

THE ECONOMIST – MAY 17TH 2025 – KEY TAKEAWAYS

1. COVER: CRYPTO MEETS THE SWAMP - \$WAMP COINS

- An industry that dreamed of being above politics has become synonymous with self-dealing.
- No presidency has generated so many conflicts of interest at such speed in modern history. Yet the worst self-dealing in American politics is found not on a runaway but on blockchains, home to trillions of dollars in cryptocurrencies.
- Over the past six months crypto has taken on a new role at the centre of American public life. Several cabinet officials have large investments in digital assets. Crypto enthusiasts help run regulatory agencies.
- The industry's largest businesses are among the biggest donors to election campaigns, with exchanges and issuers deploying hundreds of millions to defend friendly legislators and to crush their opponents. The president's sons tout their crypto ventures around the world.
- The biggest investors in Mr Trump's meme coin get to have dinner with the president. The holding of the first family are now worth billions, making crypto possibly the largest single source of its wealth.
- The industry has also developed a grubby relationship with the executive branch of America's government that outstrips that of Wall Street or any other industry.
- Crypto has become the ultimate swamp asset.
- The contrast with what is happening outside America is striking. Jurisdictions as varied as the European Union, Japan, Singapore, Switzerland and United Arab Emirates have managed to give digital assets new regulatory clarity in recent years.
- They have done so without the same rampant conflicts of interest. In parts of the developing world where expropriation by government is rife, inflation is highest and the debasement of currencies is a real risk, crypto still fulfils something like the role that the early idealists once hoped it would.
- All this is happening as the underlying technology of digital assets is coming into its own. There is still plenty of speculation. But crypto is slowly being taken more seriously by mainstream financial firms and tech companies.
- The amount of real-world assets, including private credit, US Treasury bonds and commodities, which have been "tokenized" to be traded on blockchain has almost tripled over the past 18 months.
- Vanilla financial institutions like BlackRock and Franklin Templeton are largest issuers of tokenized money-market funds.
- Crypto firms have become involved, offering tokens pegged to assets such as gold.
- Perhaps the most promising use is by payments firms. Some are embracing stablecoins (digital token, backed by other, more conventional assets).
- In the past month alone, Mastercard has said it will allow customers and merchants to pay and settle transactions in stablecoin. Stripe, a fintech firm, has launched stablecoin financial accounts in 101 countries. Stripe also bought Bridge, a stablecoin platform, this year. Three years after scrapping its Diem project, Meta may dip its toe in the water again.

2. WORLD POLITICS

– Gag rules – Europe's free-speech problem

The continent that gave the world the Enlightenment has forgotten how to nurture free expression. All European countries guarantee a right to free expression. But

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also, because believing in free speech means defending speech you don't like. If democracies fail to do that, they lose credibility, to the benefit of autocracies such as China and Russia, which are waging a global struggle for soft power.

– **American diplomacy - Is Trump a good dealmaker?**

The president sees America as the world's broker; not its underwriter. You cannot deny his ambition and energy. On May 6th he cut a deal with the Houthis. On May 10th he claimed credit for a ceasefire between India and Pakistan. A day later his envoy met Iranian officials to discuss a possible nuclear deal.

On May 12th America and China declared a trade truce. Mr Trump is now in the Gulf, where he said he would lift sanctions on Syria and has met its leaders, Ahmed al-Sharaa, reestablishing relations after 25 years. Gaza is on the agenda. He has pushed Russia and Ukraine to meet for talks this week in Istanbul.

From the Bosphorus to the Brahmaputra, Mr Trump's impulse is to shake up what he sees as ossified orthodoxies. He has deployed force, bombing 1,000 Houthi targets. More often he makes threats, hinting he may strike Iran, sell out Ukraine and further weaken NATO.

Sometimes he neglects conflicts America used to mediate, allowing them to escalate. He may allow Israel to smash up Gaza again and left India and Pakistan to duke it out until Pakistan hinted at using nuclear weapons on May 10th. His 145% tariffs on China caused a trade shock, a Wall Street slump and a mini-run on the dollar.

Mr Trump's limit as a dealmaker have long-term consequences. One is to embed a risk premium into economic decision-making, discouraging investment. Stock-markets have bounced back but the dollar has not, as investors worry about America's reliability.

– **Mexico's judicial elections – Bad for governance, good for gangs**

Elected judges will be feeble check on the ruling party and drug lords.

