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THE ECONOMIST – JUNE 14, 2025 – KEY TAKEAWAYS

1. THE COVER: THE MANUFACTURING DELUSION – GOVERNMENTS' OBSESSION WITH MAKING THINGS IS SELF-DEFEATING

- **Around the world, politicians are fixated on factories.** President Donald Trump wants to bring home everything from steelmaking to drug production, and is putting up tariff barriers to do so. Britain is considering subsidising manufacturers' energy bill; Narendra Modi, India's prime minister, is offering incentives for electric-vehicle-makers, adding to a long-running industrial-subsidy scheme. Governments from Germany to Indonesia have flirted with the inducements for chip and battery makers. However, the global manufacturing push will not succeed. In fact, it is likely to do more harm than good.
- Today's zeal for homegrown manufacturing has many aims. In the West politicians want to revive well-paying factory work and restore the lost glory of industrial heartlands; poorer countries want to foster development as well as jobs. The war in Ukraine, meanwhile, shows the importance of resilient supply chains, especially for arms and ammunition. **Politicians hope that industrial prowess will somehow translate more broadly into national strength.** Looming over all this is China's tremendous manufacturing dominance, which inspires fear and envy in equal measure.
- Jobs, growth and resilience are all worthy aims. Unfortunately, however, the idea that promoting manufacturing is the way to achieve the is misguided. The reason is that it rests on a series of misconceptions about the nature of the modern economy.
- Factory settings – **The way to rival the manufacturing heft of China is not through painful decoupling from its economy but by ensuring that a sufficiently large bloc rivals it in size.** This is best achieved if allies are able to work together and trade in an open and lightly regulated economy; factories in America, Germany, Japan and South Korea together add more value than those in China. As the pandemic showed, diverse supply chains are a lot more resilient than national ones.

2. GLOBAL GEO-POLITICS/REGIONAL COVERAGE:

- **The presidency – American disorder**

What happens when a radical performance artist has command of an army.

In the 1960s the Yippies had a theory about how to transform America. The system, they thought, was rotten, and the best way to show it, was to create a spectacle for TV. They scattered dollar bills in the New York Stock Exchange and held a mass meeting to levitate the Pentagon. Some also thought that if armed police or soldiers attacked protesters, Americans would realise they were living in a fascist state and revolt. It backfired: the silent majority saw these stunts and voted for Richard Nixon. The Yippies had got on the wrong side of a fundamental political divide: who stand for order?

By sending troops into Los Angeles, President Donald Trump is trying to show that he does. His opponents, who include the mayor of Los Angeles, Karen Bass, and California's governor, Gavin Newsom, believe he is provoking disorder. Who wins this argument matters for America's second-largest city and the country. Mr Trump has just established a formula for conflict. If it works for him, he will surely try it again. **All of America's big cities have large populations of undocumented or illegal migrants.** Almost all of them are run by Democrats. Mr Trump is betting that the cycle of

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protest, violence and repression benefits him and makes his opponents look extreme.

Yet what serves Mr Trump is dangerous for America. The president is a kind of reactionary Yippie and his reckless actions seem designed to provoke his opponents. Although army commanders want to stay away from politics, Mr Trump held a rally at Fort Bragg on June 10th, where he whipped the troops into a MAGA fervour. It is easy to see how – in LA or the other cities where protests are planned this weekend – a confrontation could descend into further disorder or lethal violence.

This is a perilous moment for America. Mr Newsom struck the right note in his address, also on June 10th. Accusing Mr Trump of choosing, “theatrics over public safety”, he encouraged peaceful protest but warned: “Criminal behaviour will not be tolerated. Full stop.” The most powerful message has come from protestors who laid flowers before National Guard troops. The hope is that they are conjuring a vision of the country which both Americas still believe in.

– **Britain’s spending review – Shoestring statism**

Britain’s government is short of cash, but pivoting to interventionism. That is worrying.

It was never going to be a glorious task. On June 11th Rachel Reeves, **Britain’s chancellor of the exchequer, apportioned the spending for which she had budgeted.** The government is so cash-strapped that most of its departments suffered in order to help the rickety National Health Service. To gloss over this, Ms Reeves delivered a tub-thumping speech in Parliament about the virtue of big government.

