65%).

A White knuckle ride

Mr White's other trait is pragmatism. Despite his ties to Mr Trump and the UFC's association with a right-wing bro culture, he is no MAGA warrior. In 2016 he helped persuade Democratic state lawmakers and the governor in New York to legalise the UFC there. He rubs along with Ari Emanuel, CEO of TKO Group and brother of Barack Obama's White House chief of staff. After the American right boycotted Bud Light over an ad featuring a transgender influencer in 2023, while Mr White was cutting a deal with its owner, AB InBev, he successfully pressed Mr Trump and his acolytes to uncancel the brand. As one of the world's top ad men, Mr Zuckerberg would recognise this as a marketing coup for the annals. ■

Finance & economics



Expensive borrowing

Yield to pressure

Why bond markets are convulsing around the world

ALMOST EVERYWHERE, government-bond yields are in flux. Those on ten-year American Treasury bonds are now at 4.7%. German bunds offer 2.6%, compared with close to 2% in December. Japanese bond yields are climbing (see chart 1 on next page). Things are particularly extreme in Britain, where gilt yields recently reached almost 5%, their highest since 2008. Rising yields are bad news for governments, which must pay more to service debts. They are also painful for all sorts of other borrowers, including many mortgage-holders, whose bills ultimately depend on governments' borrowing costs.

What is going on? Central bankers across the rich world have cut interest rates—yet the real economy is seeing little or no relief. The borrowing costs facing firms and households have barely budged. In the euro area the interest rate on new business loans has fallen by less than a percentage point. A British consumer hoping to borrow £10,000 ($12,200) pays an average rate of 6.75%, just short of a recent peak. In America the rate on a 30-year fixed mortgage is close to 7%, having risen by a percentage point in the past few months. This marks a profound shift from before and during the covid-19 pandemic, when yields were heading to all-time lows.

Inflation is part of the explanation. In a world where consumer prices are rising quickly, investors demand higher bond yields both because they expect central banks' policy rates to stay higher for longer, and in order to compensate for the anticipated erosion of the principal's purchasing power. Sure enough, yields fell a little on January 15th after a data release showed American consumer prices had risen by less than traders had feared (annual inflation was 2.9% in December).

Despite this welcome surprise, the overall pace of price rises has quickened in both America and other big economies. Across the G10 nominal wages are still increasing at 4.5% a year, which, given weak productivity growth, is probably sufficient to keep inflation above central banks' targets. In the euro area there are signs that wage growth is actually heating up. Survey-based measures of inflation expectations, in some countries, are rising. So are most inflation readings. Average inflation in the G7 rose from 2.2% in the year to September to 2.6% in the one to November.

But market pricing suggests something else is also at play. Worries about price rises are not—at least outside Japan—showing up in rising expectations as measured by inflation derivatives (financial contracts with pay-offs determined by price readings). In America, Britain and the euro area such inflation expectations have fallen in recent weeks. Investors seem to believe the economy has more inflationary pressure ▸▸

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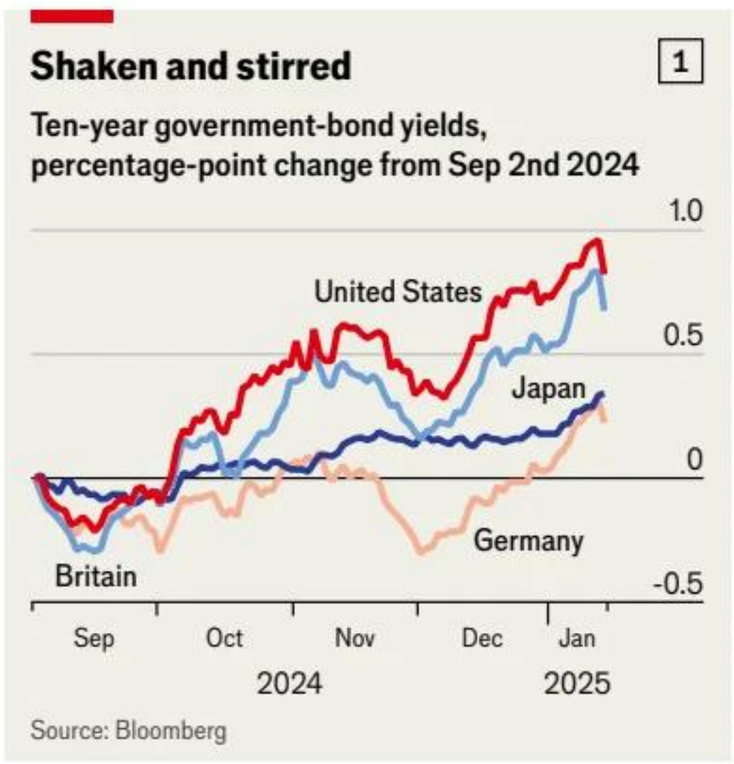


than previously supposed, but also that central banks, in the most likely scenario, will be able and willing to contain price rises with more hawkish monetary policy.

Instead, the most significant change concerns increased uncertainty in investors' expectations. This could be pushing up the "term premium"—the additional yield investors charge on long-term government bonds, over and above that attributable to the changes in the central bank's policy rate that are already expected. The term premium compensates bondholders for the risk that bond prices fall sharply, say if unexpected inflation forces central banks to aggressively raise rates. Indeed, increases in the premium on ten-year Treasury yields account for almost all the increase in these yields since early December (see chart 2).

Political betting

It is easy to see why uncertainty has spread through the market. Will Donald Trump deport millions of people? Nobody knows. But if he succeeds inflation could jump as employers lose workers. The story is similar for tariffs, which would also increase prices. At the same time, potential Chinese counter-measures in a trade war, such as a devaluation of the yuan, could prompt a global deflationary shock.

Investors are also unsure about economic growth. The dominant narrative veers from one extreme to the other. Some investors worry about the damaging effects of deglobalisation and a slowing Chinese economy. Yet there are optimists, too, including those who believe that Mr Trump's mooted economic-policy reforms, including slashing red tape and cutting taxes on everything from tips to Social Security, will spur growth. Maybe an AI-powered productivity surge is round the corner. The effect of all these contradictory scenarios is to raise the term premium on government bonds even more.

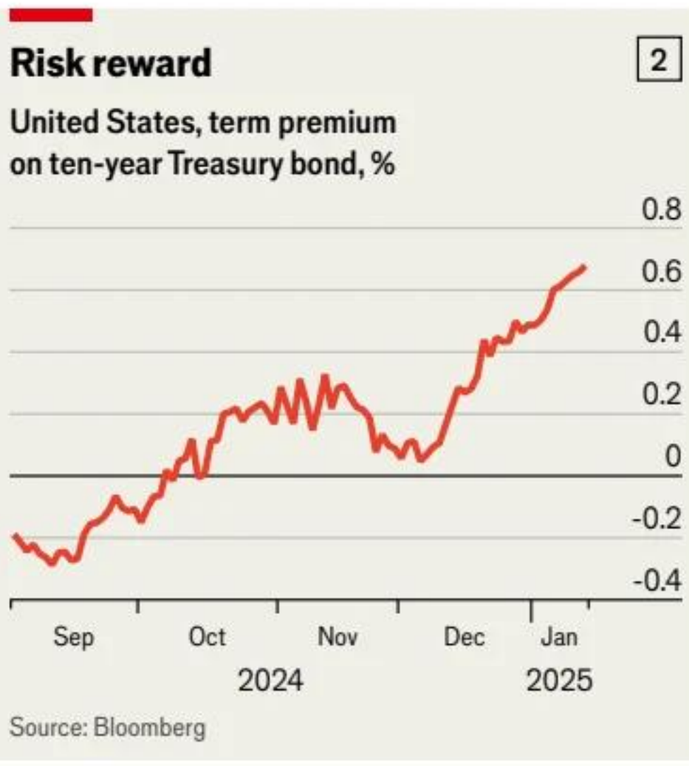
Fiscal policy is not helping matters. This year G7 governments are expected to run an average budget deficit of 6% of GDP—unusually high given that unemployment is low and economies are growing well enough. Funding these deficits means issuing fresh bonds. America is expected to issue about $2trn-worth (equivalent to 7% of GDP) this year, after accounting for redemptions. Euro-zone governments will collectively issue perhaps €500bn ($514bn, or about 3% of GDP).

Such hefty supply puts pressure on bond prices to fall—forcing up yields, which move inversely. Plenty in the market fear that America's fiscal trajectory, long unsustainable, will soon be brutally exposed, especially if Mr Trump's promised tax cuts do indeed materialise. A revolt by bondholders could send yields yet higher. Research by Goldman Sachs, a bank, suggests that each percentage-point increase in the deficit-to-GDP ratio raises long-term yields by about 20 basis points. In America the supply of long-term Treasuries may grow by even more than the deficit would suggest. Scott Bessent, Mr Trump's pick for treasury secretary, has previously proposed borrowing less via short-term notes and more via long-maturity bonds.

Central banks are making life harder still for spendthrift governments. To deal with high inflation in 2021-23, they launched quantitative tightening (QT), reducing the size of their balance-sheets by offloading government bonds (and other securities). With central banks no longer buying bonds, and in many cases actively selling them, private investors have to absorb even more. We estimate that this year, because of QT, the average G7 country will in effect have to sell double the volume of bonds it officially plans. The European Central Bank's QT is likely to more than offset efforts by national governments to cut issuance by reducing budget deficits.

What happens next is, like everything now, supremely uncertain. In some countries, especially Britain, it would be no surprise if yields fell a little more. In part because QT is set to slow, the country will soon be selling fewer bonds to the market. Meanwhile, across the rich world worries about resurgent inflation could turn out to be misplaced. The fundamental forces driving up yields are unlikely to disappear, however. Expansionary fiscal policy is in vogue, geopolitical tensions continue to rise and trade tensions could intensify.

Bear in mind that, although the term premium has risen, it remains nowhere near the levels of the past. After high inflation and rapidly rising interest rates during the 1970s and 1980s, which ravaged the real value of bond portfolios, investors shunned government debt. Well into the 2000s, the term premium was measured in full percentage points, rather than the tenths of today. Imagine that investors are mistaken about the odds of central banks cutting interest rates this year, and policymakers are instead forced to start raising them again. In such a scenario, investors would have ample reason to shun sovereign bonds. If they do, there is plenty of room for yields to rise even further. ■



American finance

It's all about bucks

Will Donald Trump unleash Wall Street?

NEW YORK

ACCORDING TO JAMIE DIMON, chief executive of JPMorgan Chase and king of Wall Street, bankers were elated by Donald Trump's election victory. Many chafed under Joe Biden's presidency, as mergers and bank fees faced additional scrutiny, and new capital-market rules came thick and fast. Now, with the inauguration of Mr Trump imminent, American financiers will discover just how much cause they have for celebration.

The industry will certainly experience an abrupt change in how it is overseen. America's regulatory agencies will take a permissive approach in banking and beyond, with new priorities when enforcing securities laws. Crypto is about to go truly mainstream. And looser rules could enable the consolidation of America's banking system, home to a vast number of small and mid-sized lenders. The only danger, from Wall Street's perspective, is that the Trump team's MAGA instincts and chaotic approach prevent a deregulatory boom.

One appointment is emblematic of the coming shift. Gary Gensler, departing head of the Securities and Exchange Commission, annoyed Wall Street by demanding disclosures on pay and meddling with private-market funds. His replacement, Paul Atkins, served as an SEC commissioner under President George W. Bush, and has been a critic of the agency's approach ▸▸

to prosecuting suspected wrongdoers, which he believes favours quantity over quality. Mr Atkins prefers an "open jacket" method, in which the SEC presents defendants with its evidence up front. This, he believes, would speed up the process by enabling defendants to decide whether to settle cases or go to court.

So far, so typical for a Republican administration. But Mr Atkins comes with a twist. He is co-chair of the Token Alliance, a pro-crypto advocacy group—and he will be joined by fellow digital-asset enthusiasts. French Hill, the incoming head of the House Financial Services Committee, says that he will pursue legislation confirming which digital assets are commodities and which are securities in the first 100 days of the new Congress. The Biden administration has also forced banks to report the crypto they hold for clients on their balance-sheets, unlike the practice with other assets. This rule is likely to be axed.

