

## THE ECONOMIST – MAY 10, 2025 – KEY TAKEAWAYS

### 1. THE COVER: SAUDI ARABIA GROWS UP

- Muhammad bin Salman (MBS) has transformed his country into a force for order.
- The most surprising attribute of the new Saudi Arabia is its constructive role in the world politics.
- The kingdom is now a stabilizing influence in the Middle East.
- At home it has undergone a stunning social revolution that has few parallels.
- One reason for believing in Saudi Arabia's foreign policy rethink is that it furthers MBS's central concern which is to bring about social and economic change at home. He needs those changes because oil revenues cannot be counted on to sustain Saudi Arabia forever.
- If young Saudis, who are two-third of the native population, are to thrive and, in the long run, to sustain the House of Saud in power, they need jobs.
- An unstable neighborhood is a headache, because it inflames Saudis at home and raises the risk premium foreign investors attach to the country. A flourishing Middle East, by contrast, would mean more customers for the products Saudi Arabia hopes to make and for its glittering new tourist resorts.
- The area where Saudi Arabia's reinvention remains incomplete is the economy. Since 2016, the government has spent heavily in order to diversify away from oil. The main targets have been gaunt 'giga-projects' - such as futuristic city of NOEM and a giant cube the size of 20 Empire State Buildings – which by 2030 were projected to gobble up nearly \$900bn. To cultivate new industries, the sovereign-wealth fund has backed more than 100 firms in areas from electric vehicles and e-sports to coffee-making and chip manufacturing.

### 2. WORLD POLITICS

- **Russia – What Putin wants** – In Red Square on May 9<sup>th</sup> Vladimir Putin celebrated Victory Day, marking the defeat of Nazi Germany. The parade used to include Russia's second-world-war allies. Today, as Mr Putin targets what he absurdly claims is another "Nazi" government in Ukraine, it signals how Russia stands resolutely against the West. This should worry all of Europe.

It is wrong to think that Russia's forces are spent or incapable. The navy and air force are largely intact. NATO's top commander says Mr Putin is restocking men, arms and munitions at an "unprecedented" pace.

Russia plans to have 1.5m active troops, up from 1.3m in September; eventually, it could boost forces and kit on the western front by 30-50%. Thanks to the war, it has deepened its ties to China, Iran and North Korea.

Europe has the wealth and industrial power to withstand Mr Putin. It has the potential to find an accommodation with his successor. As Russian soldiers strut through Red Square, the question is whether Europe can overcome its divisions in order to save Ukraine and protect itself.

- **Israel's forever conflict – The War in Gaza must end** – America should press Benjamin Netanyahu to accept a ceasefire, then press Hamas to disarm. The only people who benefit from continuing the war are Mr Netanyahu, who keeps his coalition intact, and his far-right allies, who dream of emptying Gaza and rebuilding Jewish settlements there.

Israel's army has a morale problem – in some units only 50% of reservists report for duty. Polls show that more than 60% of Israelis oppose an offensive to reoccupy Gaza.

Israel has already smashed Hamas's leadership, its rockets arsenal and its ability to mount complex attacks. What remains is a ragtag guerrilla force, which Israel will struggle to destroy because fresh recruits are plentiful. Given that rump Hamas cannot muster much firepower, it may not be worth destroying.

– **Australia's Election: Not so lucky - Caught between America and China, the country needs its mojo back.**

The landslide win on May 3<sup>rd</sup> for the Australian Labor Party, led by Anthony Albanese, the incumbent prime minister, was the party's best performance since the second world war. It was also the worst faring ever for the main opposition, the (conservative) liberal-led coalition.

Australia voted for stability and Mr Albanese's dullness became an asset. They did not vote for stasis, however. Australia's problems are both economic and geopolitical.

China's once-insatiable appetite for Australian iron-ore, copper, coal, meat and wine has slowed sharply.

Australia's economy grew by just 1.3% in 2024, the slowest rate (apart from during the pandemic) since the early 1990s.

Now Mr Trump's tariffs of 10% on Australian steel and aluminum may prove to be precursor of other storms.

Australia's priority, says Jim Chalmers, the treasurer, is managing the economic risks arising from tensions between America and China.

– **Singapore's election – The Devils You Know - Trade tensions help Singapore's prime minister to a big win.**

Lawrence Wong was not expected to win big in his general election since becoming Singapore's prime minister.

Members of the People's Action Party, which has generated the city-state since before independence in 1965, measure their leader by how well he preserved its share of the popular vote.

The last two men to lead Singapore presided over dips in support of 2% and 9% in their first elections after taking over.

Many thought the country's leader might do worse. In fact Mr Wong bucked this trend at the election held on May 3<sup>rd</sup>, increasing PAP's share of vote from 61% to 66%.