At times the performance was ridiculous. The chancellor listed endless tiny projects, such as cash for Kirkcaldy’s high street and Southport’s pier, to make it sound as if she is showering the country with money. **Yet the speech was also genuinely worrying.** Suffering in the polls and menaced by Nigel Farage’s populist Reform UK, Labour seems to have decided that interventionism is a route to popularity. Even without the higher taxes or borrowing that Ms Reeves has forsworn, a statist turn, via regulation and the composition of spending, could do much damage.

Ms Reeves pledged to “buy, make and sell more” at home, to make the country a “defence industrial superpower” and to ensure that “the energy technologies of the future are built here and owned here, and that those jobs come to Britain”. She will maintain a limit on bus fares and cap school-uniform prices. And she will adjust the Treasury’s methodology to favour ‘placed-business cases’: ie, to tilt infrastructure spending away from London, favouring redistribution over growth. The capital city, also known as the goose that lays Britain’s golden eggs, will be kept waiting for money to finance its Dockland Light Railway and Bakerloo Line projects.

Some parts of the economy really do need more government. **It is wise to boost defence spending in light of Russia’s aggression.** Labour is also correct to throw its weight behind nuclear power by funding the new Sizewell C plant in Suffolk and investing in small modular reactors. **Nuclear power is essential as Britain seeks to bring down its punishing energy costs while cutting its carbon emissions.**

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The rest of the pivot to statism is unwelcome. The most harm could come where the stakes are highest: the housing market. A shortage of homes in the south-east of England chokes growth. Labour has incrementally loosened planning rules when a more radical deregulation is needed. Now the chancellor says she will use her capital budget to build lots of social housing, which the government heavily subsidises. This is a classic demand of British left-wingers, who resent the fact that reforms carried out under Margaret Thatcher have since the 1980s allowed social tenants to buy their houses at a discount.

Yet social housing is a red herring. It already makes up a share of Britain's housing stock that is about twice the average in the OECD, a club of mostly rich countries. Rules requiring developers to include "affordable" homes are many of the disincentives to private developers, and reduce the average quality of new houses. As with most things, the state allocates homes inefficiently. Westminster Council recently announced that it would offer contracts for life to all its tenants, who enjoy below-market rents – an astonishing and indiscriminate giveaway. Ms Reeves touted that new homes would be built in Blackpool, Preston and Sheffield where housing is far less scarce.

Such are the mistakes when state controls too much. It is good that Ms Reeves is not letting tax and spending rip, as many Labour backbenchers would like her to do. But even the chancellor's shoestring statism could undermine the government's pursuit of economic growth.

– Letters – Reforming America's taxes (BY Congressman Ron Estes)

Your reader on Section 899 in the Republican budget bill obscured the true reasoning behind the provision and its inclusion in the legislation ("Capital pains", June 7th). Rather than being a merely a tax on foreign investors, Section 899 is a measured response to the OECD's "two-pillar" plan, which creates discriminatory taxes on successful American firms (pillar one) and an extra-territorial global minimum tax that conflicts with America's tax code and international tax treaties.

As the co-author of Section 899, I along with my Republican colleagues, have forcefully and repeatedly opposed the OECD's plan for more than three years. As you mentioned, the provision is written narrowly to apply to digital services taxes, as well as other discriminatory taxes levied on business such as the under-taxed profit rule. The non-partisan Joint Committee on Taxation, made up of House and Senate members, estimated that, under one scenario the US Treasury would lose \$122bn over ten years if the rest of the world implemented pillar two. Section 899 would raise \$116bn over the same time period, effectively defending our tax base in a corresponding manner.

– China's "low-altitude economy" - Delivery drones and flying cars!

Airborne packages and people will soon be whizzing through China's cities.

Your correspondent's heart raced as the door thudded shut. She was alone in the plush two-seat vehicle, but too nervous to take much pleasure in the leather upholstery and panoramic windows. The 16 propellers arranged in a circle around the passenger cabin began to turn, and then the electric vertical take-off and landing (eVTOL) aircraft – to all intents and purposes, a self-flying car – began to rise

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smoothly into the air. It climbed to a height of about 50 metres, affording sweeping views of the cranes and docks of an industrial neighbourhood of Guangzhou, before descending again to the same spot from which it took off, at the head-quarters of EHang, the company that made it. But in March EHang became the first eVTOL-maker in the world to receive a licence to carry passengers commercially. It is planning to start offering flights to the public soon in Guangzhou and another big city, Hefei.