Elsewhere, change will arrive faster still. Mr Trump is expected to revive executive orders from his first term and rescind ones issued by Mr Biden. Bankers hope the bonfire will include orders that increased scrutiny of mergers, slowing tie-ups among America's many banks. In each of the past two years, fewer than 150 mergers and acquisitions have taken place, in contrast to at least 250 a year in 2015-19. Although high interest rates have played a part, the time taken to complete a merger has climbed, reflecting closer scrutiny.

Mr Trump's appointees will also oversee the implementation of international banking standards, known as the "Basel III Endgame". A proposal from the Biden administration and Federal Reserve in 2023 would have lifted capital requirements on forms of mortgage lending, and meant an average 16% rise in capital at banks with more than $100bn in assets. Lenders argued the proposal went well beyond what the international standards required. A version of the new rule that does not, in aggregate, require any capital-raising by big banks now looks more likely.



His people

It is not just Wall Street that is hopeful about the new administration. Other parts of American finance are similarly upbeat, in particular the private-equity industry. Shortly before the end of Mr Trump's first term, the Department of Labour issued guidance stating that managers of defined-contribution pension plans could include some private-equity assets in their portfolios without violating fiduciary obligations—only for the advice to then be scrapped. Marc Rowan, chief executive and co-founder of Apollo Global Management, a private-equity giant with $733bn in assets under management, has said that getting access to such savings is the firm's "single biggest opportunity".

Dog eat dog

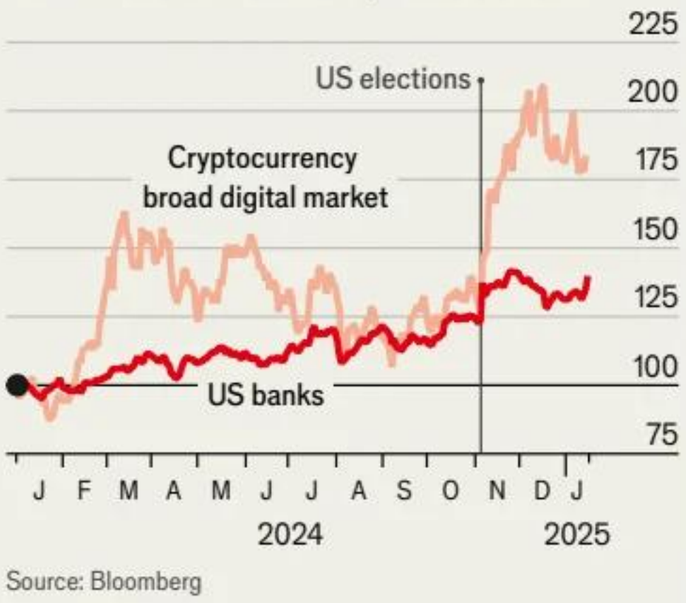
The consolidation of America's alphabet soup of financial regulators is another long-held Republican aspiration. Members of Mr Trump's transition team have reportedly asked candidates for top jobs whether some of America's financial agencies could be eliminated. Elon Musk, a billionaire tech executive who will run Mr Trump's Department of Government Efficiency, has said he would like to "delete" the Consumer Financial Protection Bureau, an agency created by legislation passed after the financial crisis. Merging or abolishing agencies would require assent from both houses of Congress, however. With a razor-thin margin in the House of Representatives, doing so may prove difficult.

That is especially true given probable opposition from some quarters of the Trumpian alliance. In 2023 J.D. Vance, the vice-president-elect, joined Elizabeth Warren, a trustbusting Democratic senator, to criticise financial regulators for allowing JPMorgan to acquire the assets of First Republic Bank, which collapsed that year, arguing the deal would increase corporate concentration. Even if Mr Vance does not pick up the baton in government, other MAGA types almost certainly will. As such, the administration's response to a proposed acquisition of Discover by Capital One, two banks specialising in credit cards, will hint at just how laissez-faire it will be, suggests Christopher Wolfe of Fitch, a credit-rating agency.

The coming wave of deregulation has plenty going for it. Mr Biden's efforts to raise capital levels would have been an unnecessary squeeze on the business of big banks. Heightened scrutiny of mergers has slowed consolidation in a fragmented industry. Even some regulation of digital assets has been needlessly aggressive. Deregulators who hope for a big bang may find themselves disappointed, given internal constraints and haphazard policymaking. Yet Wall Streeters who have kept their ambitions in check could find much to commend in the Trump administration. ■

President's bump

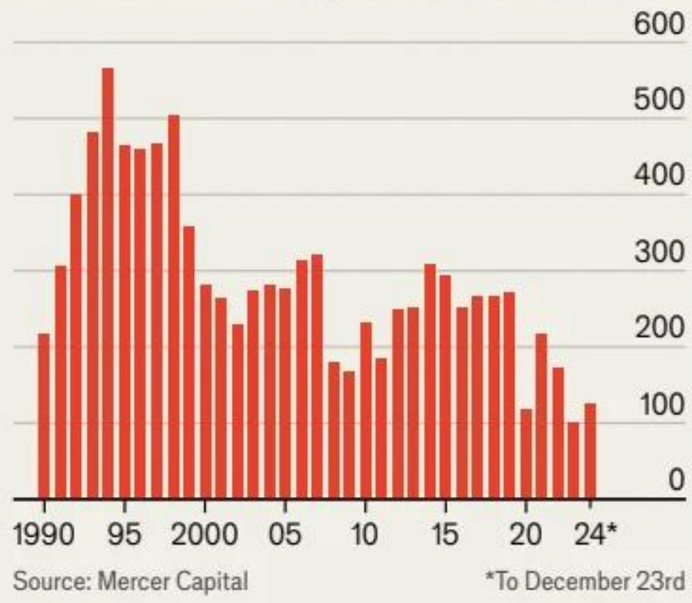
S&P Global indices, January 2nd 2024=100



Source: Bloomberg

Tie-ups tied up

United States, bank acquisitions, number of deals



Source: Mercer Capital *To December 23rd

The oil market

Mullahs cornered

Iran is vulnerable to a Trumpian all-out economic assault

ON NOVEMBER 25TH the *Elva*, a tanker flagged in São Tomé and Príncipe, clandestinely picked up 2m barrels of Iranian crude off Malaysia's coast. Sailing from there to north-east China, the vessel's likely destination, usually takes two weeks at most—but not this time. On December 3rd, alleging the *Elva* had breached sanctions, America blacklisted the ship, exposing anyone dealing with it to punishment. Six weeks on, it is still stranded.

And the *Elva* has company. Since October, when the Biden administration started cracking down on Iran-linked tankers, their crude deliveries to China, which buys nearly all of Iran's oil, have shrunk by a quarter, to 1.3m barrels per day (b/d). At the same time, loadings from Iran have continued apace, in the hope of a change of circumstances. The result is that there is now four times as much Iranian oil stranded at sea—20m barrels—most of which sits off the coasts of Malaysia and Singapore.

In the final days of the Biden presidency America is striking Russia, too. On January 10th officials announced new sanctions against 143 tankers, as well as large exporters and insurers. This will cause headaches for Vladimir Putin, and is one reason why Brent crude, the global benchmark, hit $82 a barrel on January 15th, its highest in five months. Yet it is Iran that faces the bigger threat. Although Donald Trump is ambivalent about blockading Russia, he is committed to strangling Iran's finances. He may well succeed, and in doing so disturb global energy markets.

Joe Biden had turned a blind eye to Iran's oil trade. Between 2018, when the first Trump administration reimposed harsh sanctions, and last year, the country's crude exports grew 12-fold, to 1.8m b/d. Then, in October, Mr Biden changed tack. In the months since, the Treasury has added 55 tankers to its Iran-linked blacklist, equivalent to a third of the "dark" fleet tasked with carrying Iran's crude, says Homayoun Falakshahi of Kpler, a data firm.

Black mark

Officials seem to have realised that their lenient approach towards Iran has failed. The country has been weakened not by sanctions but by Israel's victories over Hamas and Hizbullah, as well as the fall of Bashar al-Assad in Syria. It is also close to building a nuclear weapon. Global oil supply is plentiful and demand weak, making it less likely that sanctions will hurt American consumers. Expensive petrol will, in any case, be Mr Trump's problem.

The Biden administration is making clever use of sanctions. Most of Iran's barrels are bought by small refiners in China's north-east, dubbed "teapots", which rely on cheap crude to turn a profit. The teapots sell their products at home in local currency. That makes them immune to "secondary" sanctions, which ban American firms from dealing with any company that knowingly buys Iranian oil. But they still need Iran-linked tankers to dock at Chinese ports, many of which also earn a living by shipping goods to America.

Aware of this, sanctions enforcers have targeted tankers on the last leg of an Iranian barrel's journey, often from Malaysia to China. Fearing punishment, Chinese ports have started to reject such vessels. On January 6th Shandong Port Group, which runs ports in Qingdao, Rizhao and Yantai, among other places, banned tankers blacklisted by America. Since supply has begun to dry up, Iranian crude now trades at just a $1.50 discount to Brent, the global benchmark, compared with $6.50 three months ago. The price rise is enough to have forced some teapots out of the market, in turn curtailing demand for Iranian oil.

Iran is working hard to replace blacklisted tankers with "clean" ones. Yet the global dark fleet has grown so large—it now absorbs most of Russia's oil exports—that doing so will take a long time, especially since Russia also needs new tankers to replace those America blacklisted last week. On top of this, China's teapots were already struggling. A spate of larger, nimbler refineries, built this decade, are eating away at their margins. The Chinese government, which objects to their pollution, is granting them meagre import quotas.

Enter Mr Trump. As a first step, his administration could add more tankers and traders to the Treasury's naughty list. A bigger step, which insiders say Mr Trump's team is discussing, would be to tell China that America will place sanctions on any port receiving Iranian barrels. The most aggressive option would be to impose eye-watering tariffs on China until its government agrees to enforce a ban on imports of Iranian oil, among other conditions.

Such tactics could lead Iranian exports to fall by 1m b/d by the summer, against levels seen in 2024, says Bob McNally, a former adviser to President George W. Bush. In a relatively benign scenario the global supply surplus, coupled with spare production capacity, would keep the subsequent price rise to $5-10 a barrel.

A less benign scenario would see Iran respond by lashing out at other Gulf countries—or, worse, blocking the Strait of Hormuz, a waterway through which 30% of the world's seaborne crude and 20% of its liquid natural gas passes. America might in turn respond by sending in its navy. Iran's leaders have said that if they cannot export, no one else will. Once cornered, they could resort to desperate measures. The time has never been better for an economic assault on the Islamic Republic. That does not make it a safe choice. ■



Pipe down



African reform

Ring hollow

JOHANNESBURG

Ethiopia is no longer the most populous country without a stockmarket

IT WAS A momentous occasion. But the peal of the bell did not initiate a flurry of trading at the Ethiopian Securities Exchange, which opened on January 10th. With no brokers and only one listed stock, the exchange enjoyed a relaxed start to life. The country's officials nevertheless see the institution as a crucial part of their liberalising economic reforms. Ethiopia, home to some 130m people, had been the most populous country without an exchange.

The rudiments of an earlier stockmarket did not survive the Emperor Haile Selassie's overthrow in 1974. Later governments believed that economic development should be directed by the state. In contrast, Abiy Ahmed, who became prime minister in 2018, talks up the potential of the private sector. In July the central bank floated the birr, a signal of intent after decades of *dirigisme*. The government is opening industries such as banking, retail and telecoms to foreign competition.

A new stock exchange is the "icing on the cake", says Tilahun Kassahun, its chief executive, who hopes to attract 50 listings in the next five years. He says that domestic companies require ways to raise capital without simply relying on bank loans. Although that may be true, it does not follow that they will rush to capital markets. Most African exchanges are small and illiquid. The continent's family firms are often reluctant to open their books to scrutiny. As a familiar joke goes, the biggest listed companies in Africa tend to be the BBC: banks, breweries and cement.

In Ethiopia, too, banks are the most obvious candidates to list. They already have thousands of shareholders, even if buying and selling their shares is currently a cumbersome process, often arranged informally between strangers on social media, and completed with a visit to the bank in question. Shares in Wegagen Bank, a mid-sized lender, are the first and so far only to trade on the new exchange. The opening of Ethiopia's financial industry to foreigners, who can now own up to 49% of shares in local banks, might also encourage some banks to seek capital on the market.

