The Economist

What Putin wants

India and Pakistan flirt with war—again

Chip smuggling out of control

Gen X: the loser generation

MAY 10TH–16TH 2025

ALL GROWN UP

Saudi Arabia's surprising transformation

Business

Photograph: EPA

The Federal Reserve kept interest rates on hold for its third consecutive meeting, maintaining its benchmark rate at a range of between 4.25% and 4.5%. The risks from inflation and unemployment have risen, it said, amid uncertainty about the economic effects of Donald Trump's tariffs, even though jobs figures for April also showed that the labour market was strong. Mr Trump is pressing Jerome Powell, the Fed's chairman, to cut rates. Before the bank's meeting the president said he would not sack Mr Powell, but did call him a "total stiff".

China's central bank shaved 0.1 percentage points off its main interest rate, taking it to 1.4%. The People's Bank of China also reduced other loan rates and cut the amount of money that banks need to keep in reserve, all part of an effort to boost liquidity in the financial system. The announcements came just ahead of the start of trade talks between America and China.

America's trade deficit hit a record monthly high in March, of $140.5bn. The dash to get ahead of Mr Trump's tariffs resulted in imports from some countries, such as France, India, Mexico and Vietnam, reaching all-time highs. However, imports from China were the lowest since March 2020.

The Bank of England lowered its benchmark interest rate from 4.5% to 4.25%. The central bank mentioned that although increases to energy bills are likely to push up consumer-price inflation in the third quarter, it is expected to fall back thereafter, and progress on disinflation is “generally continuing”.

Oil prices dropped to near four-year lows after OPEC+ said it would increase output, which raises the prospect of an oversupply of oil amid a slowing world economy. At one point Brent crude traded just below $60 a barrel. In mid-January Brent was at $82 a barrel.

Lower oil prices in the first quarter of 2025 were a factor behind the reduced profits reported by big energy companies. Chevron’s net profit of $3.5bn was $2bn below the profit it made in the same quarter last year. ExxonMobil’s $7.7bn was down from $8.2bn. Shell’s adjusted profit fell by 28% to $5.6bn. Shell has dismissed rumours that it is interested in taking over BP, which is struggling to convince investors of its turnaround plan. BP’s headline profit fell by half in the quarter, to $1.4bn.

Overcoming the recent tensions between the two countries, including over energy imports, Sunoco, an American oil company, struck a $9bn deal to buy Parkland, a Canadian rival. If it survives any potential pushback from Mr Trump, the deal will create the biggest fuel distributor in the Americas.

A Musky odour

Sales of Tesla cars again fell heavily in Europe in April. In Germany they were down by 46%, year on year, and in France by over 50%. And in Britain, which had hitherto resisted the continent’s rejection of Tesla and Elon Musk, sales plunged by 62%.

Normally associated with assembling the iPhone, Foxconn made a big push into the electric-vehicle market by striking a deal with Mitsubishi. The cars will be developed by Foxtron, Foxconn’s EV subsidiary, and made in Taiwan for sale in Australia and New Zealand. Foxconn is eager to co-operate with Japanese carmakers. Earlier this year it considered buying a stake in Nissan in return for co-operation on technology.

OpenAI abandoned its attempt to turn into a for-profit company and will remain under the control of a non-profit board. It is instead rejigging its for-profit subsidiary, which helps fund its R&D in artificial intelligence, to make it more investor friendly. The startup’s ambition to become a regular company has been criticised by Elon Musk, one of OpenAI’s founders, and others as a betrayal of its roots. A judge had recently ruled that Mr Musk’s attempt to block the conversion to a for-profit could proceed to court next year.

Orsted, the world's biggest developer of offshore-wind power, halted work on a project in the North Sea that is meant to supply energy to 1m homes in Britain. It blamed rising costs and the risks from delays, which means the Hornsea 4 farm off the Yorkshire coast is not viable "in its current form". The news is a blow to the ambitious (some say over-ambitious) desire of the Labour government for Britain to reach net-zero emissions by 2030.

Disney's quarterly earnings pleased investors. Profit came in ahead of Wall Street's expectations, helped by a jump in revenue from the Disney+ and Hulu streaming services. Disney's theme parks also performed well. The company announced that it is to build a theme park in Abu Dhabi, its first in the Middle East.