Flying cars are only just beginning to take off, but drone deliveries are already flying high in parts of China. Most of the office-workers filing out of skyscrapers in Shenzhen on a recent spring day to queue at a kiosk run by Meituan, a food-delivery app, looked base'. Only one, Huang Jiuling, appeared surprised to discover that her lunch would be delivered by a drone. Meals are dispensed through the front of the kiosk, after customers identify themselves by entering the last four digits of their mobile-phone number, even as a steady stream of drones drop off bubble tea, noodle soup and chicken rice through a hatch in the kiosk's roof. "I didn't think takeout, which is very cheap, would be delivered by drones," Ms Huang, a 24-year old e-commerce worker admitted.

Delivery drones and flying cars, are mainly science fiction in the rest of the world, although in some places they have advanced to the realm of prototypes and trials. Walmart, a pioneer, has made 150,000 deliveries by drone in America since 2021. In China, however, these technologies are becoming an everyday reality. The government is vigorously promoting them as part of its ambition to develop a "low-altitude economy". By that it means a proliferation of airborne devices whizzing around at less than 1,000 metres (far lower than ordinary commercial planes), offering a dizzying array of services. The intention is to foster a futuristic industry for China to dominate refining the approach that has already turned the country into an electric-vehicle (EV) juggernaut.

The low-altitude economy is small but growing fast. The civil-aviation authority reckons it will reach a turnover of 1.5 trillion yuan (\$208bn) by the end of this year and 3.5 trillion yuan by 2035. Meituan alone delivered more than 200,000 meals in 2024, almost double the number of 2023. EHang's share price is up by about half over the past two years – and it is just one of many flying-car-makers. "By 2030, China will have at least 100 eVTOL firms," declared Luo Jun, head of the China Low-Altitude Economy Alliance, an industry group, at a conference in April in Beijing. By the end of 2024 2.2m civilian drones were operating around the country, a 455% jump in five years.

– Tech in India – Innovate or die

Can India seize its iPhone moment?

India is becoming Apple's factory floor. The world's leading gadget-maker now assembles nearly one in five of its iPhones in the country. By 2026 it hopes to make all the handsets it sells in America in Indian plants, a shift that has irritated President Donald Trump.

Foxconn, its biggest supplier, recently pledged another \$1.5bn to expand local operations. It is not alone: over the past decade India's electronics industry has

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grown five-fold. For firms looking to reduce their dependence on China, India is increasingly attractive.

Yet Apple's pivot also shows how far India still lags behind. The phones are assembled locally, but their guts – chips, batteries and camera modules – are mostly made in China. And China is not merely a manufacturing base. Its domestic firms, such as YMTC (which makes memory chips) and Sunny Optical (which supplies advanced camera modules), have climbed rapidly up the value chain. This has made China indispensable to Apple – not just for manufacturing, but as a place where local firms compete with global suppliers, giving Apple more choice and leverage.

This reflects broader problem. While India is rising as a base for assembly, it remains far behind in the kind of innovation that powers advanced manufacturing. India, which is now the world's fourth-largest economy, remains a bit player in cutting edge technologies. It spends \$71bn a year on research and development, less than a tenth of America's or China's outlay. In R&D intensity (spending as a share of GDP) is just 0.7%, compared with 3.6% in America and 2.4% in China.

In an index published by the World Intellectual Property Organisation, which ranks countries relative to their size and innovation capabilities, India ranks 39th, China is 11th; America is third.

India is a bundle of contradictions. Its tech workforce is vast: the country has more open-source developers than China, second only to America. Its diaspora leads some of the world's largest tech firms, including Google, Microsoft and IBM. Yet it is largely absent from the race to build artificial intelligence (AI) models. Its drugmakers supply much of the world with generic drugs but have produced few original ones. In semiconductors India is home to around a fifth of the world's chip designers, yet has a few large chip firms.

Indian universities, including the elite Indian Institute of Technology, train talent for the world, but publish little world-class research. Not one Indian university ranks among the world's top 100 for scientific research, according to the Nature Index, run by the publishers of the journal of the same name.

For a country that wants to challenge China as a high-tech manufacturing hub, these shortcomings matter.

– AI in India – Indic intelligence

The country has a lot of work to do to lead in AI.

India is hooked on artificial intelligence. The country is the fastest-growing market for ChatGPT. By some estimates it accounts for the largest share of users, or about 14% of the total. Soon, the popular bot may have local competition.

On May 23rd Sarvam AI, a Bangalore-based startup, unveiled and “Indic” large language model (LLM) capable of conversing in Indian languages. Early this month, Bharat Gen, a publicly funded model, made its debut. Both aim to help users engage with AI in the languages they speak, from Hindi to Malayalam.