A second source of listings will be state-owned firms. Around 40 have been brought together under Ethiopian Investment Holdings, a newish state investment fund. Its boss, Brook Taye, says that the government wants to reform its firms, rather than rush into privatisation. Ethio Telecom, the national telecoms provider, is selling a 10% stake to retail investors, while seeking a strategic partner to buy a further 45%. Listings are being considered for five other state enterprises, variously involved in shipping, insurance, printing, school supplies and duty-free shops.

The launch of the exchange complements other reforms that loosen the government's grip on finance. For decades the state has squeezed savers and pushed credit towards its favoured development projects at below-market interest rates. Ministers now plan to relax some of the rules which made such an approach possible, including those forcing banks to buy state debt. Capital has been cheap but scarce, says Nebil Kellow of First Consult, a consultancy. For many firms, it might now become dearer but more abundant.

These reforms are being introduced at a supremely difficult time. Ethiopia's government is badly in need of finance itself. It is in a stand-off with foreign bondholders after missing an interest payment in 2023. Last year it signed up to a $3.4bn IMF programme. The birr has lost more than half its value against the dollar over the past six months. Although that has so far not led to a surge of inflation, tight monetary policy, such as caps on bank lending, is weighing on business.

Ultimately it is security, not securities, that will determine Ethiopia's economic fate. A devastating war in the northern region of Tigray ended in 2022. Other conflicts continue, notably in the vast regions of Amhara and Oromia. Industrial parks have emptied of factories. Flower farms have been looted. Last year 16m people required food assistance, according to the World Food Programme, run by the UN. These are rarely the sort of conditions that entice investors. ■

Agglomeration benefits

Up in smoke

Do economists overrate big cities?

JUDGED BY THEIR revealed preferences, people love cities. Metropolises such as London and New York are bursting at the seams, with house prices to match. China, meanwhile, can boast at least six cities bigger than either of them. Across the world, 25% of people live in cities of over a million, up from just 15% six decades ago.

Economists tend to think this is a great development. Cities, they argue, benefit from "agglomeration", the consequence of so many people living in close quarters. For one thing, government and businesses can run more efficiently: scale helps everything from public transport to the recruitment of staff. For another, finding the next big idea is easier when like-minded people crowd together. Although London makes up 15% of Britain's population, it counts for 22% of its economic output.

But have economists overestimated the benefits of big cities? That is what a new working paper by Matthew Turner and David Weil, both of Brown University, suggests. Their analysis applies existing estimates of the impact of agglomeration on economic efficiency and the pace of invention to a model of the American economy. This allows the researchers to answer a provocative question: how different would America look if, from 1900 to 2010, no urban area had grown to a population of more than 1m people? »



Urban myth

According to their calculations, the answer is "not all that much". Growth would have been slower, but only a bit: the researchers reckon that America's total output would have been 8% lower in 2010 than it was in reality. Such an income gap is smaller than that between America and Denmark. Cities do make residents more productive, but the size of the conurbation does not matter too much. As Mr Weil puts it: "Without big cities, we would still have modern life as we know it."

City enthusiasts may not be entirely persuaded by the authors' number-crunching, which inevitably relies on some heroic assumptions. Edward Glaeser of Harvard University points out that Messrs Turner and Weil presume innovation becomes harder over time, as the easy wins are taken, meaning big cities gain less than they would otherwise from bringing the best and the brightest together. Whether this pattern will continue in the future is uncertain. Artificial-intelligence boosters would certainly contend that innovation is likely to accelerate in the coming years.

There is plenty about city life that is unpleasant. In September, for instance, Eric Adams, New York's mayor, convened a "National Urban Rat Summit", as part of his "war on rats". But big cities also clearly afford benefits other than growth, as Mr Weil is keen to point out. Ultimately, high housing costs reflect people's desire to live in them, and this does not only stem from sizzling job markets. ■

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BUTTONWOOD

Not just Los Angeles

Catastrophe bonds are failing to cover disaster damage

THE SCENES of devastation in Los Angeles were just the latest in a recent barrage. Last year hurricanes in the Atlantic, earthquakes in Japan and flooding in Europe all carried huge financial and human costs. Indeed, 2024 is set to be the year with the third-biggest insured losses, adjusted for inflation, in more than four decades.

Surely, then, it is a bad time to own catastrophe bonds? These are securities that protect issuers, mostly insurers and governments, from severe losses in the event of a natural disaster by paying out when certain conditions are met. In fact, across the asset class, such bonds returned 20% and 18% in 2023 and 2024, respectively—the strongest two years in recent decades. Instead of paying up, bondholders have reaped vast profits. Issuance has boomed and the market has doubled in size over the past ten years. It is now worth $50bn.

The gulf between the devastation and the rude returns available to bondholders is a stark demonstration of the limits of the asset class. Yet sometimes buyers and sellers of catastrophe bonds are a match made in heaven. Issuers hope to cover themselves against low-probability outcomes with costs that could overwhelm them. Investors are hungry for assets that do not move in tandem with the rest of their portfolio. This opportunity has become only more attractive since 2022, when bonds and stocks fell together, whacking investors who believed they had diversified by buying both. Viewed in such a light, catastrophe bonds are an example of financial markets at their very best.

Part of the reason for the lack of recent payouts is the exacting terms on which bonds are frequently issued. After Hurricane Beryl struck Jamaica in July, for example, the country's GDP shrank by almost 3% in the third quarter of the year, driven by a 14% drop in agricultural output. Despite this painful decline in economic activity, a catastrophe bond issued by the Jamaican government and the World Bank did not disburse funds. The bond had so-called parametric triggers—ones based on measurable environmental conditions. In Jamaica's case, the air pressure measured during the hurricane was a fraction higher than the maximum level allowed for the bond to pay out.

When it comes to California's wildfires, catastrophe bonds face a different and more fundamental challenge. Since the 1990s, when such bonds first emerged, the market has mainly protected issuers against "peak perils", or the largest and most damaging events such as earthquakes and hurricanes. However, it is the more common "secondary perils"—a bucket including everything from the current wildfires to hail and thunderstorms—that have expanded to take up a much larger share of total insured losses owing to the impact of climate change.



Some 61% of the catastrophe-bond market still covers only losses from a single major event, according to Artemis, a data firm. The other 39% of bonds in the market disburse funds when costs rise above an annual threshold, meaning that numerous secondary perils can add up to produce a payout. On top of this, investors are now demanding enormous returns in exchange for protecting issuers against losses from secondary perils. In the most extreme cases, spreads over the yield on Treasury bonds can be above 20 percentage points.

This uncomfortably large premium reflects differences in how easily catastrophes can be modelled. No natural disaster is predictable, but some are more unpredictable than others. For instance, a handful of hurricanes typically arrive during a specific season. Forecasters can rely on more than a century of meteorological data, and the technology to forecast the path and size of storms has improved in recent years. By contrast, both insurers and investors find the challenge of modelling wildfires and thunderstorms, which arrive in the thousands and spread in an erratic manner, considerably more difficult. Many regular buyers of catastrophe bonds now mostly stick to the peak perils.

It is hard to fault bondholders for their reluctance to offer reasonably priced protection against new and more unpredictable disasters. They do not owe the world their money, and in a market that is already capricious, they appear to be reaching a limit. As losses from disasters grow ever larger, insurers and governments therefore face enormous losses with little to protect them. In the absence of fresh financial innovation, it is likely to be the taxpayer who ends up on the hook.

FREE EXCHANGE
All fun and games

"The Traitors", a popular reality TV show, provides a useful economics lesson



CLAUDIA WINKLEMAN, a television presenter with a helmet of shiny hair, is not a typical economics teacher. Yet students should consider her game show. Those learning outside Britain may opt for any of the 20 or so versions of "The Traitors" screened elsewhere, including a popular American option that has featured celebrities such as Deontay Wilder, a boxing great, and John Bercow, a disgraced British parliamentarian. The game, which involves lying and betrayal, is a chance to study both the theory and reality of game theory, as well as to watch the panic on the face of someone who, having decided a fake Welsh accent would make them more trustworthy, comes across a native Welsh speaker.

In game-theoretic terms, the show is a finite, sequential, incomplete information game, meaning it has an end, occurs in stages and players are kept in the dark about some things. A few are nominated by producers as "traitors"; the rest are "faithfuls". The two groups live together. Each night the traitors pick a faithful to "murder", who is then removed from the game. The next day the remaining players, both faithful and traitors, select a player to "banish". Upon their exit, the banished player reveals whether they are a traitor or a faithful. The game continues for a set number of nights through to a final in which the last players have the option to repeatedly banish others until all remaining players declare themselves confident no more traitors remain. The survivors either split the prize—or hand it over to any undiscovered traitors.

It is a variant of a game known as "Mafia", which was invented in 1986 by Dimitry Davidoff, a psychology student at Moscow State University and secondary-school teacher on the side. Mr Davidoff invented the game for his pupils, hoping to demonstrate that an "informed minority" would triumph over an "uninformed majority". They rarely do. He also aimed to show players would not only fail to identify the guilty but also confidently accuse the innocent, which does happen. The game spread by word of mouth until, in America, it was given gothic trappings of werewolves and villagers, rather than mafiosi, and became a staple at events in Silicon Valley. From a world-weary Soviet psychological experiment, it became a nerdy Californian parlour game and then, owing to a Dutch production company, mass tea-time entertainment.

For a faithful, it is a fool's errand to try to spot a lying traitor. Game theory identifies two types of communication: "cheap talk" and "signalling". Saying you are "100% faithful", as many contestants do, is cheap talk. It is costless and unverifiable: both a faithful and a traitor would make such a statement. Cheap talk is helpful only in a "co-ordination game", where all players want the same outcome. Psychologists suggest the odds of telling whether someone is lying are little better than chance. As the game is finite—it is not repeated—there is no opportunity to learn any "tells".

There is also no chance for the more valuable kind of communication known as signalling. When signalling, a player takes a costly action in order to tell another player something. Some see a university education as an example of this: it costs cleverer and more conscientious types less to get a degree than stupider and lazier ones, allowing employers to distinguish between the two.

With talk cheap, the only way to find a traitor is to study who is murdered and banished. One way of solving such a game is known as the "perfect Bayesian equilibrium". Employing such an equilibrium, a player would calculate probabilities based on information revealed by behaviour: the chance of someone being a traitor depends on how likely a traitor would be to have taken their actions. In every "subgame" of the larger game, such a player would follow an optimal strategy based on these updating beliefs.

Rational self-interest would suggest both faithfuls and traitors should turn on their allies in the final round: fewer to split the pot between. The very last game should consist of just three players who must choose to vote off one of their number (when the game gets down to two players no more voting can take place). A rational traitor should want to ensure this final trio consists of people who trust them. Yet that should lead any faithful to conclude that they have been kept in the game because they trust a traitor and have benefited from his or her protection. As a result, they should betray this person. The perfect Bayesian equilibrium, according to those who have studied Mafia, is voting randomly according to a pre-set public rule. Ensuring the rule is known to all players means that traitors who deviate and "just by chance" use their extra information to vote out only faithfuls are identified as doing so.

I think that you think that I think that you think...

Fortunately for television producers, contestants are not perfectly rational. Colin Camerer of the California Institute of Technology suggests that most players in actual games demonstrate "bounded rationality", believing their strategy to be the most savvy, and responding to what they think less sophisticated players are doing. A "level zero" player might vote for who they think the traitor is; a "level one" might bluff; a "level two" might double-bluff, pretending to be unsophisticated. In cases where the skill of others is uncertain, cheap talk may sometimes be a useful strategy.

Often the players simply protect those in their cliques and banish those whose behaviour is different. Abhijit Banerjee, a Nobel-prizewinning economist, developed a model of "rational herding". Because behaviour provides information, and someone's own information about the world is uncertain, it can be rational just to follow the crowd. Such decision-making may produce a feedback loop: as more people coalesce around an opinion, it becomes a better decision for everyone else to agree with it. For traitors this suggests an appealing strategy. Do not try to lead the discussion about who to banish, which might draw too much attention. Do enthusiastically agree with someone else's mistake. ■

Science & technology



Down's syndrome and Alzheimer's disease

Fortune's wheel

Volunteers with Down's syndrome could help the search for Alzheimer's drugs

DEMENTIA LOOKS likely to dominate old age in the 21st century. A study in this week's *Nature Medicine* reckons the number of Americans developing it each year will rise from 500,000 in 2020 to 1m in 2060. And though drugs that have some effect on Alzheimer's disease, dementia's most common manifestation, have recently been assessed in America and Britain, not everyone is convinced.

