The Economist

Who is leading in Chinese AI?

Why a cleaner India is a hotter India

Bukele: from cool to cruel

MAGA v foreign students

MAY 31ST–JUNE 6TH 2025

New, untested and dangerous

A special report on American finance

Business

Photograph: Getty Images

Donald Trump's signature policy of arbitrarily imposing tariffs on countries was thrown into disarray when the federal US Court of International Trade decided that he did not have the power to issue the duties under the economic-emergency law that he has cited. Its ruling does not apply to tariffs imposed under different laws, such as on steel and cars. The White House criticised the court, saying "It is not for unelected judges to decide" how to respond to an emergency. It will appeal against the finding. Before the decision Mr Trump suspended a threat to impose 50% tariffs on the European Union and extended a deadline for a trade deal to July 9th.

Nvidia reported another bumper set of quarterly earnings. The producer of high-end chips for artificial intelligence saw its revenue soar by 69%, year on year, to $44.1bn, and net profit jump by 26%, to $18.8bn. And that was despite booking a $4.5bn charge in relation to Mr Trump's curbs on sales to China. Jensen Huang, Nvidia's chief executive, reiterated his criticism of those restrictions, arguing that shielding Chinese firms from American competition "only strengthens them abroad".

Xiaomi reported first-quarter revenue of 111.3bn yuan ($15.3bn), up by 47% year on year. The Chinese smartphone giant has been building up its electric-car business: deliveries rose by 9% compared with the previous quarter. But the venture is not yet turning a profit. Xiaomi's units that develop electric cars, artificial intelligence and other new technologies lost 500m yuan.

BYD, China's leading maker of electric cars, sold more fully electric vehicles in Europe than Tesla for the first time, according to JATO Dynamics, a market research firm. Registrations of BYD cars soared in the region by 169% in April, year on year, as consumers soured on Elon Musk's Tesla. The European carmakers' association noted a 26.4% increase in overall sales in the EU of pure-battery vehicles in the first four months of the year.

In the driving seat

Stellantis, which counts Chrysler, Fiat and Peugeot among its brands, announced that Antonio Filosa would take over as chief executive, replacing Carlos Tavares, who resigned abruptly in December. Mr Filosa, an Italian, currently heads the carmaker's North American division. He will have to steer Stellantis through uncertainty in the industry over tariffs. (The company's biggest shareholder part-owns The Economist's parent firm.)

Volvo announced 3,000 lay-offs, affecting roughly 15% of its workforce, in an attempt to reduce costs. The carmaker said the job cuts would mostly affect office workers in Sweden, its home country. Volvo has promised to cut SKr18bn ($1.9bn) in costs after it announced a big drop in operating income in the first quarter.

Nippon Steel's bid to buy US Steel was back on again, after Donald Trump gave his support to the "planned partnership". The president offered few details, saying only that America would retain control over US Steel. A senator from Pennsylvania, US Steel's home state, said the government would retain veto power over key decisions at the company. Joe Biden blocked the takeover in the dying days of his presidency.

Germany overtook Japan to become the world's biggest holder of foreign assets, a position it last held in 1991. According to figures from Japan's finance ministry, Japan's net external assets rose to an all-time high of ¥533trn ($3.7trn). But Germany's foreign assets rose faster, to ¥570trn. The trend was in part driven by the euro's strength against Japan's currency, which increased the value of many of Germany's foreign assets in yen terms. China ranked third, with ¥516trn.

Chart: The Economist

Japan's annual inflation rate held steady in April at 3.6%. But the core rate, which in Japan excludes food prices but includes energy, rose to 3.5%, the fastest pace since January 2023. Traders are now guessing whether the Bank of Japan will increase interest rates sooner rather than later.