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So far progress is modest. Sarvam's system is built atop technology from Mistral, a French firm. Bharat Gen is based on other open-source variants. **No Indian model features among the top 200 LLMs ranked by LM Arena, a benchmarking website.**

According to the AI index compiled by the researchers at Stanford University, in 2024 India attracted just \$1.2bn in private AI investment, placing it 12th globally, behind Austria and Sweden. In America the figure was \$109bn and China \$9bn.

India's digital infrastructure also lags woefully: its datacentres account for just 3% of global capacity. While America and China build foundational platforms from scratch, India remains an adapter, repurchasing foreign models for domestic needs. Whether this will be transitional phase or a lasting weakness is an open question.

Anirudh Suri of India Internet Fund, a venture-capital firm, argues that policymakers are too fixated on chips and code. Rather than trying to pick winners, he says, they should focus on building the infrastructure that allows AI development to thrive.

Talent is another problem. The country trains large numbers of coders, but few specialists in cutting-edge AI research.

– **The Americas – Ecuador – Make it safe while respecting the law**

President Daniel Noboa explains how he intends to do both.

The President loves jogging. Yet so determined are gangsters to kill Daniel Noboa that his runs require a military operation. As his motorcade of black SUVs and outriders sweeps back to his apartment after a morning run in Guayaquil, Ecuador's biggest city, a swarm of heavily armed soldiers surrounds him. Mr Noboa and wife, incongruous in colourful lycra, slip swiftly inside. "We've had death threats on a daily basis for two years," he tells The Economist, matter-of-factly.

Ecuador is deep in the bloody grip of transnational criminal gangs with links to Mexico, Colombia and Albania. They ship thousands of tons of cocaine, mostly made in Colombia, out of the country to Europe and the United States. Illegal mining and extortion bring in stacks more cash. Other Latin American countries have balked at taking on the gangs. Mr Noboa was recently re-elected on the promise to do just that. His efforts to make Ecuador safe again pose a crucial test that is about more than just one country: is it possible to beat back the rampant transnational gangs while respecting the rule of law and democracy.

Ecuador's descent into chaos has been shocking. In 2019 the murder rate was below seven per 100,000, similar to that of the United States. By 2023 it had surged to 45, making it the most violent country in mainland Latin America. The violence followed cocaine-export routes, which shifted to Ecuador to escape increased security at Colombian ports. Ecuador's vast banana exports offered an ideal smuggling route, its dollarized economy a perfect conduit for laundering cash. Mr Noboa says gangs are moving about \$30 bn worth of drugs through Ecuador every year, equivalent to a quarter of the country's GDP.

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– The WHO on coca - Chewing it over

A review by the WHO may recommend removing coca from international drug-control schedules.

If New York runs on coffee, Cochabamba runs on coca. The leaves – which can be chewed as a mild stimulant, but processed into cocaine – are everywhere spread out by the road to dry, sold in bags alongside sweets and SIM cards; stuffed in cheeks as golf-ball-sized bolos. “With a bolo I can drive all night,” boasts one trucker, with a flash of leaf-flecked teeth.

Bolivia is one of very few countries with a legal market for coca. In the rest of the world it is controlled with the same stringency as cocaine and heroin. The Single Convention on Narcotic Drugs, an international treaty adopted by the United Nations in 1961, lists coca leaf as a “Schedule I” substance, one considered to come with a high risk of abuse and to pose a serious public health threat. Some consider that to be a historic mistake. It might soon change. A review by the World Health Organisation (WHO), which will conclude in October, may recommend that coca be bumped down to Schedule II, or removed from the schedules altogether. The latter would be a first. The prospect is causing hope and anxiety in equal measure.

Andeans have chewed coca for millennia. The Spanish noticed that it kept workers going in the silver mines of Potosi, but saw it as an indigenous vice. Such attitudes persisted well into the 20th century, when the WHO described coca chewing as a “social evil”. When the cocaine business took off, coca’s status as an internationally controlled substance was cemented.

Bolivia never seriously tried to abolish traditional uses of the coca leaf. Like Peru and Colombia, the other main coca-growing countries, it created broad exemptions under national law. Then, in 2013, it negotiated a partial opt-out from the convention. Now it wants coca taken off the drug schedules altogether, it was Bolivia that requested the WHO review. Other treaty articles means coca would still be controlled to prevent it being used for making cocaine. But de-scheduling would make it easier to develop coca-based products and sell then abroad. Proponents hope it would be a boon for rural development.