The European Union's drugs regulator, for example, refused last summer to approve the first of them to come across its desk, though it has partially reversed that decision. And in England, despite regulatory approval, the National Health Service does not yet offer them. Many researchers suspect they might work better if given earlier, perhaps even preventively. The easiest way to find out, they say, is to conduct clinical trials on people for whom the onset of Alzheimer's is nearly guaranteed: those with Down's syndrome.

As the life expectancy of people with Down's has risen, it has become clear that most will eventually develop Alzheimer's. Studies suggest 70-88% will do so by the age of 65. In the general population the comparable figure is 8-10%. Until now, though, trials of Alzheimer's drugs have excluded those with Down's, meaning doctors feel they cannot safely prescribe them to those individuals. Including people with Down's in future trials could not only offer them treatment, it might also herald a future of Alzheimer's prevention for all.

The link between the conditions is a genetic hiccup. Those with Down's have an extra copy of chromosome 21 in their cells. This brings with it an extra copy of the gene encoding amyloid precursor protein (APP), a molecule involved in the growth and development of neurons. Unfortunately, APP is also—as its name suggests—the precursor in certain circumstances of a smaller protein, beta-amyloid, that forms clumps called plaques in the brains of those with Alzheimer's. The extra gene copy means people with Down's have higher levels of APP and, therefore, more beta-amyloid. As a consequence, virtually all those with Down's have beta-amyloid brain plaques by the time they are 40. About 15 years later, most have dementia.

A cascade of problems

Though Alzheimer's in those without Down's rarely has a clear genetic cause, the connection (which emerged in the 1980s) between APP, beta-amyloid and dementia suggests an underlying mechanism. In 1991 John Hardy, a neuroscientist now at University College, London, and his late colleague David Allsop (then at Queen's University, Belfast) thus proposed the amyloid cascade hypothesis. This posited a build-up of beta-amyloid in the brain to be the driving force behind Alzheimer's in all those affected by it, whether they have Down's or not. Other signs of Alzheimer's, such as brain shrinkage and tangles of a second abnormal protein called tau, are thought to come later.

The amyloid cascade hypothesis re- ▸▸

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mains the most influential explanation for how Alzheimer's develops. A search is thus now on for drugs that get rid of beta-amyloid. Trial after trial has failed. But two substances have been found to do the job. These are artificial antibodies called lecanemab and donanemab that bind specifically to beta-amyloid, flagging it for disposal. However, though both drugs slow cognitive decline, they do not do so by much. After 18 months, dementia scores for people receiving lecanemab had deteriorated 27% less than those receiving a placebo. For donanemab, it was 35%. Ideally the drugs would stop decline completely—or even reverse it. Given that 20% of people receiving lecanemab and 24% of those receiving donanemab develop small (though mostly harmless) brain swellings and brain bleeds, scepticism that the new drugs are worth it is understandable.

Critics of the amyloid cascade hypothesis reckon the antibodies' lacklustre performance is because beta-amyloid is the wrong target. They think tau, or even APP itself, could be more important. Others, who still support the Hardy-Allsop explanation, suspect the two drugs might work better if given earlier in life. They suggest that by the time most patients take them, the illness is too far gone to be stopped by amyloid removal alone. If that is true, anti-amyloid drugs might be better suited to prevention than treatment.

An obvious way to test this would be to run clinical trials on a cohort for whom eventual Alzheimer's is a near certainty, but before symptoms set in—in other words, those with Down's syndrome. Obvious, but radical. Companies are wary of including those with confounding conditions in their trials, for fear of affecting their results. And obtaining truly informed consent requires extra effort, to make risks understandable to them and their families.

That is starting to change. ALADDIN, a trial of donanemab for those with Down's, organised by researchers at the University of Southern California, will start later this year. And an existing trial, ABATE, which is testing a different anti-amyloid immunotherapy in America, Britain and Spain, already includes them. This turnaround owes much to lobbying by people with Down's and their families.

One notable moment was a speech to an American Congressional hearing in 2017 by Frank Stephens, a board member of the Global Down Syndrome Foundation who, himself, has Down's. In the three years following this speech, which received a standing ovation from the assembled Congressfolk, annual funds disbursed by the National Institutes of Health for research on Down's rose from $35m to $111m. By 2023 the figure had risen to $133m. Mr Stephens says it changed scientists' attitudes towards studying the syndrome.

These trials will require care to ensure any risks associated with high beta-amyloid in the brains of people with Down's are taken into account. Last year a post-mortem study of brain tissue from 15 people with the condition found lecanemab bound to amyloid stuck in the walls of blood vessels in all analysed tissue. That binding is thought responsible for the brain swelling and bleeding seen in the general-population trials. People with Down's may thus be at higher risk of those side-effects and might need lower dosages.

Yet if the drugs prove safe and effective when administered before the onset of symptoms—or even before amyloid build-up—it could offer people with Down's the hope of several extra years, maybe even a whole life, without Alzheimer's. For others, in whom the onset of Alzheimer's is harder to predict, researchers would still need to improve early diagnosis to reap the benefits fully. Work published in 2024, in *Nature Aging*, in which blood proteins were used to help predict Alzheimer's ten years before conventional diagnoses could be made, suggests that may soon be possible. Moreover, the drugs' performance will reveal whether the prevailing understanding of Alzheimer's is correct. Thirty years on from the amyloid cascade hypothesis, such a test is well overdue. ■

Huntington's disease

Dancing with death

CAMBRIDGE, MASSACHUSETTS

A new explanation of a fatal genetic condition opens novel avenues for treatment

HUNTINGTON'S DISEASE is horrible. It is also odd. Illnesses caused by inherited aberrant genes are mostly what geneticists call "recessive", meaning someone must receive defective versions of the gene involved from both mother and father. Huntington's, the symptoms of which start with involuntary jerking, mood swings and memory problems, and end with death, is "dominant"—meaning only one parent need be a carrier to pass it on.

Since a dominant gene's ill effects cannot be covered up by a functional version from an unaffected parent, the faulty DNA is generally purged by natural selection. This explains why dominant diseases are unusual. But Huntington's second, self-preserving, oddity is that unlike most genetic disorders it rarely manifests until well into adulthood, giving plenty of time for it to be passed on. The result is families where half the members are living under premature death sentences.



So far, attempts to develop drugs to commute those sentences have failed. But that may change. Steve McCarroll of Harvard University reckons one reason for this failure is that the accepted explanation of how Huntington's plays out at a molecular level is incorrect. That may have led drug companies up a blind alley. As they outline in *Cell* this week, he and his colleagues have a better explanation—one that could potentially alter the direction of pharmaceutical research.

Only with DNA sequencing did what is happening in Huntington's start to be understood. People affected are victims of a particularly long chromosomal "stutter", in which three letters of the genetic code (CAG) are repeated over and over again (CAGCAGCAGCAG). The repeated DNA is in the gene which encodes a protein dubbed huntingtin, which is produced in brain cells.

For those born with fewer than 36 of these repeats, the stutter does not matter. They are disease-free. Those with 36-39, however, may develop symptoms. And those with 40 or more definitely will. Moreover, the more numerous the repeats, the earlier the symptoms present themselves and the younger the person dies.

Given these facts, the generally accepted explanation has been that huntingtin proteins with too many of the extra amino-acid units encoded by the stuttering sec-

tion are toxic—and the longer the stutter, the more toxic they are. Dr McCarroll begs to differ. He and his colleagues have discovered that for a huntingtin protein molecule to be toxic the underlying gene requires not 36 or more repeats, but 150 or more. Three dozen, he thinks, is the threshold not for toxicity but rather for an instability that causes the number of triplets in the expansion to increase slowly throughout a person's life.

That such expansion happens was noticed in the 1990s, but not widely thought important. Subsequent work showed, however, that patients with mutations in their DNA-repair genes often showed unusually early or late onset of disease. These same DNA-repair genes were also shown to affect the stability of the repeats. This suggested repeat-expansion during a patient's lifetime might be important.

To investigate, the team developed a way to study the matter cell-by-cell in post-mortem brain samples. Using this, they examined almost 600,000 cells (or, strictly speaking, the nuclei of these cells) from brains donated by 50 people who had had Huntington's and 53 others who had not. They also did a deeper dive into the affected parts of the brains of six further Huntington's-affected donors.

By looking at molecules called messenger RNAs, which carry instructions transcribed from the DNA of genes to a cell's protein-making machinery, they could tell which genes had been active in each of the cell nuclei they examined. Also, specifically, the transcript of the huntingtin gene told them how long the huntingtin triplet repeat was in that nucleus's DNA.

Toxic shock

The team's analysis showed two things. First, though all sorts of brain cells express huntingtin, of those they were scrutinising only a type called striatal projection neurons (SPNs) manifested profound expansion of the triplet repeat—and it is these cells, not the others, that die in Huntington's patients. Second, even SPNs have normal gene-expression profiles until their number of repeats exceeds 150, a process that takes decades and is variable from cell to cell. Then all hell breaks loose, as hundreds of other genes suddenly start behaving abnormally. That is more than enough to kill the cell in question.

Putting all this together, Dr McCarroll reckons the lack of early symptoms reflects the fact that few cells in younger patients have yet crossed the 150-repeat threshold. The earlier onset of symptoms in those born with more repeats, meanwhile, is because their longer expansions need less time to reach the threshold.

Current attempts to develop treatments for Huntington's are based on the premise that all mutant huntingtin is toxic, and that its suppression with drugs will, therefore, prevent or ameliorate symptoms. Dr McCarroll's work suggests this sledgehammer approach will actually crack very few nuts, for only a small fraction of cells contain toxic huntingtin at any given moment, and they have it only briefly before it kills them.

A better way would be to stop the stuttering from reaching the critical threshold of 150. Since other studies confirm the suspicion that a cell's DNA-repair mechanism is involved here—specifically, by making mistakes when inspecting the expanded section for potential mutations—a drug that fixed this, Dr McCarroll reckons, might be more likely to help than reducing production of huntingtin.

What would really be useful, though, is an explanation of why some cell types are susceptible to triplet-repeat expansion and others are not. Trying to determine that is Dr McCarroll's next project. ■

Fat and health

Is obesity a disease?

It wasn't. But it is now

FOR YEARS there has been a push to recognise obesity as a disease in its own right, and therefore something that needs to be treated in and of itself, rather than just as a risk factor for other things, such as diabetes, heart disease, strokes and some cancers. And there is indeed much evidence that being obese can result in exceptionally poor health. But many who are obese are not unwell in the slightest. This argues that obesity *per se* should not be treated as an illness.

Until two years ago, such discussion was of little practical relevance since there were few treatments for obesity between the extremes of bariatric surgery and the old-fashioned approach of eating less and exercising more. However, the arrival in 2023 of GLP-1 weight-loss drugs in the form of semaglutide (known commercially as Wegovy) changed that. If these drugs are to be prescribed sensibly and fairly, then who among the fat is sick and who is not becomes an important question.

By coincidence (they started before GLP-1 drugs were approved for slimming), a group of 56 doctors have just answered that question. This group, called the *Lancet* Commission, and organised by the journal of that name, have developed a better way of diagnosing obesity—one that distinguishes when it has become pathological.

The usual current measure of obesity is body mass index (BMI). This has the advantage of being easily calculated (by dividing a person's weight by the square of their height). Obesity is then defined as a BMI of more than 30. But some people with a high BMI show no signs of being unwell. And, absurdly, stocky and well-muscled athletes have been known to qualify as obese according to this classification. Nor does BMI take account of fat's bodily distribution. Yet it is well established that visceral fat (stored around the internal organs, for an "apple-shaped" body), is far more unhealthy than subcutaneous fat (stored directly under the skin, for a "pear-shaped" one). The commission's recommendations, though, take care of these points.