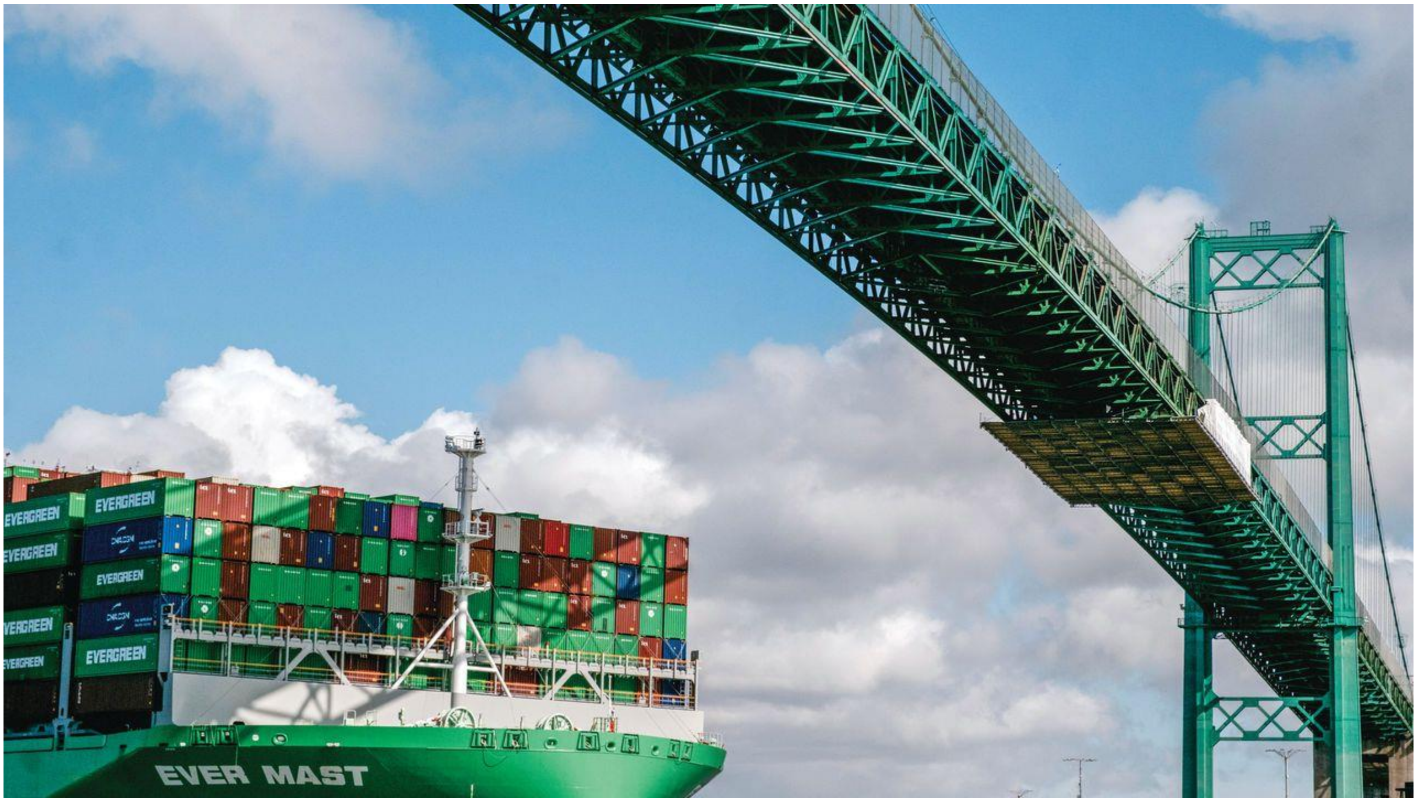
Salesforce agreed to buy Informatica for $8bn. Salesforce provides data-management software for businesses. Salesforce says the deal will strengthen its autonomous "AI agents", which firms can deploy in areas such as customer service.

Burning out

After successfully making its way to space, SpaceX's Starship fell back to Earth. The uncrewed rocket broke up while re-entering the atmosphere over the Indian Ocean, after spinning out of control. It was Starship's third test flight since it was upgraded with a new design. Elon Musk, SpaceX's boss, spied a silver lining: "Lot of good data to review," he posted on X.

Finance & economics
The courts block Trump's tariffs. Can he circumvent their verdict?

American trade policy is in chaos



Photograph: Mark Abramson/New York Times/Redux/Eyevine

Decades ago, when Victor Owen Schwartz first tasted cold, polished ginjo sake, it was a "light-bulb moment", he has written. His firm, which imports alcohol to America from over a dozen countries, began adding the drink to its list. It now offers varieties from 19 breweries.

But all of this was threatened when Donald Trump announced sweeping "reciprocal" tariffs on April 2nd or "Liberation Day", as the president labelled it. The levies were touted as a remedy to America's trade deficits. Mr Schwartz could not simply pass the cost on to buyers: he has to post his price a month in advance to regulators. Another bulb lit up: Mr Schwartz decided to fight the tariffs in court. He joined with the Liberty Justice Centre, a legal-advocacy outfit, and several other small firms, including a pipemaker, a maker of women's cycling gear and an importer of fishing tackle.

On May 28th they landed a big catch. The United States Court of International Trade ruled that Mr Trump lacked the authority to impose his reciprocal tariffs. In response to another complaint, it also ruled against "trafficking tariffs" inflicted on Canada, China and Mexico. These levies were meant to cajole leaders of the three countries into cracking down further on the flow of fentanyl, a synthetic opioid.

Investors welcomed the news: futures contracts on America's S&P 500 index jumped by 1.5%. Financial markets have repeatedly punished Mr Trump for his recklessness. On April 9th, after Treasury yields spiked, Mr Trump was persuaded to suspend the highest Liberation Day tariffs until July 9th. China's reciprocal levy, which reached 125%, was also cut for 90 days after talks in Geneva. But even after these climbdowns, a residual 10% stayed in place on almost all of America's trading partners, and the fentanyl tariffs remained on Canada, China and Mexico.