Bolivia already has a lively coca economy. The allows 22,000 hectares of coca fields to feed the legal market. And Bolivians have cooked up new ways to consume coca. In one garage factory, a woman sprinkles leaves with caffeine and fruity flavourings and puts it under a power hammer. The result: coca machucada, an amped-up version of the sacred leaf. Such products have helped win over new consumers, bringing a rural habit to the urban middle class. There is even an “executive bala”: sachets of ground coca for those anxious about leaves in their teeth.

If coca was de-scheduled, the hope is that the legal international market would boom. Bolivia could start exporting existing products such as coca tea, flour and sweets. But de-scheduling could also boost investment in the leaf. Bolivia’s state-led efforts to industrialise coca for the domestic market failed. But the prospect of a global market could entice investment from companies to create new products, from energy drinks for health nuts: to new versions of tipples like Vin Mariani, which mixed Peruvian coca with Bordeaux wine for 19th-century consumers such as Queen Victoria and Pope Leo XVIII.

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– African commodities. – The kernel of an idea

Ivory Coast's attempt to export more processed nuts holds broader lessons.

The lowly cashew is globalisation in a nutshell. The route from cashew tree to tasty snack follows a peripatetic journey. More than half of the world's cashew nuts are grown in African countries. Most are exported raw, mainly to Vietnam, for shelling and sorting, before being exported again as processed kernels. Often the nuts munched by Americans or Europeans have travelled more than 20,000 kms.

African countries lament being the bottom link in global supply chains for cashews and other commodities. A rule of thumb in agro-processing is that just 10-15% of the cost of the final product, say a bag of roasted cashews, goes to the farmer in the country of origin. If more processing is done in Africa, goes the logic, the continent will create jobs and capture more of the \$8bn cashew market.

This is why African countries – most of which export predominantly unprocessed commodities – are studying the parable of the Ivory cashew. 15 years ago Ivory Coast, the world's largest grower of the cashews, exported nearly all of its crop as raw nuts. But last year about 30% of its harvest was processed at home; the government aims to increase that to 50% by 2030. Its efforts hold lessons for those who feel Africa gets a raw deal from its raw materials.

After Ivory Coast's civil war ended in 2011 the government made it a priority to do more processing. The timing was fortuitous. In the 2000s Vietnam supplanted India as the global hub for turning raw nuts into kernels. It did this by mechanising tasks that were done by nimble hands – cutting, shelling and peeling. This reduced the cost of processing from about \$600 per tonne to \$200. Factories that employed 3,000 people in India had 400 in Vietnam. This made businesses consider using the same technology, but closer to where nuts are grown and eaten.

The Ivorian government, seeing an opening, introduced incentives for domestic and foreign-owned processors. Firms pay no import duties on machinery. They receive a subsidy of about \$700 per tonne of processed kernels exported or 10% of the price paid by the buyer. A regulator was given clout and staffed by competent technocrats. There was consistent high-level support, including from Alassane Quattara, the president and his late prime minister, Amadou Gon Coulibaly.

Foreign expertise has been critical. "Agro-processing in theory sounds simple, but it is very technical. It's food science and business mixed together." Notes Jonathan Said of AGRA, an NGO headquartered in Nairobi. Ivory Coast convinced Olam, a Singaporean firm, to build the first big factories. Several foreign firms have followed.

– Reaming Europe – Bombshell boomtowns

Europe's defence build-up is reviving some blighted cities.

The cobbled town of Bourges lies in France's "empty diagonal": the central swathe of farmland that city folk zoom past on their way to somewhat else. In 1860 Napoleon III decided to build a canon foundry and arsenal there, a place safely remote from France's fragile eastern borders.

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Home to just 64,000 people, Bourges was until recently bleeding jobs as its modern weapons-makers lost orders. "There was a long period of depression," recalls Serge Richard, head of local chambers of commerce.

Today, however, Bourges is on the cusp of a remarkable revival. Europe's governments are hiking defence spending in the face of Russian aggression and American volatility. Defence-dependent towns, long used to industrial decline, are preparing for the opposite. Three places, in France, Germany and Poland, illustrate the huge potential, but also the strains it can bring.