To diagnose their newly defined disease, which they call "clinical obesity", the commissioners require two things. First, the addition of a third measure of body size (waist circumference, waist-to-hip ratio or waist-to-height ratio) to those used to calculate BMI—though measuring body fat directly, with sophisticated modern scanning tools is even better. Second, if ▸▸

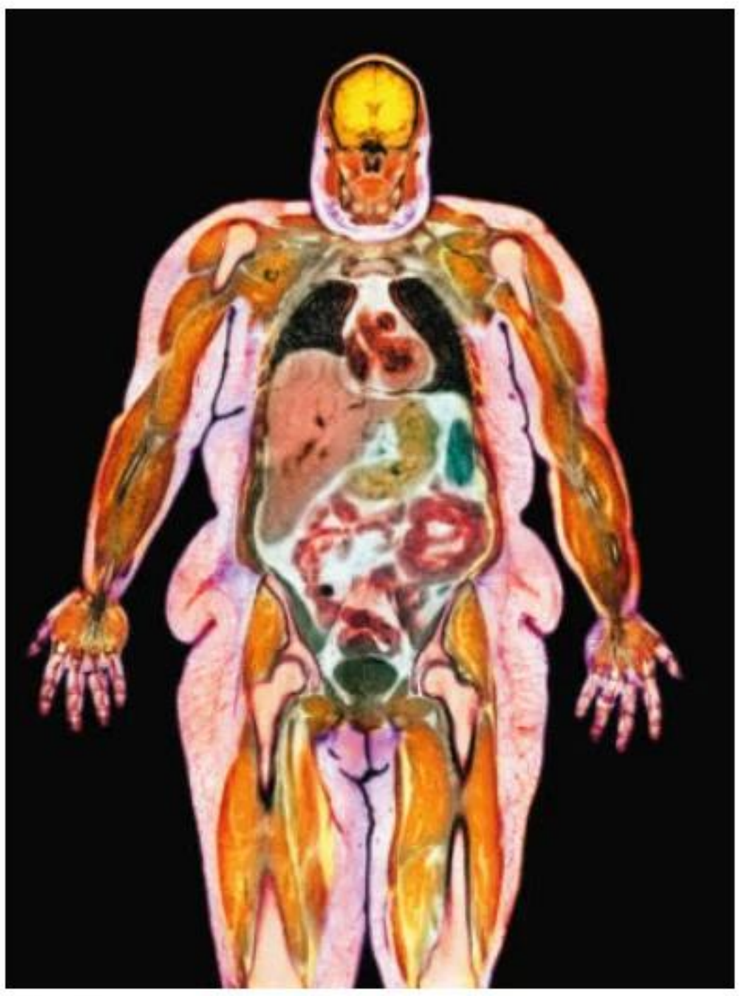
Piling on the pounds

Traditional v new method of diagnosing obesity

Measurement						
BMI (kg/m²)	23.7	28.8	28.8	32.4	39.2	39.2
Excess body fat	No	No	Yes	No	Yes	Yes
Muscle mass	High/normal	Normal	Low/normal	High	Low/normal	Low/normal
Signs & symptoms*	No	No	No	No	No	Yes
Diagnostic method						
Traditional	No obesity	Overweight	Overweight	Obesity	Obesity	Obesity
New	No obesity	No obesity	Preclinical obesity	No obesity	Preclinical obesity	Clinical obesity

Source: *Lancet* Commission

*Organ dysfunction caused by excess body fat



It's all gone pear-shaped

this revised measurement does, indeed, proclaim an individual to be obese, some objective signs and symptoms of reduced organ function, or ability to conduct daily activities—such as bathing, eating and dressing—are also needed to declare that obesity to be clinically relevant.

The 18 diagnostics the commissioners have lit on include breathlessness, obesity-induced heart failure, knee or hip pain, and obesity-driven signs of dysfunction in many other organs, such as the liver, heart, kidneys and urinary and reproductive systems. Those without these symptoms are not let off scot-free. They are assigned to a limbo called "preclinical obesity" since, though not ill, they are reckoned to have an increased risk of developing clinical obesity and thus becoming so. But they are not candidates for immediate drug treatment.

Francesco Rubino, a professor in metabolic and bariatric surgery at King's College, London, who is also one of the commissioners, reckons describing obesity as an actual disease is quite a radical shift. The next task—one which others have already started, he says—is to work out who among the 1bn or so people on the planet who were classified as obese according to the old definition qualify as being clinically obese under the new one, and thus in need of treatment. Preliminary work, he says, suggests 20-40% of them.

The commission's approach already seems popular with medical officialdom. Seventy-six of the world's leading health organisations, including the American Heart Association, the Chinese Diabetes Society and the All Indian Association for Advancing Research in Obesity, have already endorsed it. How quickly it will percolate into medical practice and public perceptions of who is and is not dangerously obese is another matter. ■

Well informed

Should you start lifting weights?

You'll stay healthier for longer if you're strong

BARBELLS; CHALK; the clang of iron plates. Strength training is having a moment. Planet Fitness, one of America's biggest gym chains, is cutting back on treadmills in favour of power cages and kettlebells. Even Peloton, a purveyor of expensive exercise bikes to the aspirational classes, is picking up the dumbbells—it now has an app aimed at strength training, rather than the cardio workouts on which it built its brand.

Gym fads come and go. But the rise of pumping iron will be welcomed by doctors and public-health types, who have for years been trying to persuade the public that though it is good to be fit, it is even better to be fit and strong. In 2010 the World Health Organisation added a recommendation of two sessions of muscle-strengthening exercise a week to its exercise guidelines. Many governments have followed suit (Japan, for example, updated its advice in 2024).

Until recently, few heeded this advice. A study published in 2020 estimated that around half of Western adults reported meeting weekly guidelines for cardiovascular exercise such as jogging or cycling, but only between 10% and 30%, depending on the country, claimed to meet the minimum for strength work. But things are clearly changing.

There is no doubt cardio is good for you—it lowers blood pressure, cuts the risk of heart disease, strokes and some kinds of cancer, and may even help treat depression. Fit people live up to seven years longer than couch potatoes. Being strong offers many of the same benefits.

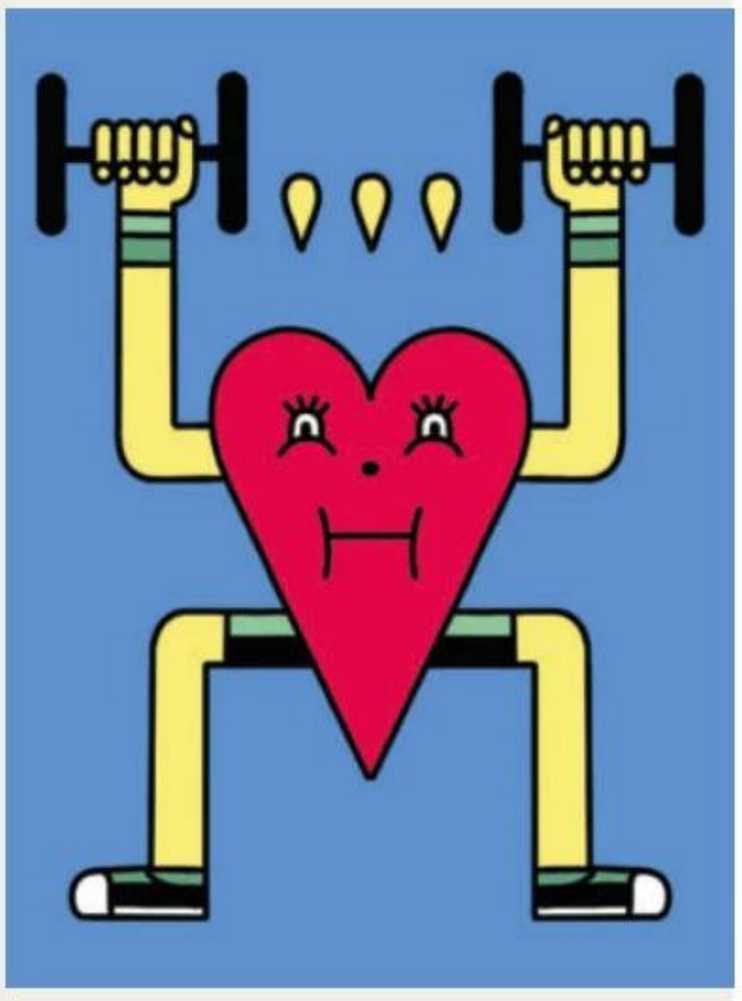
In the same way that bones are more than just scaffolding for the body (they also produce blood cells, for instance), muscle does more than merely move limbs. Strengthen exercise helps to regulate metabolism, insulin sensitivity and cholesterol levels. Though the evidence is less robust here than for cardio, a review published in 2022 concluded that regular strength training seems to reduce the risk of heart diseases, diabetes and cancer.

Much of the medical interest in strength exercise, however, comes from its ability to prevent, or treat, sarcopenia. This is the decline in strength and muscle size that accompanies ageing, and which doctors increasingly think should be classified as a disorder in its own right. The body's muscles naturally begin to shrink in one's 30s and that loss is disproportionately from the powerful, fast-acting "type 2" fibres which are responsible for explosive strength.

That process gathers pace in a person's 60s and 70s. The result can be frail and unsteady individuals struggling with what doctors call "activities of daily living", such as getting out of a chair or going out independently. Lack of muscle increases the risk of falls, a big killer of the elderly. It makes it harder to recover from injuries and illness. And it can worsen the prognosis of cachexia, the rapid wasting which often accompanies diseases such as cancer or heart failure.

With most of the world ageing rapidly, sarcopenia is going to become only a bigger problem. It could even be aggravated by the popularity of GLP-1 drugs like Wegovy. Some of the weight lost by people taking these drugs seems to result from shedding muscle rather than fat, which is not so healthy.

Some degree of decrepitude is inevitable with age. But the evidence suggests that, even for people in their 80s, a bit of pumping iron can work wonders. As so often in medicine, it is better to stop a disease taking hold in the first place than to try to cure it afterwards. The squat rack beckons.



Culture



Political comedy

Who gets the last laugh?

NEW YORK

Greg Gutfeld of Fox News rules the airwaves from a perch that the left made for him

RECENTLY GREG GUTFELD, who hosts America's most popular late-night show, on Fox News, became a father for the first time at the age of 60. Like all comics, he mined his experience for material. During his first show back, he took aim at his favourite targets, including liberals ("It amazes me more that some moms can be so pro-abortion...because these moms know that having kids is the best thing they're ever going to do. Aside from ironing") and transgender people ("Any man who thinks putting on a dress and a wig makes you a woman: no way! I was there when that baby popped out, and no dude can do that. You might as well put on a diaper and claim you're a baby").

This formula—jokes guaranteed to offend politically correct lefties, delivered with a knowing smile to camera—has made Mr Gutfeld America's most-watched late-night television host. Last year around 2.5m people tuned into his show each night, on average; the runner-up, Stephen Colbert on CBS, claimed 23% fewer viewers. Declaring him "the king of late night" (as he has called himself in the title of one of his 11 books) does not come without caveats: "Gutfeld!" airs at 10pm, when more people are awake, while other networks' comedy shows air later, between 11.30pm and 1am. He is also the only right-wing host in a left-leaning field, so liberal viewers split among several shows; Mr Gutfeld has the conservative audience to himself.

But his success embodies a dramatic shift: today right-leaning comedians sit atop American political culture. The country's most popular podcaster, Joe Rogan, is a stand-up comic and owns a comedy club in Austin; like Mr Gutfeld, he is a libertarian who supports Donald Trump and mocks liberal piety. In the run-up to the election, Mr Trump declined an invitation from "60 Minutes", a network-news stalwart, but appeared on several conservative podcasts, including Mr Rogan's, as well as Mr Gutfeld's show. Tom Shillue, a writer and guest on "Gutfeld!", says that he and like-minded comedians "are selling out clubs that we've never sold out before".

Conservative comedians are not new—in the early 2000s the Blue Collar Comedy Tour featured conservative white Southern men—but they were niche. Soon after Mr Trump's first inauguration in 2017, Tim Allen, a sitcom star, hyperbolically likened being conservative in the entertainment world to living in Germany in the 1930s, because it forced conformity. *Nicht mehr.*

Mr Gutfeld is small and elfin, with arched eyebrows and the slightly leering

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grin of someone who has just got away with something. Asked to name the people who made him laugh when he was young, he says, "That's easy," and lists a dozen examples, including Monty Python (a British comedy troupe) and comics Jonathan Winters and Steven Wright, whose influences are all apparent in his work. Before joining Fox in 2007, he worked for magazines, including *Men's Health* and *Maxim*. Now he also co-hosts "The Five", a panel discussion that is Fox News's highest-rated show.