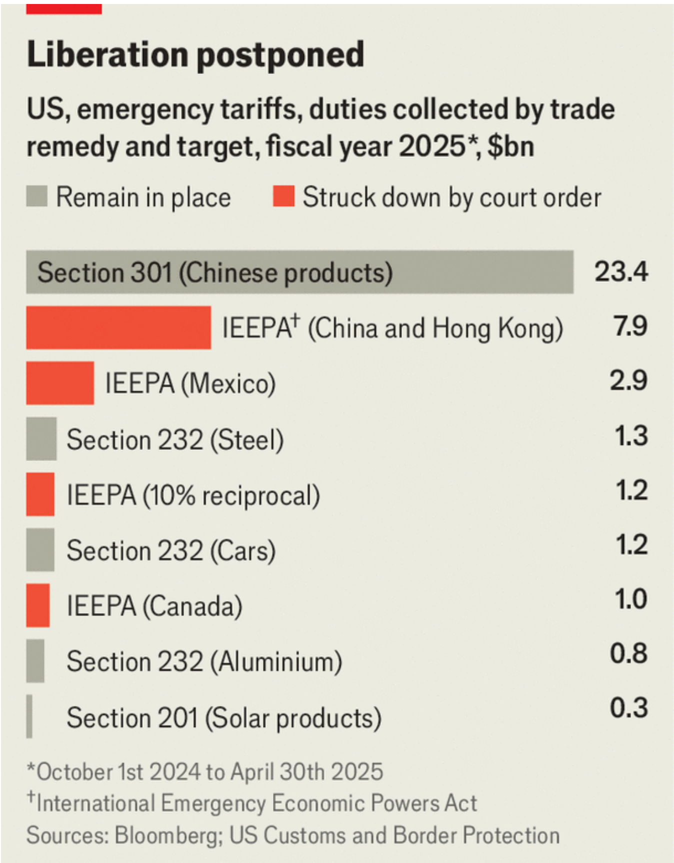


Chart: The Economist

Investors hoped their disapproval would keep America's president in check. But they had generally not thought that Mr Trump would face opposition from the courts, too. His orders imposing the fentanyl tariffs and reciprocal levies had cited a 1977 law called the International Emergency Economic Powers Act (IEEPA). It has its roots in the Trading with the Enemy Act, passed after America joined the first world war in 1917, which gives the president leeway to interfere in international economic transactions during national emergencies. Mr Trump had declared both the fentanyl situation and America's persistent trade deficits to be such crises. Often the courts defer to the president on matters of foreign policy and national security.

This deference does not apply when it comes to enforcing limits on the president's authority that Congress has specified, the court argued. The law requires, among other things, that any measures taken "deal with" the emergency declared. The administration conceded that the fentanyl tariffs were an attempt to gain leverage over the countries in question, so they could be forced to change their behaviour. But dealing with a problem, the court said, requires a more "direct" link.

While the fentanyl tariffs fell on the basis of plain English, the reciprocal tariffs were brought down by lofty constitutional principles. In recent years courts have argued that the executive branch cannot rely on ambiguous delegations of power to take actions of great consequence, a principle known as the "major-questions doctrine". IEEPA does not mention tariffs, but does give the president the power to "regulate" imports. Relying on it to "authorise anything as unbounded" as global tariffs, the court said, was inconsistent with both the major-questions doctrine and the established idea that Congress cannot delegate its powers to the president wholesale.

The administration's power to impose universal tariffs, the court argued, is specified in a different law: the 1974 Trade Act. This permits the president to respond to balance-of-payments crises, which might include the trade deficits that so irk Mr Trump, with tariffs of up to 15% for up to 150 days. It also allows unlimited levies on specific trading partners whose trade policy the administration judges to be "unjustifiable" or to "[burden] or restrict" American firms. But such unlimited levies can only be imposed after extensive investigation, a public notice and a comment period. Importantly, Congress specified these restrictions after President Richard Nixon used the Trading with the Enemy Act to levy a temporary universal tariff in the Bretton Woods crisis of 1971—the main precedent to which Mr Trump appealed.

It is to these alternative powers that Mr Trump can now be expected to turn. A universal tariff of 10% applied under the Trade Act would give the administration about five months to have the ruling overturned on appeal, during which time officials might also run Section 301 investigations to establish a country-by-country basis for tariffs. But it would be hard to investigate every trading partner at once.

It seems likely that the disputes will find their way to the Supreme Court. At that point they would be presided over mostly by justices who have been strong proponents of the major-questions doctrine.

The market reaction to the judgment was muted compared with the enormous falls seen after April 2nd. That is, in part, because so many investors have come to assume negotiations with America's trading partners will result in deals which stop the "reciprocal" tariffs from ever coming into full effect. Those talks will now be muddied by the unclear nature of the administration's authority to follow through on its threats. Indeed, analysts at Goldman Sachs, a bank, warn that trade uncertainty has increased, rather than decreased, as a consequence of the court's decision. Unless Mr Trump has a light-bulb moment of his own, America's importers will be doing business in the dark.