The Sage of Omaha

Photograph: Getty Images

Wrren Buffett announced his retirement as chief executive of Berkshire Hathaway, a conglomerate and investment company that he has led since the 1960s. The board approved Gregory Abel to replace Mr Buffett on January 1st 2026. Mr Abel was chosen as the heir in 2021 and oversees Berkshire's businesses other than insurance. Once famous for his blockbuster acquisitions, Mr Buffett has said there are few such takeovers for Berkshire these days and has instead accrued a cash pile of $348bn. Berkshire's stock has risen by 5.5m per cent since Mr Buffett took charge in 1965, vastly outperforming the S&P 500. He will be 95 when he steps down.

Finance & economics
What happens when a hegemon falls?

Why economists are turning to a 50-year-old book on the Depression

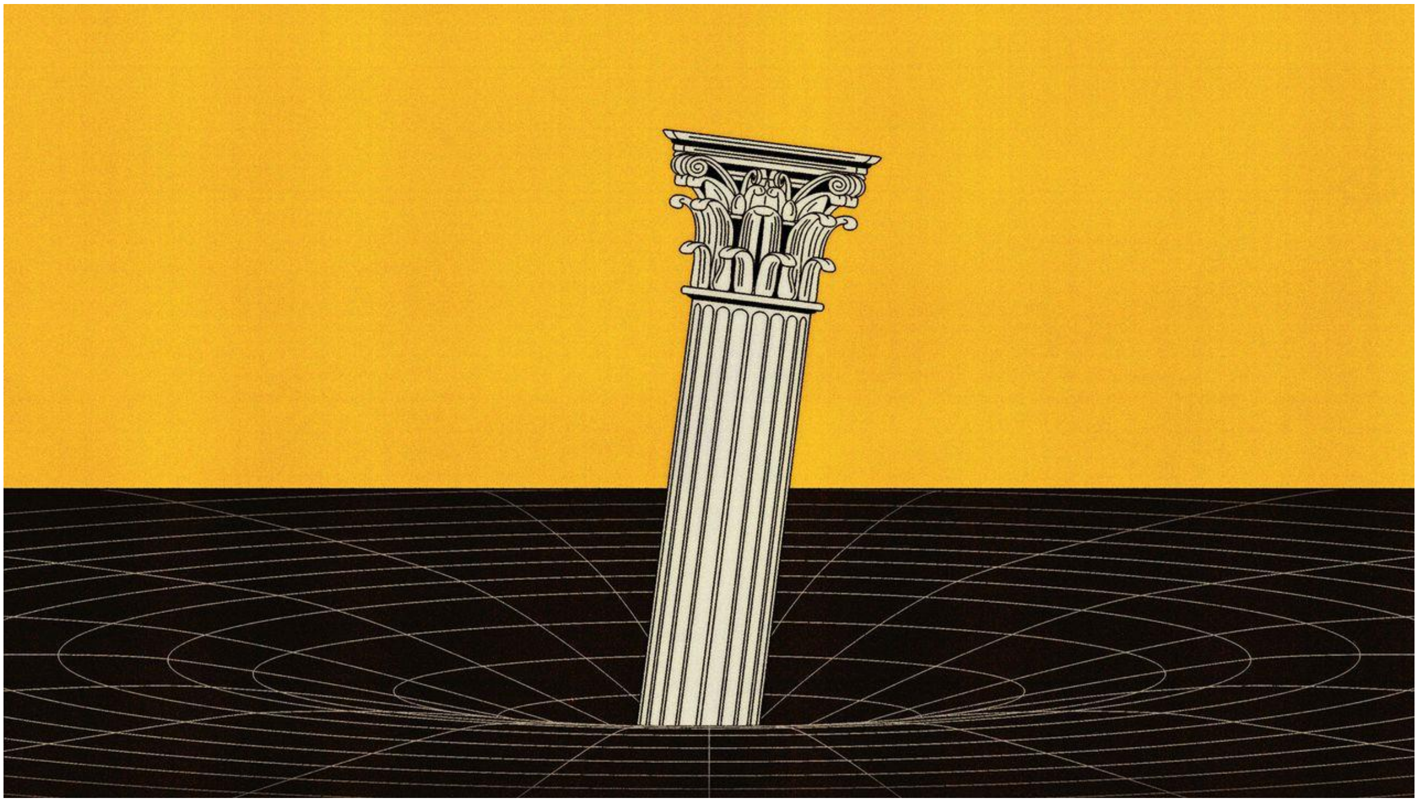

Illustration: Álvaro Bernis

The "Kindleberger Spiral", a graph of world trade between 1929 and 1933, looks like water circling a drain, or a small animal curling up into a ball. It was produced by Charles Kindleberger, an economic historian, in "The World in Depression", a book published in 1973, and has recently enjoyed a new lease of life as a demonstration of the self-harm that protectionism inflicts. From month to month, Kindleberger charted how the global economy turned in on itself throughout the late-1920s and 1930s, spiralling towards disaster. Another idea from his work—the "Kindleberger gap", referring to a leadership void—is also proving helpful.