To a first-time viewer, the popularity of "Gutfeld!" might seem as jarring as some of the jokes. The studio and set are small and simple. Unlike other late-night programmes, there is no house band. Stars do not come on to flog their new films. Instead, after a monologue—which Mr Gutfeld delivers seated, often dressed in an open-collar shirt rather than a suit and tie—he and panellists riff on the news and intersperse pre-recorded skits that are sometimes filmed on iPhones.

Though it skewers targets on the left, the show is not a doctrinaire endorsement of Republicanism. Mr Gutfeld says he finds politics "disgusting" and "fake" and calls himself "a libertarian who questions his libertarianism" and just wants to create "an absurd universe" on his show.

In the same way that Mr Trump's bluster attracts those who find mainstream politicians phoney, the unpolished aesthetic and taunting banter of Mr Gutfeld's show has a part-of-the-club appeal. From other late-night hosts, Mr Gutfeld argues, "You get the sense that they think they're better than you are...They're wealthier, they're smarter, they have better-looking friends and bigger homes...On my show, you're basically hanging out with your buddies...Viewers feel like they know us."

They also feel catered to, after years of being overlooked. Joe DeVito, a comedian and guest on "Gutfeld!", says that "People come up to me to tell me how...they're so grateful that someone in the media is listening to them, and not telling them they're racist idiots all the time."

There is a widely held view that comedy has an inherent left-wing bias, and in their book "Late Night in Washington", three academics, Stephen Farnsworth, S. Robert Lichter and Farah Latif, found that it did—at least after dark on TV. In the first third of 2021, late-night hosts (Mr Colbert, Jimmy Fallon, Jimmy Kimmel and Trevor Noah) told nearly four times as many jokes about Mr Trump as Joe Biden, despite the latter being president. Of the 20 most popular political joke targets, the only Democrats other than Mr Biden were Andrew Cuomo, who resigned as New York's governor following allegations of sexual harassment, and Joe Manchin, a conservative Democrat from West Virginia.

As for left-wing comedic bias more generally, Nick Marx, an academic who co-wrote "That's Not Funny", a book about right-wing comedy, argues that it does not exist. "Comedy is an empty vessel, used by any ideology to create in- and out-groups: a group that gets a joke and another group targeted by it," he says. Some may think that Mr Gutfeld and his ilk are punching down by joking about women and trans people. But fans of his would argue that he is, in fact, punching up against cultural elites. In this view, the true target of a joke about trans or homeless people is not just the ones joked about, but scolds who try to set rules for permissible humour.

Lefties may grumble into their organic oat-milk matcha lattes about Mr Gutfeld's popularity, but they bear some responsibility for his rise, and not just because of their censoriousness. The animating spirit of satire, after all, is not left- or right-wing politics, but anti-institutionalism: the desire to throw rocks at the establishment and stick it to the man. And in the Trumpist era, Democrats have become reflexive defenders of cultural and political institutions. Whatever the merits of their support for, say, the independence of the Justice Department's law-enforcement efforts, it is bad for comedy. Mocking rule-enforcers is funnier and more fun than conformity.

Will the show have to change when Mr Trump reassumes office on January 20th, and Republicans are no longer the underdogs? That night "Gutfeld!" will ring in the new era with a live show from Washington, DC. Asked whether Republican ascendancy may make his job harder, Mr Gutfeld claims he is not concerned: "There will be enough clowns [and] enough weirdness that I foresee no end in sight in terms of content...and when whatever side in media or entertainment refuses to go after certain sacred cows, I'll be there to throw that cow right on the grill." Viewers are likely to stay hungry for whatever he serves up. ■



The Economist Reads

Presidential biographies

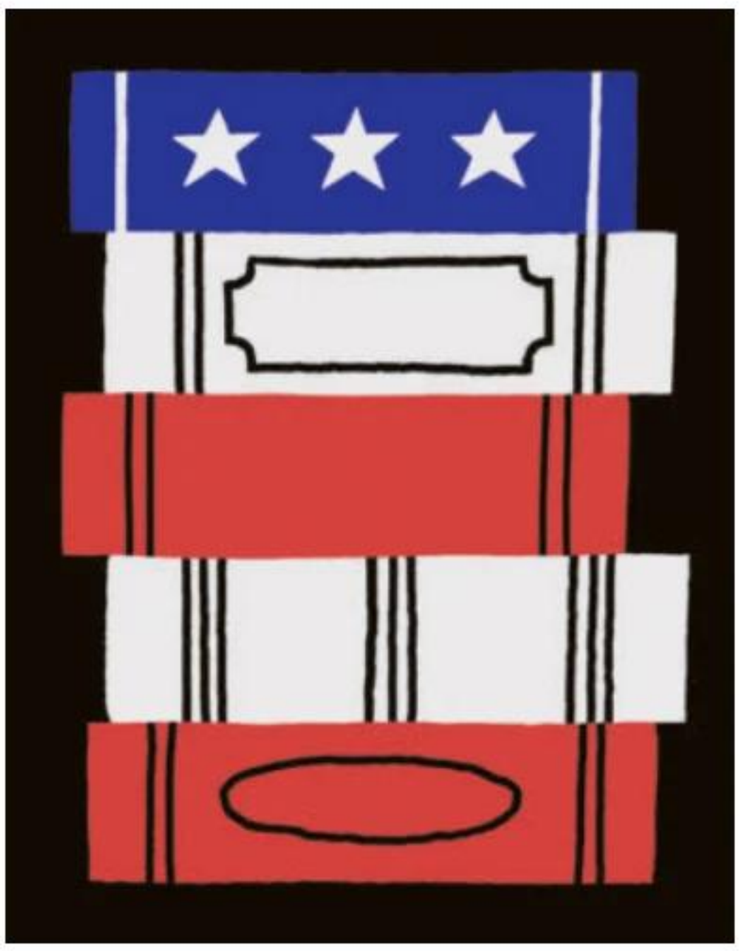
Want to spend time with a different American president?

WHATEVER YOU think of Donald Trump, his inauguration on January 20th is the capstone of the greatest ever comeback in American politics. Whether you seek succour in history or are ready to escape the news cycle, books can help. All 45 presidents have been the subject of at least two biographies, but these are five of the best.

The Bridge.
By David Remnick.
Inconveniently for biographers, Barack Obama is a gifted writer—second among presidents, perhaps, to Ulysses Grant. He told his own story in "Dreams from My Father" (1995). Still, "The Bridge", by the *New Yorker*'s editor, chronicles Mr Obama's rise. Most entertaining is his account of Chicago's South Side, where Mr Obama began his electoral career. This is not a comprehensive account of Mr Obama's legacy—it ends shortly after his first term began—but it is a colourful portrait of a man who met his country's moment.

John Adams.
By David McCullough.
Americans' reverence for the Founding Fathers can obscure their flaws. David McCullough's John Adams is brave yet filled with self-doubt, exacting yet fussy. (He and Benjamin Franklin, forced to share a room while travelling, argue over whether the window should be open or closed at night.) The magic of this book is that this ordinary, pudgy man is waging an epic battle for his country's independence. Often overlooked, Adams, Mr McCullough argues, was central to America's birth: he pushed relentlessly for independence, served dutifully as vice-president and negotiated shrewdly with European powers.

Reagan.
By Max Boot.
Ronald Reagan was a paradox: an affable communicator who won voters' and staffers' affection, but who was emotionally distant from everyone except his wife. That remoteness has frustrated biographers: Edmund Morris, who won a Pulitzer prize for his book on Theodore Roosevelt, found Reagan "inscrutable" despite years of conversations; he ended up writing a semi-fictionalised "memoir" of Reagan instead. Max Boot, a historian



who advised Republican presidential candidates but broke with his party over Mr Trump, has triumphed over predecessors. He marshals a huge amount of research to provide a full account of Reagan's life, from his boyhood in Illinois to his decline into Alzheimer's.

Team of Rivals.
By Doris Kearns Goodwin.
Steven Spielberg used this as the basis of his film "Lincoln" for good reason: Doris Kearns Goodwin is a dogged researcher and vivid writer. Her Abraham Lincoln is as Daniel Day-Lewis portrayed him: determined and humane. Like his rivals for the Republican presidential nomination in 1860, Lincoln opposed slavery, but was less radical than some. Being relatively unknown was an advantage, as was coming from what was then the Wild West of Kentucky and Illinois. It is a testament to Ms Kearns Goodwin's narrative genius that, despite every event being known, her book has a propulsive sense of suspense: it is a genuine page-turner.

The Years of Lyndon Johnson: Master of the Senate.
By Robert Caro.
The third volume of Robert Caro's masterful series spans Lyndon Johnson's arrival in the Senate in 1949 to his ascent to the vice-presidency. Johnson began his political career as a consistent opponent of civil rights, like the rest of his colleagues from the former Confederacy, but almost single-handedly pushed through the Civil Rights Act of 1957, now largely forgotten in the wake of President Johnson's more ambitious legislation in the 1960s. This is as much a biography of the Senate as of Johnson's time in it; readers will come away with a much deeper understanding of how the legislature, and political power, function. ■

Scorched architecture

Cinder blocks

LOS ANGELES

The city of angels has lost part of its trailblazing heritage

LUISA FABBRI looked like an apparition as she walked down a deserted tree-lined avenue in Altadena, the blackened remains of buildings on either side of her, power lines on the pavement and smoke in the air. She carried a pillow in one hand and a satchel of tax documents in the other. She had evaded a National Guard cordon to retrieve them.

Her house miraculously survived the devastation wreaked by fires in Altadena, 14 miles north-east of downtown Los Angeles. But she mourned anyway. Her home is part of one of the first Modernist housing developments in America, built for working-class residents by Gregory Ain, an architect, in the 1940s. Now all but a few of the 28 houses have burned to the ground.

Fires in Altadena and Pacific Palisades have damaged or destroyed more than 12,000 buildings, many of them homes. That includes oceanfront residences of film stars between Pacific Palisades and Malibu. But the blaze has also engulfed Modernist gems, some built in the mid-20th century, when a group of architects designed small, affordable houses made of easy-to-assemble materials, with open-floor plans and large windows that drew the faintest line between indoors and outdoors. At the time Los Angeles had few building regulations, so the city was a playground for experimentation. The ethos spread across America.

The most famous of these, the Case Study Houses, designed by architects including Charles and Ray Eames and Richard Neutra, appear to have survived the infernos, says Adrian Scott Fine of Los Angeles Conservancy, a heritage organisation. Ain's Park Planned Homes were not so lucky. Nor were later (more upmarket) Modernist icons, such as Ray Kappe's Keeler House, completed in 1991. Particularly heartbreaking, says Mr Scott Fine, was the loss of the ranch house designed in the 1920s for Will Rogers, an actor, in the state park that bears his name.

Ain was a social activist. He was inspired by Californian "starchitects" such as Rudolph Schindler and Neutra, both of whom had worked for Frank Lloyd Wright. He lost commissions in the McCarthy era (including for the Case Study House programme), but his social conscience defined his work. The original owners of some of his homes in Altadena were black Americans; Ms Fabbri bought her house from Martin Luther King's lawyer. The development was built like a park, with lush landscaping, interior courtyards and side-facing garages. It remained a multiracial, free-spirited place.

Architects today still sympathise with the social concerns of their time. Amid a homelessness crisis, LA needs more low-cost housing. But it may not be feasible, nor desirable, to replicate the style of lost buildings. Construction codes have changed; costs will be prohibitive; and the risk of natural disasters is rising. "What is the point of having a simulacrum when it doesn't meet the requirements of how we live today?" says Sarah Lorenzen, professor of architecture at Cal Poly Pomona.

For her part, Ms Fabbri, an Italian, hopes that her neighbourhood will rise from the ashes, however the next iteration of homes looks. "I'm a dreamer," she says. "That's why I live in America, I guess." ■



One of the survivors



Business and society

What firms are for

The Corporation in the 21st Century.
By John Kay. *Yale University Press; 448 pages; $35. Profile; £25*

WHO OWNS a company? The usual answer is that shareholders do. Yet they do not own it in the same way they might own, say, an umbrella. The umbrella's owner has acquired some rights: to possess it, use it and receive any income from renting it out, for instance.