– **Geopolitics and South America – China Rising**

To date, most of the Trump administration's attention has been focused on what it sees as problematic Chinese ties close to home.

It worries that Mexico offers a route for Chinese products to bypass tariffs and enter the United States and that it allows chemicals from China to be made into deadly fentanyl that is smuggled over the border; it fears that Hong Kong-based firms which runs the ports at either end of the Panama canal influences its operations.

Public opinion of China in South America is improving fast. China is seen as the more respectful superpower. In most places surveyed, China is seen as the more reliable trading partner.

As Mr Trump rails against America's trade deficits, China happily expands deficits with South America, gobbling up copper, lithium and soybeans.

Trade forms the China's strongest link with the region. In 2013 the United States was South America's biggest trading partner, with \$280bn in total goods traded in today's dollars. By 2023 that was down 25%, while China's trade jumped 43% to \$304bn.

#### – **Germany - The Idea of Merz**

Initially, his focus will be on Europe, Merz is convinced that the only guarantee for a free wealthy and peaceful Europe is for it to build significantly more unity.

Mr Merz has said that Germany, France, Poland and Britain should form a European "contract group" to back Ukraine.

#### – **Ukraine - The Tethered Threat**

How new drones are sneaking past jammers on Ukraine's front lines.

In a factory in Kyiv production of the new drones is being increased from 600 a month to an expected 10,000 by the end of the summer.

3DTech is one of 11 Ukrainian companies in the fibre-optic drone business, with no radio signals. With no radio signals to detect or jam, they are proving much difficult to stop.

Unlike mainstream drones, of which Ukraine produced 2.2m last year, fibre-optic ones are controlled by a fishing-line-style filament redolent of the wire-guided missile systems first deployed in 1945.

### **3. BUSINESS AND ECONOMICS**

#### – **Nvidious – Inside The Shadowy Business of Smuggling of Chips**

The trouble for America is that restricted Nvidia chips continue to make their way into the hands of Chinese AI developers.

A shadowy supply chain has emerged designed to work around sanctions. Some customers lease access to offshore data centres; others buy chips through murky intermediaries.

Further, attempts to curb the flow of chips are likely to suffer from many of the same problems.

To see why it is so difficult to restrict access to AI chips, consider Johor, a part of southern Malaysia once better known for its palm-oil plantations located just across the border from Singapore, the region has become a hub for data centres.

Land and electricity are cheap, and permits easier to obtain than in the city-state. All the big American cloud providers – Amazon, Google, Microsoft and Oracle – have set up shop. Johor's total data-centre capacity (built, under construction or planned) grew from 10 megawatts in early 2021 to more than 1,500 megawatts by 2024.

#### – **Silicon Surprise – Chinese Chip Firms Are Catching Up Fast**

A wave of optimism has lately swept through China's chip industry. Share traders in Shanghai joke that Cambrico, a local firm, not only offers a substitute for Nvidia's processors, but for its stock too.

Although the Chinese semiconductor firm is worth but a fraction of its giant American rival, its share price has rocketed by 350% over the past year, around 15 times as much as Nvidia's.

#### – **Open AI – Board Games**

Sam Altman's screeching U-turn will not get Elon Musk off his back.

It was a timely win for Elon Musk. The world's richest man, whose business empire has recently been dragged down by his penchant far-right politics, has long pursued a vendetta against Sam Altman, boss of OpenAI.

In recent months Mr Musk, who helped establish the artificial-intelligence (AI) lab but left in 2018, has sought to block its proposed conversion into a for-profit company, deploying various methods including an unsolicited (and unsuccessful) \$97bn bid for the assets of the non-profit entity that controls it.

#### – **Obesity Drug – Battle of the Bulge – Eli Lilly looks set to steal Novo Nordisk's weight loss crown**

Being first to market with a drug can be crucial. Eli Lilly is proving that being second but better can also pay.

Zepbound, the American firm's weight-loss jab, was approved in its home country in November, 2023, more than 2 years after Wegovy, made by Novo Nordisk, a Danish rival.

Over the final year it yielded \$4.9bn in revenue, more than half Wegovy's \$8.2bn. On May 7<sup>th</sup> Novo cut its sales forecast by 2025, citing "lower-than-planned" growth in weight-loss drugs. Its share price has fallen by a third since the start of 2024. Lilly has risen about as much. The momentum is now with Lilly. Vision Alpha, a data firm, expects its sale of obesity drugs to overtake Novo's by 2027. Lilly's edge rests on a more effective drug, better execution, keener pricing and a strong pipeline.

Lilly has also been quicker to expand production in response to soaring demand. Wegovy was on America's official shortage list until February. Lilly has been faster to find new sales channel too.