How might China win the future? Ask Google's AI

The country's sprawling industrial policy is beyond mere human comprehension

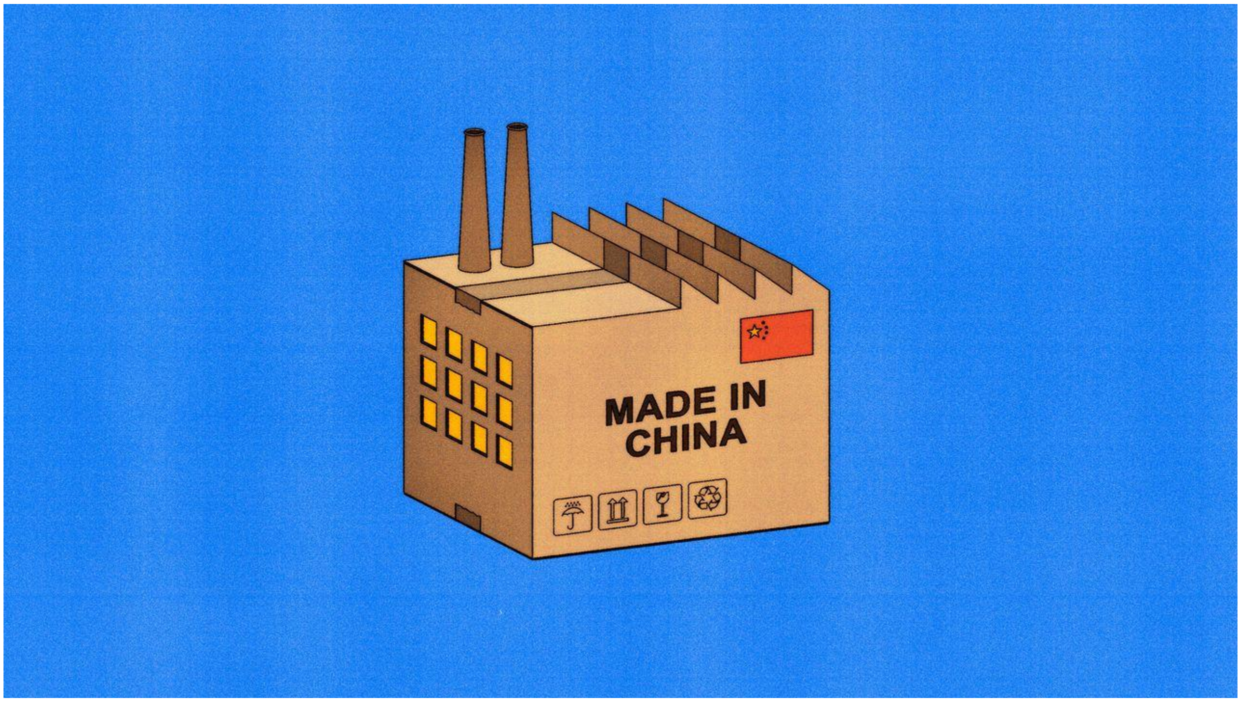


Illustration: Álvaro Bernis

If China dominates the 21st-century economy, its industrial policy will get a lot of the credit. The state's efforts to cultivate new industries, breed winners and foster technological advances inspire awe and anger from outside observers. Kyle Chan of Princeton University recently compared China's policies to the Manhattan Project, which invented the atomic bomb. On present trends, he argues, "the battle for supremacy" in artificial intelligence (AI) will be fought not between America and China but between leading Chinese cities like Hangzhou and Shenzhen.

American officials may scoff—but they do not doubt the power of China's policy to distort markets. In March America's trade representative released a report criticising the "guidance, resources and regulatory support" that China's government bestows on favoured industries, at the expense of foreign rivals. The report called the "Made in China 2025" plan, which increased the country's share of industries like drones and electric vehicles, "far-reaching and harmful". Such grievances help explain why President Donald Trump hit China with punishing tariffs in April.

One problem facing both critics and students of China's industrial policies is that it has so many. Its efforts are not confined to national plans such as Made in China 2025 or discrete undertakings akin to the Manhattan Project. They also take the form of obscure memoranda, lacking pithy names, issued by local officials—policies like Anqing City's "Notice on Supporting Large Commercial Circulation Enterprises In Carrying Out Pilot Projects For The Construction Of Modern Rural Circulation Systems".

China churns out more than 100,000 policy documents a year. Over a fifth feature some kind of industrial policy, according to a new paper by Hanming Fang of the University of Pennsylvania, along with Ming Li and Guangli Lu of the Chinese University of Hong Kong, Shenzen. Not even the most diligent researcher could wrap their head around them all. Fortunately, one of the emerging industries that China is keen to promote—AI—can now help economists understand how China goes about its task.

Mr Fang and his co-authors used Google's Gemini, a large language model, to scour millions of documents issued from 2000 to 2022. They were scraped from official websites or obtained from PKUlaw.com, a vast repository. When properly prompted, Gemini could identify documents that met the definition of industrial policy. It could also discern the industries targeted and the tools used. To make sure the model was not making things up, the authors took precautions. They told the model to think of itself as an expert in Chinese industrial policy, and carried out random spot checks themselves. They then asked another model (from OpenAI) to refine the findings. The result is a rich database covering two decades' worth of Chinese efforts to win the future.