Bourges is bracing for a boom. Two big European defence firms already operate factories there. MBDA, a European company that makes missiles and missile systems, and KNDS, a Fraco-German one that manufactures the CEASER howitzer and 155mm shells. Together, they are expected to invest a massive Euro 1bn locally over the next 5 years. When told of the sums, "I nearly fell off my chair," says Yann Galut, the town's left-wing mayor. "A billion euros: can you believe it."

– **Spain - Sunshine in Malaga Valley**

Might a thriving town fall victim to its own success?

On a rainy weekday in early spring Malaga is thronged with tourists clambering over the Moorish castle that overlooks the port, carousing at the pavement bars or queuing for one of half-a-dozen art museums. It wasn't always thus.

Until the turn of the century tourists heading for the resorts of the Costa del Sol shunned what was then a drab former industrial town. Today, Malaga, Spain's sixth city, is booming, powered not just by tourism but also by a burgeoning tech industry. Its economy has outpaced the rest of the Andalusia region for most of the past decade. It is held up by some as a model for other Spanish cities, but some locals fear it may fall victim to its own success.

Its revival began with the pedestrianisation of the centre and the opening in 2003 of a museum dedicated to Pablo Picasso, who was born in the city. Three others followed, including an outpost of Paris's Pompidou Centre. Though cultural tourism accounts for only a minority of the 14.4m visitors last year to Malaga province (includes Marbella and other resorts), the museums have helped turn the city into a magnet for tech workers and others. Antonio Banderas, an actor, has returned to his native city to open a theatre.

In a nearby valley sprawl the anonymous buildings of the Technological Park of Andalusia. Founded in 1992 as a joint venture between the city and regional governments and a local bank, it now employs 28,000 workers and houses companies ranging from Accenture and Ericsson to startups. Google and Vodafone have operations in the city. The park is still expanding: it now focuses on cybersecurity, games and microelectronics.

Malaga has natural advantages, says Francisco de la Torre, its mayor. They start with a benign climate and its site on the Mediterranean. It has Spain's fourth-biggest airport. But it also has good vocational-training centres and a steady, consensual leadership: Mr de la Torre, who is 82, has been mayor since 2000.

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Two clouds have darkened the horizon. Like many other Spanish cities, Malaga is short of housing. Some 9,000 new homes are under way, with the city providing the land for private builders. The other worry is the excesses of mass tourism. The historic centre has around 6,000 tourist flats, the highest density in Spain. Carlos Carrera of local residents' association complains of "strangers entering buildings, fights, drunks and hooligans in the lift" and of bars that stay open till 2am. "The balance has been upset," he says. Mr de la Torre replies that the city has banned new tourist flats and is closing those without permits. The overall number is falling, he says.

These are problems of success. "It was a city in black and white and now it's in colour," argues Jose Maria Luna, the city's culture boss from 2011 to 2024. "Malaga has found a place in the world."

– **CHARLEMAGNE – The Emerald petro-state**

How Ireland became the Saudi Arabia of siphoned-off global profits.

Europe got an unexpected dose of good news on June 6th: its economy turns out to have been growing twice as fast as had been previously thought. Granted, the new figure is a modest 0.6% rise in GDP in the first quarter compared with the prior one, but Europe takes what it can get these days. Was this a sign of German or French revival after years of lethargy? Not quite. Look at the fine print and a single statistic stands out: a 9.7% bump in the GDP of Ireland. **A country of around one-hundredth of the population of the European Union was responsible for over half the bloc's growth.** A casual observer of economic statistics might surmise Ireland had accidentally struck oil while nobody noticed.

The truth is not so far removed. Ireland in recent years has seen its GDP balloon for reasons unrelated to what its workforce is up to. The unexpected fortune stems not from oil, but global tax-shifting. Big multinational firms have found this damp corner of Europe a good place to book profits made from their globe-spanning operations. **Tech giants like Apple or Microsoft transfer intellectual-property rights – some of the most valuable in the world – to Irish subsidiaries,** which use them to collect royalties from higher-tax jurisdictions beyond both Ireland and America.

Pharma groups use a similar trick, but also manufacture block-buster drugs (though they may have developed by American companies in America) in Ireland. Through a web of royalties and licensing fees, accountants as versed in the arts of surreal creativity as James Joyce can magic away profits to Ireland, which taxes them at just 12.5% a year, one of the world's lowest rates.

– **BAGEHOT – Bonnie Blue's Britain**

Sin, Spin and soft power.