Buy shares in Amazon, and you have indeed purchased all these rights over the shares. But even if you clubbed together with most of the other shareholders, you would not be able to commandeer a data centre or demand your online shopping free. You may own the shares, but you do not own the company. You are entitled to a dividend if its executives declare one; you are not entitled to any cash they get from selling a warehouse.

A new book by John Kay, one of Britain's leading economists, is packed with examples like this. His argument is that many of the ways people talk and think about business have little to do with how today's most important firms actually work but instead describe the capitalism of centuries gone by. Back then, those rich enough to buy factories and machinery called the shots for the companies that needed them. This "tripartite linkage" between personal wealth, ownership of the means of production and control of business "was a defining characteristic of the Industrial Revolution", Mr Kay writes.

The capitalist owner of a cotton mill used to hold the whip hand over its manager because, without the flying shuttles and spinning jennies, no manager could produce cotton. Now things are different. Today's most important means of production are no longer the mechanical equipment needed to make things. Apple is not one of the world's most valuable companies because it runs stellar production lines. Rather, its value comes from intangible factors, such as its employees' knack for design, which allow it to produce things others cannot. People have superseded land and machinery as companies' most productive assets, in other words.

The transformation of the most valuable means of production, argues Mr Kay, is just one reason that shareholders are no longer in charge. A related one is that many of the physical things businesses do need, from offices to IT equipment, are fungible and can be rented from providers of "capital as a service" (such as WeWork for offices, Prologis for warehouses and Foxconn for the machines that assemble iPhones).

Corporate law, meanwhile, has evolved to favour executives over shareholders. Not only do shareholders lack the right to manage a company, but some also struggle to appoint managers of their choosing. The American state of Delaware, wishing to attract big companies, has laws that make it hard for investors to stage hostile takeovers, pack boards with allies or propose their own directors. It has worked: two-thirds of the Fortune 500 list of the world's largest firms are now incorporated there.

As well as analysing this shift in the balance of corporate power, the book offers a lively discussion of what companies are, and what they are for. Texts about purpose in business are all too often waffly and worthy; Mr Kay's is admirably clear. A successful firm is not, he says, the mere "nexus of contracts" described by academics from the 1970s onwards; treating those relationships in purely transactional terms undermines the place of business in society, by making them too short-termist and focused on immediate profits.

If there is one topic on which the author moralises, it is the doctrine that executives should seek to maximise shareholder value. Its proponents have "often ended up destroying not only shareholder value but also the very businesses that their abler and better-motivated predecessors had created," he writes. What follows is a litany of iconic firms that were run into the ground by managers in pursuit of short-term profits, from Imperial Chemical Industries (a 20th-century pharmaceuticals giant that discovered beta-blockers) to Sears, Roebuck (a once-mighty American retailer). The core of Mr Kay's argument is that it is so difficult to decide what will ultimately create or destroy value that executives are better off simply focusing on building "great businesses".

So what is a company for, if not maximising shareholder value? The author's answer is "the flourishing of the multiple stakeholders of the corporation: employees, investors, suppliers and customers, the communities in which it operates and the corporation itself". It would be miserly to contradict such a utopian, if vague, ideal. It is hard, though, to imagine that today's tech giants—whose businesses Mr Kay clearly admires—were built with the flourishing of the communities in which they operate as a primary aim. (Just ask anyone who lives in Silicon Valley.) In fact, all these firms were founded at a time when the idea of maximising shareholder value reigned supreme. They seem to have managed it rather well. ■

The astrology boom

Star power

SINGAPORE

Technology and younger enthusiasts are boosting demand for astrology

TRANSITING PLUTO Semisextile Natal Uranus in Capricorn. That was the response Co-Star, an astrology app, gave when your correspondent asked if he should work harder. It meant, in plain(er) English, that the position of Pluto vis-à-vis Uranus could spark creativity, reduce the need to "conform to traditional work expectations" and unleash a "natural sense of individuality, rebellion". Citing the movement of planets for missing a deadline, however, would not please your correspondent's editor. Horoscopes, be damned.

More users globally are turning to astrology for advice. Co-Star, an American firm, is reported to have more than 30m users, whom it charges for queries ($2.99 gets you five questions). AstroTalk, an Indian firm, connects more than 40,000 astrologers to 80m customers remotely. Spending on astrology-related products and services is projected to grow to $22.8bn by 2031, up from $12.8bn in 2021, reckons Allied Market Research, a consulting firm.

Some 70% of Americans either "somewhat" or "strongly" believe in astrology, according to a survey by the Harris Poll, a research firm, in 2024. One reason for this attraction is the decline of organised religion, which has sparked a search for meaning in other places, from gyms to politics. Another commonly cited explanation is the stress of modern life: 61% of Americans say that astrology provides comfort in uncertain times. Interest surged during the covid-19 pandemic. On Google ▸▸

global searches for the term "astrology" hit a ten-year high in December 2020.

Youngsters, in particular, are captivated by it. More than 60% of users of InstaAstro, an Indian service that connects astrologers with clients, are Gen Z. Many use the platform to seek relationship advice. In China, young people are drawn to Cece, another app, for similar reasons.

Developments in technology tend to weaken pseudoscience, but in astrology's case they have expanded its reach. In the early 20th century astrology spread through horoscope columns in newspapers; the internet and smartphones expanded interest to new stargazing users.

AI is now making access to prophecies even easier. Whereas once clients needed to see an astrologer in person to discover their prospects in love and life, today they can simply input the details of the time and place of their birth on digital services, such as KundliGPT. The firm generates responses using a large-language model that has been trained on relevant data, including planetary positions and astrological material sourced from websites and forums. Co-Star uses AI tools to combine data from space (sourced from NASA) with insights from human astrologers to give personalised responses to users.

AI and astrology may seem strange bedfellows, but there is a millennia-old connection. In "A Scheme of Heaven", a history of astrology, Alexander Boxer, a data scientist, argues that the ancient study of stars was the world's first "grand data-analysis enterprise". The methods employed to compile datasets of planetary movements, used to produce horoscopes, have influenced the big-data and machine-learning tools that generate today's AI-fuelled astrological predictions. It may be the ultimate cosmic cycle. ■



Not over the moon about his horoscope



World in a dish

The glass is greener

Why matcha, made from green tea, is the drink of the moment

IT WAS A freezing winter's day in London as patrons jostled in a poky outpost of Blank Street, a coffee-shop chain. You might have expected them to pick up a warming cappuccino. Instead, many placed orders for iced matcha lattes, which arrived in shades of green, cream (white-chocolate flavour) or purple (blueberry).

Such is the craze for matcha that fans are willing to risk frostbite to get their hands on one. Blank Street claims that it sells some form of the green-tea-based drink "every four seconds" from its 80-odd shops in Britain and America (though it refuses to say how much that adds up to). In Japan, the world's leading producer of matcha, the export value of tea in 2023 rose by 33% from the previous year. The global market for matcha-based products is worth around $4.24bn and will grow around 53% by 2029, predicts the Business Research Company, a consultancy.

Matcha is big on social media: videos tagged #Matcha on TikTok have more than 15bn views. Fans share recipes and teach their followers how to tell a high-quality matcha powder from a shoddy one. (Apparently they should look for "ceremonial grade", which has a vibrant hue, fine texture and higher price tag.) Asia is responsible for more than 40% of matcha consumption: as well as going into bottled, premixed drinks, the powder is used in ice cream, biscuits and *mochi* (rice cakes).

Matcha is made from ground leaves of the *Camellia sinensis* plant. Tea culture developed in China during the Tang Dynasty. Myoan Eisai, a Japanese monk, came across it while travelling there in the 12th century; he brought seeds back to Japan and wrote a book extolling green tea's benefits, describing it as "the elixir of the immortals". Matcha later spread through Japanese polite society with the rise of *chanoyu*, or the tea ceremony.

What explains the drink's newfound popularity outside Asia? Matcha mavens tout it as a healthier alternative to coffee. Some studies suggest that green tea's antioxidants can help stave off cardiovascular disease, improve gut health and speed up metabolism. It also gives a steady boost of energy, compared with the surge and crash of a cup of joe. A coffee contains around 100-200mg of caffeine; a matcha contains around 70mg, as well as L-theanine, an amino acid, which together improve concentration and alertness.

Gen Z and millennials—who drink less coffee than their elders, spend more time online and care about wellness—are seeking it out. The irony is that much of matcha's growth in the West is driven by flavoured matcha lattes, which are crammed with sugar. The future may not be all that sweet, however. Tea production in Japan is decreasing, as is the area of land being used for cultivation; farmers are retiring and are put off by rising prices for fertiliser and other essentials. Lovers of the trendy iced beverage may soon feel a chill when it comes to their bill. ■