Their work captures the underappreciated variety of China's tools. Subsidies are most popular, appearing in 41% of policies. But they are only one tool out of 20 and often absent. Cheap credit and land are less common than you might expect, featuring in less than 15% of documents. Protection from foreign competition appears in only 9%. Instead of offering handouts, protection or perks, about 40% of central-government policies regulate the targeted industry by, say, imposing quality or efficiency standards. A few policies—3%—try to suppress industries that might be too dirty, inefficient or otherwise undesirable. Equating industrial policy with subsidies and tariffs, then, will "paint an incomplete picture of China's industrial-policy landscape", the authors warn.

That landscape has also changed over time. Tax breaks and explicit protectionism have become less fashionable. Government funds, which are supposed to act like venture capitalists, have become more so. Efforts to cultivate supply chains and clusters have also become more widely used. The same is true of policies to increase demand, such as government purchases or consumer subsidies. They appear in about a fifth of policy documents, roughly double their share in 2000. Often, city governments embrace these new tools before provincial or central governments.

One of the biggest surprises is that manufacturing—making in China—is targeted by only 29% of the policies. More focus on services; 17% are still dedicated to agriculture. Within these broad sectors, targeting can be savvy. City governments are more likely to pick industries that loom large locally, relative to their prominence province-wide, suggesting officials are playing to their city's strengths. This is particularly true in richer cities, where local governments may be more sophisticated.

Some cold water

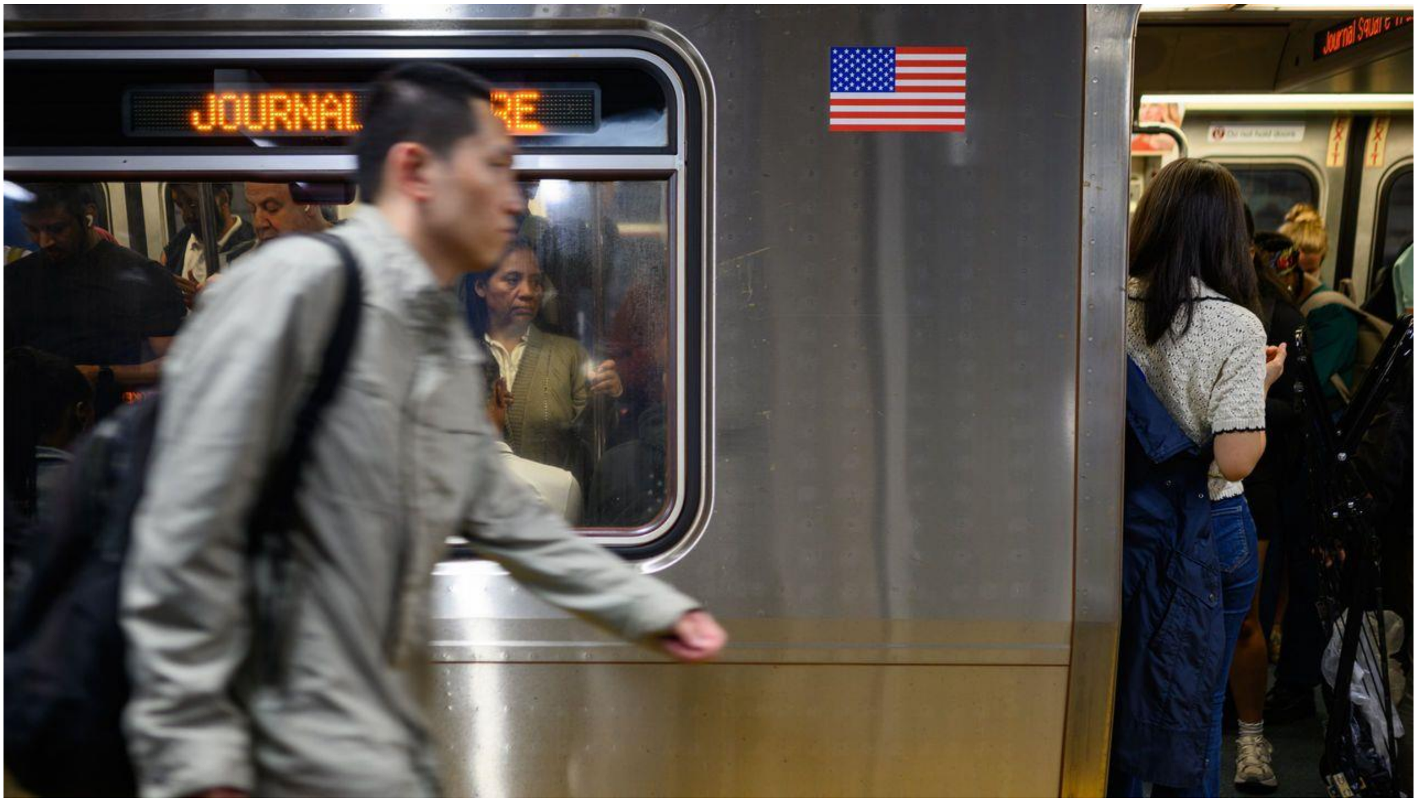
Targets are, however, becoming more similar. All 41 cities in the Yangzi River Delta have chosen "high-end manufacturing" as a "key" industry in their five-year plan, notes The Paper, a Chinese website. Thirty-eight have picked new-generation information technology, which includes AI. The delta, the paper worries, suffers from "industrial isomorphism".