Bonnie Blue is the most famous British woman not everyone knows. Ms Blue, a 26-year old from Nottinghamshire, has become a mainstay of social media, her blonde hair and blue eyes beaming out from TikTok feeds. Instagram reels and YouTube shorts. Her Wikipedia page gets more traffic than Beyonce's and a little less than Taylor Swift's even if some still say "Bonnie who?" when her name is mentioned. She

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has become a frequent guest on podcasts that enjoy immense listenership, yet create barely a ripple in older media.

Why the disparity? Her fame is not family-friendly. Ms Blue is a porn star, famous for stunts such as claiming to have had sex with 1,057 men in 12 hours.

And why not? Ms Blue's strengths are Britain's strengths. Smut, scuzz and sin are fixtures of the British economy. Tobacco companies are among the largest in the FTSE 100, along with booze companies. British gambling companies, though considerably smaller, are among the country's best run.

3. GLOBAL BUSINESSES/ ECONOMICS

– Apple and AI – Glasnost in Cupertino

In the age of AI, Apple's tight control over its products has turned into a liability.

During Apple's annual developer conference, which began on June 9th, the tech giant's bosses were in their happy place. On home turf in Cupertino, California, they unveiled a glossy visual overhaul of Apple's operating systems and showed off new features that pull its devices into ever-closer harmony. However, although the new "liquid glass" styling may give its software a new sheen, beneath the window-dressing things are not going well.

Nearly all of Apple's products are made in Asia, so President Donald Trump's tariffs threaten to crush its margins in America. Its tight grip on its software ecosystem has got it into trouble with regulations; after a bust-up with a judge during its long-running fight with Epic Games, the maker of "Fortnite", over how it runs its Apple Store, Apple was slapped with a court order that jeopardises the \$30bn it takes each year in app-related fees. And in the vital field of artificial intelligence (AI), Apple is floundering. No wonder, then, that its share price is down by almost a fifth this year, the most of any of America's five biggest tech firms.

The company's struggles to adapt to the AI boom are deep-rooted. Even before OpenAI launched ChatGPT in late 2022, Apple was falling behind, as Siri, its voice assistant, proved to be notably less capable than the alternatives from other firms. A last year's conference Apple previewed a new version of Siri that could combine data from different apps to handle complex requests. It looked impressive, but it never shipped.

As in the fight with Epic Games, Apple's difficulties come down to control. The firm has long differentiated its products by enabling users to keep their personal data private. It can afford to do this because it makes most of its money selling hardware – unlike rivals such as Google and Meta, whose business models depend on collecting and analysing data in order to sell personalised ads.

The rise of AI has turned Apple's control-freakery from a strength to weakness. The plan, announced last year, was to deploy the company's own AI model directly on user's devices, where it could gain access to personal data (such as emails, messages and calendars) to answer queries and perform tasks, without compromising privacy. The problem is that this doesn't seem to work: **a small model running on a**

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smartphone cannot compete with a much more powerful one running on the cloud. Surely Apple, could develop its own big cloud-based model, to compete with ChatGPT, Claude or Gemini? Maybe. Catching up might be possible. If Apple dipped into the rich trove of its users' data. But it has promised not to.

As a result, it now seeking outside help. Already, Siri can offer to hand off more complex queries to ChatGPT, though it must clunkily ask permission each time. This week Apple announced a deeper partnership with OpenAI. With users' permission, ChatGPT will be given more access to their devices, for example to answer queries about what is on their screens. ChatGPT will also be baked into Apple's programming tools.

This is a step in the right direction, but Apple's need to go further. Rather than trying to control what AI can and cannot do on its devices, Apple should let users decide. This would go against Apple's instincts for control, which have only intensified under the leadership of Tim Cook. Yet openness may not be as scary as Apple fears.

Think back to when Apple launched the iPhone in 2007, and refused to let anyone else build native apps for it. Apple changed its mind the following year, allowing others to build apps on its terms and unleashing a surge of new tools, games and services. It should now apply the same approach to AI. Opening up the App Store helped make the iPhone the world's most successful consumer product. Opening up to others' AI models is Apple's best chance of keeping it that way.

– The meat industry – A bigger bite

JBS, the world's largest food company, plans to beef up in America.

Consumers outside Brazil may not be familiar with JBS, even though many will have tasted its products. But as the meat-packing colossus prepared to list on the New York Stock Exchange on June 13th, its American competitors were quivering in their cowboy boots. The listing is designed to allow JBS, already the world's biggest food company by revenue, to gobble up even more market share by tapping cheaper capital and attracting new investors. Yet it could also leave the firm vulnerable to litigation from its broad range of enemies, who include environmentalists as well as an unusual coalition of Republicans and Democrats.