Economic & financial indicators

	Gross domestic product, % change on year ago: latest		quarter*	2024†	Consumer prices, % change on year ago: latest		2024†	Unemployment rate, %		Current-account balance, % of GDP, 2024†	Budget balance, % of GDP, 2024†	Interest rates, 10-yr gov't bonds: latest, %		change on year ago, bp	Currency units: per $ Jan 15th	% change on year ago
United States	2.7	Q3	3.1	2.7	2.9	Dec	2.8	4.1	Dec	-3.4	-7.1	4.7		70.0	-	
China	4.6	Q3	3.6	4.9	0.1	Dec	0.3	5.0	Nov‡§	2.1	-4.4	1.4	§§	-98.0	7.33	-2.2
Japan	0.5	Q3	1.2	-0.2	2.9	Nov	2.6	2.5	Nov	4.2	-4.7	1.3		69.0	156	-6.7
Britain	0.9	Q3	0.1	0.9	2.5	Dec	2.9	4.3	Sep††	-2.9	-4.0	4.9		101	0.82	-3.7
Canada	1.5	Q3	1.0	1.3	1.9	Nov	2.4	6.7	Dec	-1.0	-1.2	3.4		19.0	1.43	-6.3
Euro area	0.9	Q3	1.7	0.8	2.4	Dec	2.3	6.3	Nov	3.3	-3.1	2.5		33.0	0.97	-6.2
Austria	-0.6	Q3	-0.5‡	-0.9	2.2	Dec	2.9	5.0	Nov	2.2	-2.3	2.9		18.0	0.97	-6.2
Belgium	1.2	Q3	1.2	1.1	4.4	Dec	4.3	5.8	Nov	-0.3	-4.6	3.2		40.0	0.97	-6.2
France	1.2	Q3	1.6	1.1	1.8	Dec	2.3	7.7	Nov	-0.4	-6.2	3.4		62.0	0.97	-6.2
Germany	-0.1	Q4	-0.4	-0.1	2.8	Dec	2.4	3.4	Nov	6.3	-1.6	2.5		33.0	0.97	-6.2
Greece	2.5	Q3	1.1	2.2	2.9	Dec	3.0	9.6	Nov	-6.4	-1.3	3.4		6.0	0.97	-6.2
Italy	0.4	Q3	nil	0.6	1.4	Dec	1.1	5.7	Nov	1.3	-4.1	3.7		-9.0	0.97	-6.2
Netherlands	1.7	Q3	3.3	0.9	3.9	Dec	3.4	3.7	Dec	9.9	-2.0	2.8		26.0	0.97	-6.2
Spain	3.3	Q3	3.2	3.0	2.8	Dec	2.9	11.2	Nov	3.1	-3.2	3.3		12.0	0.97	-6.2
Czech Republic	2.1	Q3	2.1	1.0	3.0	Dec	2.4	2.8	Nov‡	1.3	-2.4	4.1		30.0	24.5	-7.9
Denmark	2.9	Q3	3.6	1.8	1.9	Dec	1.3	2.9	Nov	10.8	2.1	2.3		-11.0	7.24	-5.9
Norway	3.5	Q3	-7.1	1.7	2.2	Dec	2.2	3.9	Oct‡‡	17.3	12.5	4.0		42.0	11.3	-8.6
Poland	2.7	Q3	-0.4	2.3	4.7	Dec	3.8	5.1	Dec§	0.4	-5.7	6.0		86.0	4.13	-3.4
Russia	3.1	Q3	2.7	3.5	9.5	Dec	8.5	2.3	Nov§	3.3	-1.7	15.9		400	103	-14.5
Sweden	0.6	Q3	1.1	0.6	0.8	Dec	1.9	7.4	Nov§	6.0	-0.9	2.5		32.0	11.1	-7.4
Switzerland	2.0	Q3	1.7	1.2	0.6	Dec	1.2	2.6	Dec	7.4	-0.9	0.5		-36.0	0.91	-6.6
Turkey	2.1	Q3	-0.8	2.9	44.4	Dec	57.7	8.4	Nov§	-0.9	-4.1	26.5		180	35.5	-15.1
Australia	0.8	Q3	1.3	1.1	2.8	Q3	3.1	4.0	Dec	-2.0	-1.2	4.5		34.0	1.61	-6.8
Hong Kong	1.8	Q3	-4.2	2.5	1.4	Nov	1.9	3.1	Nov‡‡	12.2	-3.2	4.0		49.0	7.79	0.5
India	5.4	Q3	3.0	6.6	5.2	Dec	4.8	7.8	Dec	-0.5	-4.9	6.8		-34.0	86.4	-4.0
Indonesia	4.9	Q3	3.8	5.0	1.6	Dec	2.3	4.9	Aug§	-0.2	-2.4	7.2		60.0	16,320	-4.7
Malaysia	5.3	Q3	6.3	5.2	1.8	Nov	1.9	3.2	Nov§	1.5	-4.4	3.8		3.0	4.50	3.8
Pakistan	3.2	2024**	na	3.2	4.1	Dec	12.6	6.3	2021	0.5	-6.7	12.1	†††	-284	278	0.6
Philippines	5.2	Q3	7.0	5.5	2.9	Dec	3.2	3.9	Q4§	-2.6	-5.6	6.4		21.0	58.6	-4.8
Singapore	4.3	Q4	0.4	3.8	1.6	Nov	2.4	1.9	Q3	19.6	0.2	3.1		30.0	1.37	-2.2
South Korea	1.6	Q3	0.4	2.2	1.9	Dec	2.3	3.8	Dec§	4.1	-1.8	2.9		-44.0	1,461	-9.6
Taiwan	4.2	Q3	0.9	5.0	2.1	Dec	2.2	3.4	Nov	13.5	0.5	1.6		42.0	33.1	-5.5
Thailand	3.0	Q3	4.9	2.6	1.2	Dec	0.4	0.9	Nov§	2.2	-3.7	2.5		-26.0	34.7	0.6
Argentina	-2.1	Q3	16.4	-2.6	118	Dec	219.9	6.9	Q3§	0.4	0.3	na		na	1,041	-21.4
Brazil	4.0	Q3	3.7	3.4	4.8	Dec	4.4	6.1	Nov§‡‡	-2.1	-7.5	14.7		410	6.04	-19.2
Chile	2.3	Q3	2.7	2.3	4.5	Dec	3.9	8.2	Nov§‡‡	-2.5	-2.5	6.0		50.0	1,003	-8.9
Colombia	2.0	Q3	0.8	1.6	5.2	Dec	6.6	8.2	Nov§	-2.8	-5.7	11.3		191	4,295	-8.9
Mexico	1.6	Q3	4.4	1.5	4.2	Dec	4.7	2.7	Nov	-1.0	-4.9	10.3		130	20.5	-17.5
Peru	3.8	Q3	2.8	3.1	2.0	Dec	2.4	4.5	Dec§	1.7	-3.9	6.7		-4.0	3.77	-1.9
Egypt	3.5	Q3	38.0	2.4	24.1	Dec	28.7	6.7	Q3§	-5.2	-3.7	na		na	50.4	-38.6
Israel	-1.0	Q3	3.8	0.3	3.2	Dec	3.0	2.7	Nov	4.6	-7.3	4.5		33.0	3.61	4.2
Saudi Arabia	-0.8	2023	na	1.3	1.9	Dec	1.7	3.7	Q3	0.4	-2.5	na		na	3.75	nil
South Africa	0.3	Q3	-1.4	0.8	2.8	Nov	4.4	32.1	Q3§	-1.9	-5.2	9.1		-58.0	18.8	-0.5

*% 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. Source: Haver Analytics Note: Euro area consumer prices are harmonised.

Markets

In local currency	Index Jan 15th	% change on: one week	% change on: Dec 29th 2023
United States S&P 500	5,949.9	0.5	24.7
United States NAS Comp	19,511.2	0.2	30.0
China Shanghai Comp	3,227.1	-0.1	8.5
China Shenzhen Comp	1,901.1	1.5	3.4
Japan Nikkei 225	38,444.6	-3.8	14.9
Japan Topix	2,690.8	-2.9	13.7
Britain FTSE 100	8,301.1	0.6	7.3
Canada S&P TSX	24,789.3	-1.0	18.3
Euro area EURO STOXX 50	5,032.3	0.7	11.3
France CAC 40	7,474.6	0.3	-0.9
Germany DAX*	20,574.7	1.2	22.8
Italy FTSE/MIB	35,647.0	1.5	17.4
Netherlands AEX	893.9	0.6	13.6
Spain IBEX 35	11,898.5	0.9	17.8
Poland WIG	82,883.7	2.0	5.6
Russia RTS, $ terms	871.1	-1.0	-19.6
Switzerland SMI	11,781.7	-0.8	5.8
Turkey BIST	9,739.7	-1.5	30.4
Australia All Ord.	8,456.8	-1.7	8.0
Hong Kong Hang Seng	19,286.1	nil	13.1
India BSE	76,724.1	-1.8	6.2
Indonesia IDX	7,079.6	nil	-2.7
Malaysia KLSE	1,562.1	-3.3	7.4
Pakistan KSE	114,495.7	0.3	83.3
Singapore STI	3,772.6	-2.9	16.4
South Korea KOSPI	2,496.8	-1.0	-6.0
Taiwan TWI	22,514.6	-3.8	25.6
Thailand SET	1,353.2	-2.5	-4.4
Argentina MERV	2,704,474.0	-2.8	190.9
Brazil BVSP*	122,650.2	2.5	-8.6
Mexico IPC	50,242.8	1.2	-12.4
Egypt EGX 30	29,389.9	-1.3	18.1
Israel TA-125	2,558.6	3.1	35.6
Saudi Arabia Tadawul	12,212.2	1.0	2.0
South Africa JSE AS	83,515.3	0.4	8.6
World, dev'd MSCI	3,744.5	0.3	18.2
Emerging markets MSCI	1,055.8	-1.4	3.1

US corporate bonds, spread over Treasuries

Basis points	latest	Dec 29th 2023
Investment grade	96	154
High-yield	319	502

Sources: LSEG Workspace; Moscow Exchange; Standard & Poor's Global Fixed Income Research. *Total return index.

Commodities

***The Economist* commodity-price index 2020=100**	Jan 7th	Jan 14th*	% change on: month	% change on: year
Dollar Index				
All items	133.5	135.5	-1.0	7.7
Food	152.0	153.7	-0.4	19.2
Industrials				
All	118.3	120.5	-1.6	-2.2
Non-food agriculturals	130.2	133.6	-0.1	4.1
Metals	115.2	117.1	-2.0	-4.0
Sterling Index				
All items	137.3	142.7	3.2	11.7
Euro Index				
All items	147.1	150.4	1.0	13.8
Gold				
$ per oz	2,648.4	2,672.8	1.3	31.3
Brent				
$ per barrel	76.9	80.4	10.5	2.6

Sources: Bloomberg; CME Group; FT; LSEG Workspace; NZ Wool Services; S&P Global Commodity Insights; Thompson Lloyd & Ewart; USDA; WSJ. *Provisional.

For historical indicators data, visit economist.com/economic-and-financial-indicators

OBITUARY
Peter Fenwick

The world expert on near-death experiences died on November 22nd, aged 89



THE MAN who sat facing Peter Fenwick in his consulting room was lucky to be alive. A while ago, he had come into St Thomas' hospital in London to have a catheter inserted in his heart. But things had gone wrong, and he went into cardiac arrest. There was no respiratory effort and no brain-stem reflex. For some minutes, to all the doctors round him, he was clinically dead.

But not to him. From somewhere outside his body he watched what they were doing to him, as he lay inert on the gurney. Then he went through a tunnel, towards a light that was strangely welcoming. At the tunnel's end, bathed in that light, was a garden of beautiful flowers. He wandered there for a while, surrounded by love. He met dead relatives and silently conversed with them. Briefly he saw his life in review, though no one judged him except himself. Then he suddenly realised that if he went on, he would die. So he returned to his body and its pain.

Dr Fenwick was shocked to hear this, from a patient he thought he knew. He had heard about near-death experiences (NDEs), of course; he had read Raymond Moody's "Life After Life", published the year before, which had set up quite a stir. His verdict was that the book was absolute rubbish, flaky Californian stuff. But perhaps there was something here to look into.

It touched on the subject that had fascinated him ever since his graduation from Cambridge. What was consciousness, and how did it relate to brain function? Was it transcendent reality (as he increasingly felt), or was it secreted by the brain like bile from the liver? And what sort of research could bridge the gap? When he went into medicine his first interest was brain surgery, but he decided he didn't want to look into the brain through some deep, dark hole; he needed to study its workings in conscious patients. The neurophysiology unit he ran for 20 years at the Maudsley Hospital dealt with epilepsy, sleep, meditation and dreams. NDEs were a natural next step.

Almost no work had been done on them. The field was clear; it was also dismissed. The world according to science in the 1960s was mechanistic and purely material. At Cambridge he hardly ever heard the word "consciousness". NDEs were dismissed as hallucinations, or the result of drugs, anesthesia or oxygen deprivation; at worst, they were a sort of common myth for people afraid of death. At Cambridge the master of his college, Trinity, had won a Nobel prize partly for showing how neurons communicated with each other by pulses of electricity. Once neurons were completely understood, one critic told him, the debate would be over.

He had chosen a hard road. His attempt to set up a study of NDEs at the Maudsley was laughed away by its ethics committee. The head of the intensive-care unit said such things never happened there. A vicar, horrified, said no-one in his congregation had ever experienced such a thing. But all were proved wrong; for in 1988 a BBC documentary featuring Dr Fenwick brought in more than 2,000 letters from the Great British Public, who not only cheered him with stories of their own NDEs but, when he sent 500 of them detailed questionnaires, also gave him a wonderful database for a study of the phenomenon itself.

About 98% of the respondents had not known what an NDE was. Almost all, however, told much the same tale. They had left the body or gone down a tunnel towards a bright light, which embraced them with love and peace. At the end was a pastoral landscape or an English country garden, both a paradise. About 40% met dead relatives or friends there, but as presences rather than forms, and these often told them that it was not yet their time. Some had a life review, from which they were gently encouraged to learn. Then, when they reached a boundary they strongly felt they should not cross, they turned back. It was always their decision: something urgent had to be said, or done, before they actually died. One woman said she had to finish a pile of ironing. The similarity of these experiences, and their overwhelming realness for those who had them, fortified his own growing belief in a consciousness that was universal, external and contained many levels of reality: a consciousness that was only dimly filtered by the senses and the ever-busy, marvellous brain.

He was most intrigued, though, by what happened at deaths from which people did not return. When the brain died, did consciousness truly survive? He was debarred from questioning the dying, so he talked to relatives and carers in hospices. Attitudes varied widely: the doctors sceptical, some hostile, but nurses more open-minded. They heard patients describe deathbed visions and strange visitors, and at times met them too. They watched birds perch near the window, and a strong spiritual light filling the room. Far-off relatives described visits by the dead at the moment they died, always with the simple message: "I'm OK".

The hardest part of death, as he reported in "The Art of Dying", was to give everything up. The ego, so carefully constructed since childhood, so loud with chatter and insistent on control, had to be stripped away completely to achieve transcendence. While in this world, he had made a start. He studied Zen, which he found hard, and did daily meditation. He also followed the teachings of Alain Forget, a philosopher whose system for losing the ego was distancing and discernment. He discovered half-hidden walls in himself he had to break down, especially his resentment of his mother for sending him from Kenya, at the age of five, to boarding school in England. With a bit of a struggle, he learned to live in the moment, discarding both future and past.

In his many talks, he never hectored like a preacher. He spoke calmly and happily, sometimes with his Burmese cat on his lap. His field of interest, controversial as it remained, filled him with joy and curiosity. Whatever was to come next, beyond the body, he knew it would be wonderful. He could hardly wait. ■