Local governments may be converging on similar approaches because they are all trying to follow the central government's lead. Cities have become more likely to cite national policies in their own documents since 2013. They may also be emulating each other. Unfortunately, policies seem to become less effective as they spread from pioneers to laggards. Measures that lift firm revenues and profits in leading cities may fail to replicate in latecomers. Not everyone can have their own Manhattan Project.

Overall, the link between industrial policy and the productivity of firms is "mixed and tenuous" the authors say. But with the assistance of Gemini, they have shed some valuable new light on industrial policy's many variations. Maybe AI can help improve the design of policies to encourage emerging industries like AI.

Why AI hasn't taken your job

And any jobs-pocalypse seems a long way off



Photograph: Getty Images

ALMOST EVERY week the world takes another step in the direction of artificial general intelligence. The most powerful AI models can do an astonishing array of tasks from writing detailed reports to creating video on demand. Hallucinations are becoming less of a problem.

Small wonder, then, that so many people worry they will soon be surplus to requirements. Earlier this year global Google searches for "AI unemployment" hit an all-time high. In cities such as London and

San Francisco, “How long do you reckon you have left in your job?” is a common topic of conversation. But is ChatGPT actually putting anyone out of work?

Lots of pundits claim that it is. Many point to a recent paper by Carl Benedikt Frey and Pedro Llanos-Paredes, both of the University of Oxford, which suggests a link between automation and declining demand for translators. At the same time, however, official American data suggest that the number of people employed in interpretation, translation and the like is 7% higher than a year ago. Others point to Klarna, a fintech firm, which had boasted about using the tech to automate customer service. But the company is now undertaking an about-turn. “There will always be a human if you want,” Sebastian Siemiatkowski, its boss, has recently said.

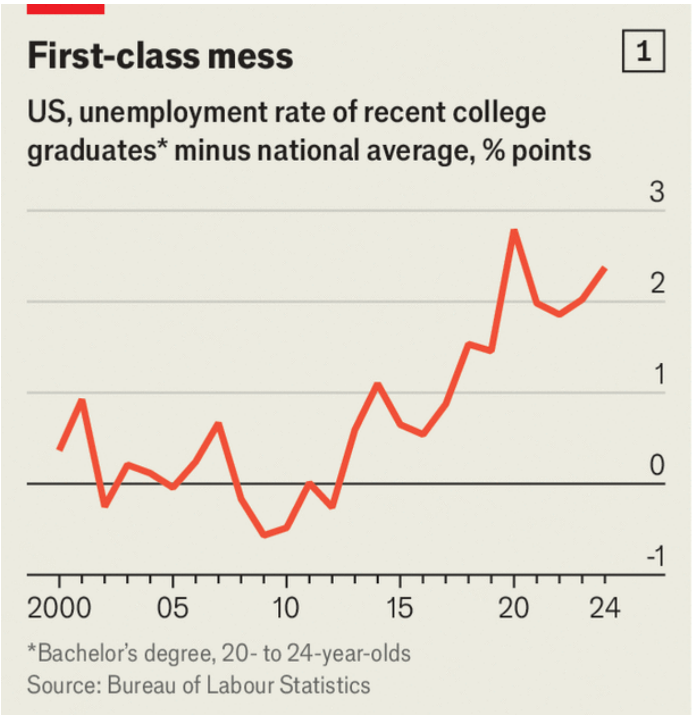


Chart: The Economist

Others still scour the macroeconomic data for signs of the forthcoming AI jobs-pocalypse. One popular measure is the ratio of the unemployment rate between recent college graduates and the overall American average. Young graduates are now more likely than the average worker to be jobless (see chart 1). The explanation runs that they typically do entry-level jobs in knowledge-intensive industries—such as paralegal work or making slides in a management consultancy. It is exactly this sort of task that AI can do well. So maybe the technology has eliminated these jobs?

Well, no. The data simply do not line up with any conceivable mechanism. Young graduates' "relative unemployment" started to rise in 2009, long before generative AI came along. And their actual unemployment rate, at around 6%, remains low.

Returning to a measure we introduced in 2023, we examine American data on employment by occupation, singling out workers that are believed to be vulnerable to AI. These are white-collar employees, including people in back-office support, financial operations, sales and much more besides. There is a similar pattern here: we find no evidence of an AI hit (see chart 2). Quite the opposite, in fact. Over the past year the share of employment in white-collar work has risen very slightly.