On the face of it, Claudia Sheinbaum has had a fine year. She won a landslide victory in June, 2024, took office as Mexico's president in October and has enjoyed sky-high approval ratings ever since. She has won praise for deftly handling Donald Trump's trade belligerence.

But Ms Sheinbaum is about to enact Mr Lopez Obrador's worst and most dangerous idea: a sweeping, populist reform of Mexico's justice system that will undermine the rule of law, poisoning Mexico's economic prospects and weakening its young democracy.

– **Indonesia – A massive muddle**

Prabowo Subianto's economic policy is weakening Indonesia.

How would Prabowo Subianto grade his first six months in office? Indonesia's president recently said he would himself six marks out of ten. His administration has been certainly busy. It has launched an expensive school-lunch programme and created a sovereign wealth fund.

Yet what has all this achieved? The economy is suffering: first-quarter growth figures released this month were the weakest since 2022.

– **China-Russia relations – Over a barrel**

Xi Jinping and Vladimir Putin sometimes look like equal partners. But it is clear who is boss.

The two men have long seen each other as comrades-in-arms against American dominance, and the two have coordinated policy closely since President Donald Trump began his second term.

Parading their friendship in Red Square was meant to show that Mr Trump's idea of splitting Russia from China is futile. But its futility is less because Mr Trump faces a strong alliance against him than because of Russia's dependence on China. Indeed Russia is more dependent on China now than at any time in its history.

Sanctions have also pushed Russia to cut its reliance on the dollar. In 2023 the Chinese yuan overtook the dollar to become the most popular currency traded on the Moscow Exchange, the country's largest. Most of the Russian trade is now settled in the currency. Last year Russia's central bank said it had no real alternative to the yuan to use for its reserves. This makes them vulnerable to losses if relations with China worsen.

– **News Wars – The growing battle over the narrative**

As Western media withdraw from much of the world, China and Russia are deploying powerful new weapons: ideas

China and Russia are investing hundreds of millions or possibly billions on disinformation. The most-followed news organization on Facebook is not CNN or the New York Times, but CGTN, China's state-run TV network which has 125 million followers.

– **Donald Trump is a Globalist (The Telegram)**

The mystery of an American First president fascinated by foreigners' disputes. Mr Trump is a globalist of a particular kind. He has no illusions about the brotherhood of man. Instead, he trusts in the solidarity that binds powerful individuals in a position to enrich themselves and one another.

– **Embrace the woo woo (Lexington)**

Donald Trump's quest for a surgeon general meets man's search for meaning.

In some respects, Dr Means is a typical Trump appointee. She lacks some conventional credentials, and, he has said, he does not know much about her. Dr Means who is 37, does not have an active medical license. She graduated from Stanford Medical School and embarked on a 5 year residency to train as a surgeon. But she quit just months before finishing.

After giving up her residency, Dr Means embarked on a search for the underlying causes of illness. It led her to conclude as she puts it in the first words of “Good Energy” that “everything is connected”. She warns that rising rates of all sorts of maladies – from cancer to Alzheimer’s to erectile dysfunction – stem from plastics and chemicals in the food chain, over-medication, needless surgery, bad lifestyle choices and disregard for nature.

3. BUSINESS AND ECONOMICS

– The world economy – A ceasefire, not peace

Despite America’s stop-gap deal with China, the trade war will keep hurting. One rule of thumb suggests that the combined 30% tariff on China is enough to reduce long-run trade by about two-fifths. America’s economy is big and diversified, and so can withstand high tariffs better than the most. Nonetheless, the hit will probably roughly halve its economic growth this year, and inflation will rise. China will take a small hit to growth, but its economy was already struggling.

– Retail – Walmart’s world

The planet’s biggest company has reinvented itself as a tech giant. Can anything stop it?

Doug McMillion began his career at Walmart as a teen in the 1980s loading trucks in an Arkansas warehouse. Back then Walmart warehouses were small, noisy, chaotic places. Staff hauled crates off trailers and sorted items by hand.

When Mr McMillion was appointed chief executive just over a decade ago Walmart was in peril. Amazon, an online bookseller turned “everything store”, was upending retail. In endless variety and doorstep delivery made Walmart’s vast out-of-town stores seem like relics of a bygone era.

Today, however, the retail colossus is resurgent. With \$680bn in revenue last year and 2.1m workers, it is the largest company in the world on both measures. In America it takes in a tenth of all retail spending, excluding cars, and a quarter of the outlay on groceries.