Kindleberger had a front-row seat for the Depression. As a graduate student completing his thesis in the 1930s, he worked at the US Treasury for Harry Dexter White, chief architect of the post-first-world-war system of fixed exchange rates. Graduation led to a job at New York Federal Reserve. After the second world war, during which he worked at the Office of Strategic Services, a precursor to the CIA, he moved to the State Department, where he helped shape the Marshall Plan, America's programme for the reconstruction of Europe. In time he found his way to academia—he had probably had enough excitement, his biographer speculates—becoming one of the first members of the economics department at the Massachusetts Institute of Technology.

At MIT, Kindleberger was something of a pre-war figure in a post-war world. He was not a mathematical-model builder in the mould of Paul Samuelson and Robert Solow, two supremely talented colleagues. Instead, he followed a methodology he called historical economics, not economic history. "It is better, I believe, to err on the side of an artistic feel for the relationships and the data," he wrote. Despite this, in 2009, it was his work to which Larry Summers turned as he co-ordinated America's response to the financial crisis while director of the National Economic Council.

"The World in Depression" answers fundamental questions: "How and where the Depression originated, why it spread so widely and why it went so deep and lasted so long." The book starts with the venomous diplomacy of first-world-war debts and reparations, travels through the stockmarket crash of 1929, the turn to protectionism, subsequent bank failures and the seemingly never-ending economic slump, until it concludes with German rearmament—stopping short of the second world war.

Kindleberger's conclusion is that the Depression was such a disaster because the global economy lacked a leading nation to stabilise it. "Britain could not and America would not," he wrote. Britain, which under the gold standard was the dominant economic as well as military power, was exhausted by the first world war. America was isolationist, protectionist and overrun by hard-money thinking, which insisted on balanced budgets and a gold peg. France was too small to stabilise the world but big enough to destabilise it, he wrote, as when the country attached conditions to bail-outs or dug in its heels over German reparations. The Kindleberger gap refers to this void of economic leadership.

Stability, Kindleberger argued, is a global public good that must be provided. It is not a naturally occurring equilibrium. The leading economy—a "hegemon", as later thinkers would term it—can capture some of the benefits of this stability for itself, and push the system in a direction favourable to its interests. However, it needs to take on the burden of providing, among other things, an open market for goods, countercyclical finance and the role of lender of last resort. President Donald Trump now appears to reject this thinking altogether. He demands that allies pay for military protection and views a trade deficit as straightforward evidence of being ripped off. Members of his administration have mooted charging countries for the privilege of lending to the American government. All told, he simply does not see the gains that emerge from global stability as being worth their cost.

Hélène Rey of the London Business School identifies a "New Kindleberger Gap". This time a "self-destructing hegemon" is, she says, uninterested in providing global public goods, while an ascendent one (Ms Rey refers to the European Union, but China is another candidate) lacks the ability. The Fed's swap lines lie at the heart of her concerns. These offer central banks in allied countries, including the European Central Bank, the Bank of England and the Bank of Japan, access to dollars in exchange for their own currency. They should help forestall any crisis that bids up the price of dollar borrowing, but are just the sort of burden-sharing to which Mr Trump normally objects. In an attempt to bolster their position, sophisticated policymakers are talking in Trumpian terms. "The reason we do it is it's really good for US consumers," Jerome Powell, chairman of the Fed, has said.

Greenbacked

What are the contingency options? Despite Mr Powell's assurance that America will continue to offer swap lines, Ms Rey suggests that European central banks should encourage commercial lenders to reduce exposure to dollar assets, build up precautionary dollar reserves and play a part in turning the euro into an international currency. Robert McCauley of Boston University advocates the creation of a "dollar coalition of the willing", pointing out that the central banks which would normally receive swap lines from America already have $1.9trn-worth of dollar-reserve assets, which they could agree to pool in advance of a crisis. That amount is far more than they borrowed from the Fed during either the global financial crisis of 2007-09 or the early stages of the covid-19 pandemic. In the short term, such actions may help cement the role of the dollar, as central banks build up reserves. In the longer term, however, it may mean that American monetary hegemony becomes a subject fit only for historical economics.

Global turmoil has at least one beneficiary: currency traders

The foreign-exchange market has been reinvigorated by recent events

Illustration: Satoshi Kambayashi

Traders often joke that FX stands for "forgotten exchange". After the global financial crisis of 2007-09, near-zero interest rates in rich economies and tighter currency management in emerging ones kept volatility low—and with it, profits.