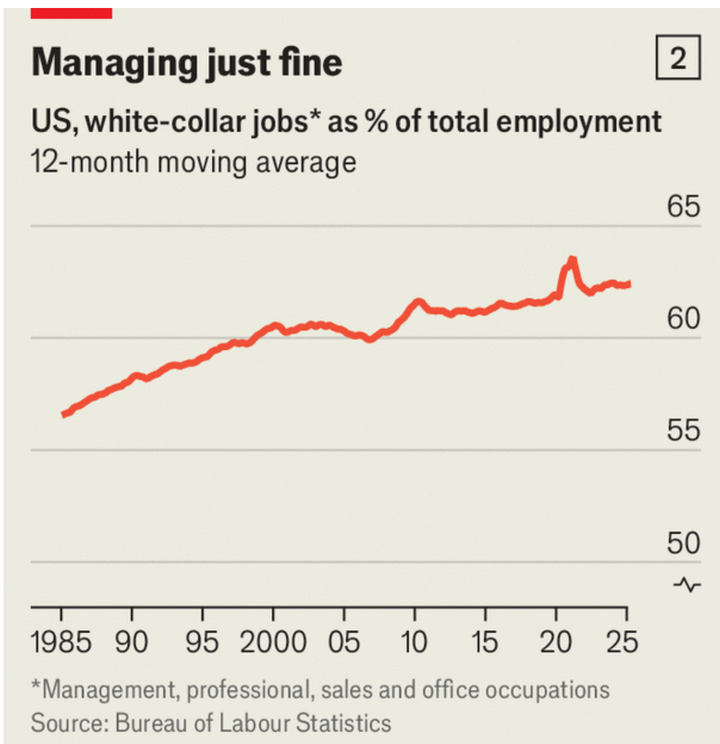


Chart: The Economist

Across the board, American unemployment remains low, at 4.2%. Wage growth is still reasonably strong, which is difficult to square with the notion that AI is causing demand for labour to fall. Trends outside America point in a similar direction. Earnings growth in much of the rich world, including Britain, the euro area and Japan, is strong. In 2024 the employment rate of the OECD club of rich countries, describing the share of working-age people who are actually in a job, hit an all-time high.

There are two competing explanations for these trends. The first is that, despite the endless announcements about how firms are ushering AI into their operations, few make much use of the technology for serious work. An official measure suggests that less than 10% of American companies employ it to produce goods and services. The second is that even when companies do adopt the tech, they do not let people go. AI may simply help workers do their jobs faster, rather than making them redundant. Whatever the explanation, for now there is no need to panic.