Mr McMillion has reinvigorated the company by reinvesting profits into new technologies while using its bricks-and-mortar infrastructure to beat Amazon at its own game.

Walmart has been pouring its profits back into its reinvention. The retailer was once a pioneer in deploying new technologies. When computers began to transform business in the late 1960s Walton signed up to a computer class at IBM. Shortly after that his company set up the largest private-satellite system to connect its stores.

Today it is spending big to make up for the lost time in e-commerce. Its capital expenditure has doubled since 2019, reaching \$24bn last year, equivalent of two-thirds of its operating cashflow.

The retailer is now training up Sparky, an AI assistant that helps customers find products, and Wally, which helps its merchandise teams choose items to sell.

“Everything is going in one direction for them” says Robert Ohmes of Bank of America. “The flywheel is turning faster and faster”.

Walmart is also looking abroad. Its strategy has been to experiment with different business models in different markets without fear of pulling out if need be. Walmart de Mexico is the most-valuable firm on the local stock market; in China a Sam’s Club membership is seen as a ticket to the aspirational middle-class in both countries. Walmart is considered far more premium than it is at home. In India Walmart majority-owns Flipkart, an online marketplace and PhonePe, a payments app. Since 2021, when it sold off businesses in Argentina, Britain and Japan. Walmart’s international division has been growing speedily. It expects to double sales and operating profit between 2024 and 2028.

– **The oil business – Well, well, well**

America’s shalemen keep the faith with the president – for now.

With his trade war, however, the president has also trampled on global demand for hydrocarbons. Since he returned to the Oval Office the benchmark West Texas intermediate oil price has fallen from \$80 a barrel to \$60. Some also speculate that Mr Trump’s noisy demands for a lower price contributed to a recent decision by the OPEC cartel to boost production which it made ahead of the president’s tour of Saudi Arabia on May 13th and 14th.

Today’s price is a troubling low for America’s shale drillers:

- Chevron
- BP
- ExxonMobil
- Diamondback Energy
- EOG Resources
- Devon Energy
- Matador Resources
- Civitas Resources
- Permian Resources

Mathew Bernstein of Rystad, a consultancy, calculates that, on average, they need an oil price of \$63 a barrel to cover their production costs, overheads, debt interest and dividends.

On May 5th Diamondback Energy, a shale firm, said that it was slashing production target for the year and cutting capital spending by \$400m. Others, including Coterra Energy, EOG Resources and Matador, have also announced plans to reduce drilling. “We are at the tipping point for US oil production” says Travis Stice, Diamondback’s boss. “If these prices persist for a year, US oil production will decline”, warns Ben Dell of Kimmeridge, a private-equity firm focused on energy.

– **Drugmakers – A turn for the worse**

Big pharma’s jumbo profits are under threat in America.

For America’s politicians there are few easier bogeymen to rail against than pharma bosses. Only a fifth of the country has a positive opinion of the industry,

according to Gallup, a pollster – meaning its executives rank below even estate agents in the public's esteem.

The lofty prices of many drugs in America have created the impression of a greedy industry that exploits the sick.

Donald Trump, at least in this respect, seems all too happy to follow convention. On May 12th the president signed an executive order that seeks to force drugmakers to reduce their prices in America to the lowest rate they charge in other rich countries.

That adds to the consternation of pharma bosses already fretting about Mr Trump's protectionism. Although drugs were excluded from the "reciprocal tariffs announced on April 2nd", duties remain on the table. Executives warn that the combined effect would be to snarl supply chains, raise treatment costs and slow the development of new medicines.

Start with the president's attempt to rein in prices. The executive order instructs his administration to "communicate price targets" to firms based on international benchmarks and establish a mechanism for patients to buy drugs directly, bypassing the middlemen that pervade America's convoluted health-care system. Companies that do not comply could face "aggressive measures" though the order offers little detail on what those might be.

Several big pharma firms are pledging to boost output in America in response to the tariff threat. Johnson & Johnson plans to invest \$55bn, Roche \$50bn, Eli Lilly \$27bn and Novartis \$23bn over the next few years. But factories take time to build.

4. SCIENCE & TECHNOLOGY

- **Warplanes - Flying supercomputers**

Future fighter jets will be bigger, stealthier and fly much faster

- **Solar geoengineering – Cool heads**

Britain is now the biggest funder of research to lower Earth's temperature

- **Gene editing - One of a kind**

A bespoke CRISPER drug has been used to treat a child's unique mutation

5. BOOK REFERENCES

- Good Energy by Dr Means