Now Donald Trump's return to the White House has jolted currency markets back to life. In April a measure of the volatility of the DXY index, which compares the dollar with a basket of peer currencies, was almost twice as high as a year earlier.

CME Group, the world's largest derivatives exchange, says that in the first quarter of 2025—before Mr Trump's "Liberation Day" tariff shock—foreign-exchange trading volumes on its platforms were up by 25% year on year, with a record daily average of 1.1m futures and options contracts traded. On April 3rd, the day after Mr Trump's announcement, trading on EBS, a CME spot foreign-exchange platform, reached $147bn, the most since 2020.

Other policy surprises have had similar consequences. On March 5th trading between the euro and the dollar hit $137bn, more than double this year's daily average, after Germany announced more defence spending. On May 2nd trading in one-month forward contracts on the dollar-Taiwan dollar exchange rate reached over $6bn on EBS, a record for a single day, after China signalled openness to trade talks with America. Stockmarket jitters have added to the turbulence, with the dollar weakening since mid-January as investors pulled money from American shares.

Currencies are quick to respond to unexpected developments, says Paul Lambert of NCFX, a data provider. The $7.5trn-a-day market is highly liquid, runs around the clock and settles fast, allowing investors to respond at once to news outside normal trading hours. They then shift exposures in stocks or bonds once markets open. Mr Trump's announcements late in the American day often land during Asia's morning, triggering a rush of trading in the region, notes John Rothstein of Optiver. To keep up, his trading firm has had to expand its operations in Singapore.

Much of the pickup in activity comes from companies and investors trying to limit currency risk, says Mr Lambert. Multinationals hedge foreign revenues and costs; investors want to protect overseas holdings. Lauren van Biljon of Allspring Global Investments, an asset manager, says that her clients increasingly view currency moves as a source of returns, too.

Recent results issued by big banks on both sides of the Atlantic suggest that they are also benefiting from the turbulence. UBS announced that revenue from its foreign-exchange, rates and credit division had jumped by 27% year-on year during the first quarter, driven largely by strong performance in currencies. Goldman Sachs reported a more modest rise of 2% in fixed-income, currency and commodity trading, but also credited higher revenues from currencies.

Strong results are prompting some to rebuild currency desks that were emptied first by the financial crisis and then by algorithms. "When markets turn volatile, clients want to speak to a real person," says Stephen Jefferies of JPMorgan Chase (even if his firm is keeping headcount steady for now). A return to foreign-exchange trading's heyday is still a little while off, but in a more fractured world, he predicts, currency volatility is likely to last.

Warren Buffett has created a $348bn question for his successor

Berkshire Hathaway's next CEO has huge shoes to fill—and a mountain of cash to invest

Photograph: Reuters

SURPRISING PEOPLE at the age of 94 is no mean feat. But that is what Warren Buffett did at the end of Berkshire Hathaway's annual shareholder meeting on May 3rd, when he announced that he would be stepping down as the company's chief executive at the end of the year. Mr Buffett gave most of Berkshire's directors no advance notice of his decision. Nor did he tell Greg Abel, his presumptive successor.

Berkshire Hathaway was a textile-maker when Mr Buffett bought it in 1965. In the years that followed he turned it into an immense insurance firm and a sprawling conglomerate with interests in everything from energy to sweets. He employed a value-investing strategy, seeking out companies that appeared cheap relative to their intrinsic value. From 1965 to the end of last year, Berkshire's market value had increased by more than 5,500,000%, with a compounded annual return of almost 20%. The total return of the S&P 500 index over the same period was 39,000%.

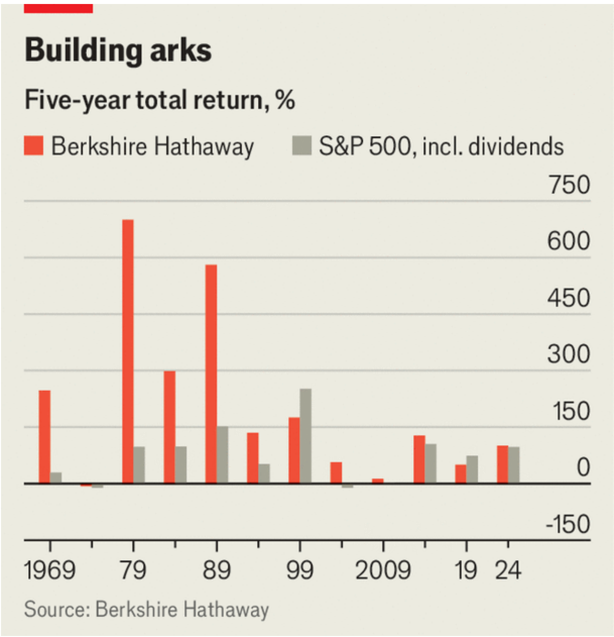

Chart: The Economist

Today Berkshire has a market capitalisation of $1.1trn, having dropped a bit on Mr Buffett's announcement. Mr Abel has been with the company for a quarter of a century. He has run its non-insurance operations—such as its energy, railway and retail businesses—since 2018. His next challenge goes beyond filling Mr Buffett's shoes as an "oracle". Berkshire's strategy is becoming more difficult to pull off.