Shareholders face a big new problem: currency risk

Analysing it is more important than ever. Mitigating it is a nightmare

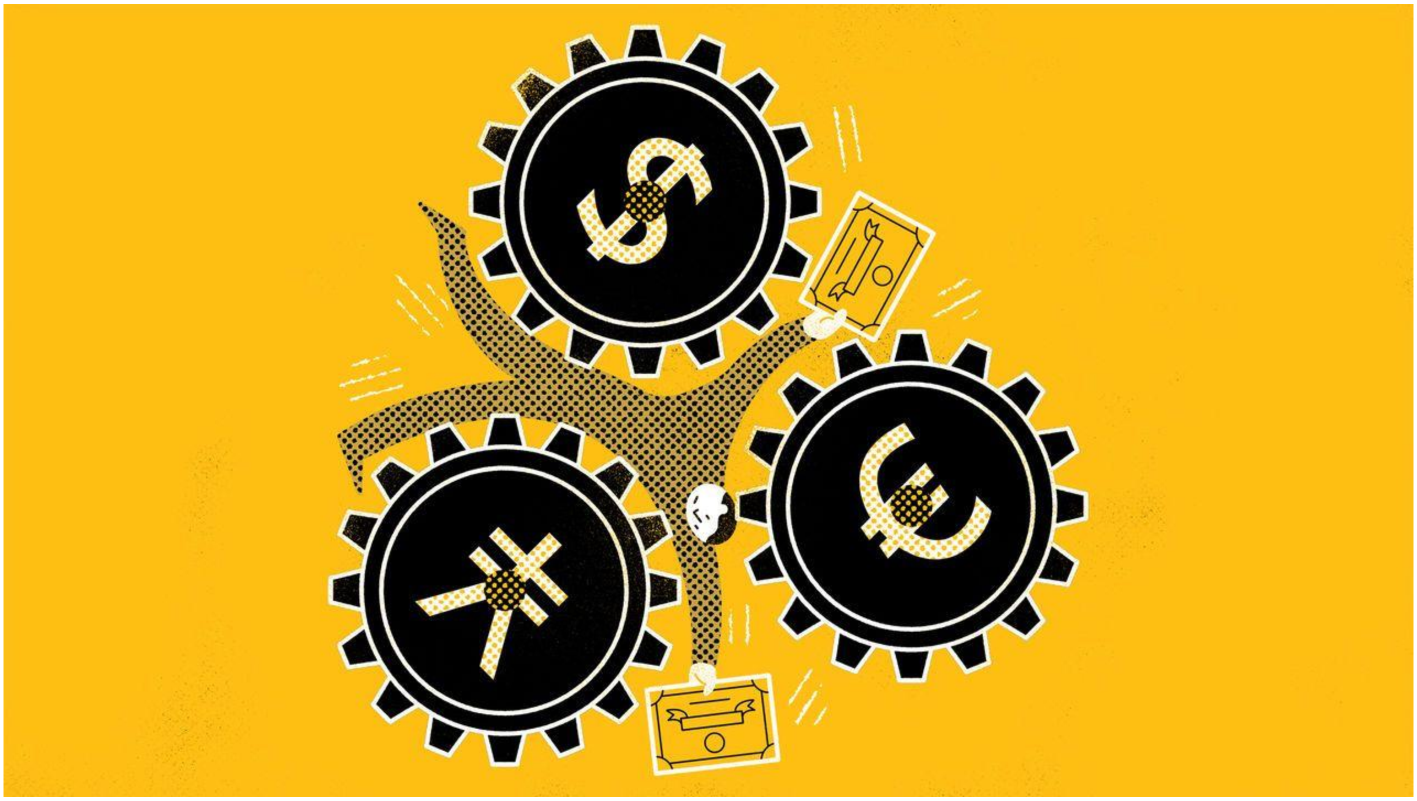


Illustration: Satoshi Kambayashi

Imagine someone who found secondary-school maths difficult being grilled about logarithms. That is how a lot of equity investors look if you ask them about currency risk. It is not because the question is novel: any client can spot that the share price of an overseas company, or one doing business across borders, ought to depend on foreign-exchange (FX) rates. It is because it is easy to pose, but maddeningly hard to answer. Forecasting earnings is already a pain. It becomes much worse when the task is to make forecasts for each company in a portfolio, before splitting costs and revenues by perhaps a dozen currencies, and then netting it all off against hedging arrangements made years ago by a now-retired treasurer. Unsurprisingly, such analysis is often dumped in the "too hard" bucket.

Time to fish it back out. In recent weeks it has become unusually urgent for investors to work out how unexpected changes in FX rates might affect their portfolios, not least because several such jumps have already taken place. Along with Europe's planned defence spending, the euro has soared against a basket of its peers. The Bank of Japan's newfound hawkishness has made the bull case for the yen more convincing than it has been in years. Jitters over the future of the dollar's global role, meanwhile, have eroded its value—with falls often coming as American share prices have also dropped. This has broken a longstanding hedging relationship for international investors, who used to see the dollar strengthen when trouble was afoot, offsetting losses from stocks.

At the same time, the complexity of some popular stocks' FX risk is rising. Big American companies dominate global investors' portfolios—and they are choosing to issue debt denominated in euros rather than dollars. So far this year, according to Bloomberg, a data firm, giants including Alphabet and Pfizer have sold bonds worth €83bn ($94bn) in Europe, a new record. These "reverse Yankee" deals are priced using the relatively low yields of European government bonds as a baseline, resulting in cheaper debt. They tap a funding source that is less likely to dry up if the newly volatile market for Treasuries convulses again, and therefore seem likely to remain in vogue.

For equity investors, though, this offshore borrowing presents a puzzle. Namely, does it raise or lower a stock's currency risk? It certainly means the old hedging relationship between American stocks and FX rates is less likely to make a comeback, since a weaker greenback inflates the dollar value of euro debt, dragging on share prices. If the borrower also has net outgoings in euros, this effect will be even greater. Conversely, if it has net euro revenues, it would previously have been exposed to the risk of a weaker euro, and the new euro debt will offset this exposure. The only way to know for certain is to dig deep into the firm's accounts.

Even after doing so, hedging a stock's FX risk can be a nightmare. On the face of it this is surprising, as there is no shortage of derivative contracts (which offer variable payouts contingent on some underlying exchange rate) that might be candidates for doing so. The trouble is that none of them works brilliantly when paired with shares.

Forward contracts lock in an exchange rate for a set amount of currency in the future. But since it is uncertain how much a stock will fetch when it is eventually sold, they can be used with much confidence only to hedge the initial cost, not the profit or loss. Options can place an upper limit on losses made from FX movements over a specified time horizon. But their cost balloons as that horizon lengthens, and buying them repeatedly is a sure way to erode returns. Whizzier contracts exist primarily to enrich those who sell them.

Of late, the terms of these contracts have worsened, too. The pricing of forwards favours those selling low-yielding currencies in the future, since the trader on the other side can hold a high-yielding one in the meantime and pocket the additional interest. For years, that allowed American and European investors to hedge the yen exposure from Japanese stocks at a better exchange rate than then prevailed. Now Japanese yields have risen sharply, much of the premium has disappeared. Greater volatility across currency markets, meanwhile, has made all hedging contracts more expensive. These days equity investors cannot afford to forgo the grind of working out how much FX risk they are taking. That does not mean there is a lot they can do to mitigate it.

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