On the next front, oral drugs. Novo has a pill awaiting approval in America. But it is costly to make, with the same active ingredient as Wegovy. Patients must also take it first thing in the morning with minimum water and wait 30 minutes before eating.

David Risinger of Leerink Partners, an investment bank, doubts Novo will launch it globally. Lilly's pill orforglipron, a cheaper to make and can be taken without fasting. Analyst reckon orforglipron will provide \$16bn in annual sales by 2030.

– **Palantir – us against the world – An unorthodox firm is profiting from AI and Trumpian revolution.**

Its success is emblematic of two trends. The first is generative artificial intelligence (AI): Palantir helps firms adopt it. Second is growing demand for intelligence and defence technology in a world of border closures and superpower rivalry, where Palantir (more controversially) excels. In both fields, its edge comes from a unique approach to profits growth and culture.

– **Schumpeter – Cold Comfort – To American bosses, the tariff shock looks a lot like covid-19. It is worse.**

Peer into a Bloomberg screen and the parallels between the past month and the spring of 2020 draw themselves.

Then as now the VIX INDEX, which tracks show price volatility, spiked above 40, a level reached only a handful of times in American stock market history.

On April 29<sup>th</sup> UPS, a personal delivery giant withdrew its full-year forecasts, just as it had five years earlier almost to the day. So have carmakers (Ford, GM) and airlines (American, Delta and Southwest).

On May 5<sup>th</sup> Mattel paused its annual forecast for toy sales, days after Mr Trump mused that no American girl needs more than two Barbies, really.

– **Oil prices – Over a Barrel – Why Saudi Arabia is cranking up the pressure on its OPEC allies**

You cannot fault the OPEC for its communication. On May 3<sup>rd</sup> it and its allies (OPEC+) which supply 40% of the world's crude oil, announced that they would crank up output by 411,000 barrels a day in June – triple what analyst had expected and equivalent to 0.4% of the global demand.

Global prices briefly sank below \$60 a barrel, nearly four-year lows; they remain 6% below their level of April 28<sup>th</sup>, when the rumours of a supply boost first emerged.

The cartel can tolerate low volumes if prices are high or high volumes if prices are low. But low volumes at low prices cannot be seen as a success.

– **Financial ructions – Taiwan straits – A buoyant currency threatens Asia’s insurers**

Some countries are rich. Others are cheap. And then there is Taiwan. The miracle economy, home to the world’s most advanced chipmaker, has a respectable GDP per person of over \$33,000.

Yet the prices of its goods and services are only 41% of America’s, when converted into dollars.

Its McDonald’s burgers, to take an example, are the cheapest of all the countries tracked by our Big Mac Index.

That is one sign the island’s currency, the Taiwanese dollar, is out of whack. If its exchange rate were stronger, burgers and everything else would be more expensive in dollar terms.

Another sign Taiwan’s currency is cheap is the country’s current account surplus, which is equivalent to more than 14% of GDP or “ungodly big” in the words of Brad Setser of the Council of Foreign relations, a thin-tank.

Taiwan’s export of integrated circuits have more than doubled over the past decade. Yet the exchange rate of the Taiwanese dollar has remained remarkably stable. It was around NT\$31 to the American dollar at the end of April 2015. And it was around NT\$32 at the end of April 2025.

Then, at the start of May, something unusual happened. Taiwan’s currency strengthened by as much as 5% during trading on May 5<sup>th</sup>, adding to a big gain on the previous trading day. These were the largest moves in the sleepy currency since 1990.

– **Foreign Exchange – Dollar Drama - Global turmoil has atleast one beneficiary: currency trader**

Traders often joke that FX stands for “foreign exchange”. After the global financial crises 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 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, say that in the first quarter of 2015 - before Mr Trump’s “Liberation Day” tariff shock – foreign exchange trading volumes on its platforms were up by 25% year on year.

On April 3<sup>rd</sup>, the day after Mr Trump’s announcement, trading on EBS, a CME platform, reached \$147bn, the most since 2020.

– **Berkshire Hathaway – Oracle Required – Warren Buffett will leave a difficult, \$348bn question for his successor.**

Over the past year, Mr Buffett has aggressively sold stocks, including a large chunk 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 in at the close of 2023.

- **By Invitation - Kenneth Rogoff - This time really is different for the dollar, writes the economics professor.**

Although the greenback will almost certainly remain the world's dominant currency for at least a couple of decades, it will probably fall several notches.

Expect the yuan and the euro to encroach on the dollar in the legal economy. Cryptocurrency will do the same in the underground economy, which is probably the fifth of the global GDP.

#### 4. BOOK REFERENCES

- Our Dollar Your Problem by Kenneth Rogoff
- The Technological Republic – Hard Power, Soft Belief and The Future of the West by Alex C. Karp