Over the past year, Mr Buffett has aggressively sold stocks, including a large chunk of its stake in Apple. Now, for the first time in two decades, Berkshire owns more cash than listed equities. At the end of March it held $348bn in cash and short-term American government debt, more than twice the amount it held at the close of 2023. The firm's Treasuries account for 5% of the outstanding market. If Berkshire was a country, it would be the tenth-largest holder of American government debt, above India, Switzerland and Taiwan.

Mr Buffett's decision to withdraw from the stockmarket has so far benefited the company. Its stock is up by 14% this year, while the S&P 500 is down by 4%. The problem, for Messrs Buffett and Abel, is working out what to do with the enormous pile of cash. Lately Mr Buffett has griped that there is not much out there to buy at a reasonable price. Even after the recent market tumult, valuations of listed companies are high relative to their historical levels.

One option would be to expand more aggressively overseas. In recent years Mr Buffett has made successful bets abroad. For example, he has poured billions of dollars into several of Japan's trading conglomerates, such as Mitsubishi and Sumitomo. Mr Abel might note that among companies worth over $5bn and with price-to-earnings ratios below ten—suggesting they are cheaply valued—80% by value are domiciled outside America.

Another option would be to stray from value investing in the hope of finding firms worthy of capital allocation. That seems unlikely, at least for now. Such a move would transform Berkshire's culture and risk the ire of Mr Buffett's admirers. After 25 years at the firm, Mr Abel is unlikely to pull an immediate handbrake turn.

Absent a change of strategy, Berkshire will have to wait for a market downturn. Mr Buffett has a history of spotting such opportunities. He snapped up a large stake in Wells Fargo, an American bank, during a slump in 1990. He invested in companies including Johnson & Johnson and Kraft Foods (and Wells Fargo again) following the global financial crisis of 2007-09. The list goes on. Berkshire's shareholders must hope that Mr Abel has the same visión.

Technology
Companies have plans to build robotic horses

One diminutive design is aimed at children


Photograph: Kawasaki

In a break from tradition, Kawasaki, a Japanese motorcycle maker, has announced plans to build a new breed of off-road machine shaped like a robotic horse. Corleo, as the machine is called, has a body like a headless steed, complete with four multi-jointed legs powered by electric motors. A pair of handlebars serves as reins and adjustable leg supports, of the kind found on motorbikes, pass for stirrups. Corleo will also not require a farrier: instead of being shod with steel horseshoes, its hooves are clad in rubber. This will help it absorb shocks and improve its grip.

Like a real horse, the rider will control it by moving their hands, arms and legs as well as by shifting their weight about. These movements, which can be very subtle in real equestrians, are detected by a combination of sensors, with the data passed on to an artificial-intelligence system that instructs the motors to respond accordingly and to maintain the robot's balance. Once development is completed, Corleo could carry two people and be able to break into a swift canter.

Helpfully, Corleo is fitted with a GPS navigation system and a projector capable of displaying directions after dark on the ground ahead. Under present plans the robot's electrical power would come from a small internal-combustion engine working as a generator. This uses clean-burning hydrogen as its fuel, thus cutting emissions. The hydrogen would be stored in the robot's hindquarters.

Even though Kawasaki admits that it could be a couple of decades before a robotic horse as agile as Corleo could enter mass production, the company is not alone in developing robotic animals. The robotics division of Xpeng, a Chinese electric-vehicle manufacturer, is working on a small robotic pony that can be ridden by children. This, reckons Xpeng, will become a child's "first smart vehicle".

Meanwhile, Boston Dynamics, an American robot maker owned by Hyundai, a South Korean carmaker, has already sold more than 1,500 versions of Spot, its four-legged doglike robot. Although not big enough to ride on, Spots are used in factories, typically for jobs like inspecting hazardous areas. As even a basic Spot costs some $75,000, robot horses such as Kawasaki's are likely to be a pricey addition to any stable, even though they don't require feeding and mucking out.

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