JBS started in 1953, as a small slaughter house deep in Brazil's interior, run by Jose Batista Sorbino. Soon after, Brazil began building its modernist capital, Brasilia, nearby and Mr Batista supplied the construction workers with fresh beef. All the while he instructed his three sons on how to skin the carcass, salt the hide, prepare cuts and deliver the goods.

Despite not completing secondary school, two of the sons, Joesley and Westley, showed a knack for business. When they took over the family firm in the early 2000s they expanded into poultry, pork, fish, eggs and plant-based meat, through a multi-billion-dollar acquisition spree financed partly by Brazil's national development bank. Last year the firm generated \$78bn in revenue, more than any rival makes from food sales (such as – Nestle, PepsiCo, Tyson Foods, Mondelez Inc, Marfrig, WH Group, Danone & Kraft Heinz). These days around half its sales are in America.

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On Sao Paulo's stock exchange, JBS's shares have long traded at a discount to those of its US-listed rivals. The firm hopes that listing in New York will give it access to the deep pockets of America's institutional investors, as well as the chance to join market indices like the S&P 500, where it would stand to attract capital from passive funds.

– SCHUMPETER – Make America French Again

Gallic lessons for the American private sector.

On June 14th Constitution Avenue will turn into the Champs Elysees for a day. Some 150 military vehicles, 50 aircraft and 6,600 troops will roll, fly and march past the White House to celebrate the US Army's 250th birthday (and, coincidentally, its current occupant's 79th). The scene will be reminiscent of the annual Bastille Day parade in Paris, which so inspired Donald Trump when he attended one during his first presidential term that he has since insisted on emulating it at home.

The Pentagon pantomime is not Mr Trump's only recent French import. The Oval Office got a Versailles-style gilded makeover. And even as they turn noses up at goods from France and the rest of the European Union, which may soon face a 50% tariff, the president and people around him are turning into avid consumer of French ideas. These include what by America's free-market standards counts as a heavy dose of dirigisme.

In recent months the Trump administration has touted not just tariffs (to protect domestic industry) but also national champions (such as the \$500bn Stargate artificial-intelligence project), price controls (for pharmaceuticals) and state ownership (demanding a golden share in return for blessing a Japanese takeover of US Steel). On June 5th Steve Bannon, a prominent MAGA-whisperer, went so far as to call for the full nationalisation of Space X, a rocketry-and-satellite firm belonging to Elon Musk, a former "First Buddy" who had just had an epic falling-out with the president.

Mr Trump himself has yet to channel his inner Francois Mitterrand in so far as seizing private assets is concerned. But it is becoming clear that for large sections of his right-wing movement, Making America Great Again involves the sort of protectionism and state meddling that would be more familiar to Mitterrand than his American contemporary, Ronald Reagan.

– BUTTONWOOD – He's just not that into you

Europe's hope for more stock market listing remains a fantasy.

It must be tempting to give up. Those tasked with reviving Britain's stock market have long faced a difficult task and a steady drip of bad news, as one firm after another departs for private ownership or America. It will still have hit like a bucket of cold water to learn, on June 5th, that Wise intends to move its main listing in New York.

One of the Europe's hottest fintech outfits, Wise's floatation in London in 2021 spurred hopes that the other stars would follow. If they included Klarna and Revolut, two even hotter peers, the London Stock Exchange would add a new, buzzy cluster to its old-times in banking, energy and mining. That would attract attention from stock

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analysts, capital from international investors and yet more listings. Four years on, it has not worked out. Like Wise, Klarna intends to float in America; Revolut's boss has hinted that it may do so, too.

The failure to attract and retain fast growing firms is most often laid at the doors of the London Stock Exchange, but it is a pan European malaise. Klarna, after all is Swedish. So is Spotify, the only European firm founded this century worth more than \$100bn. It listed in New York in 2018. New Financial, a think tank, reckons that in the decade to 2024 some 130 companies moved their listing from Europe to America, while over 1,000 were taken private. In today's money, their total value at the point of de-listing adds up to \$1.7 trillion – more than 10% of Europe's stock markets are worth. Proportional to market capitalisation, Ireland is the biggest loser, followed by Sweden, Britain and Germany.

Unnerved, Europe's financial elite has responded in time-honoured fashion: it has convened task-forces, launched consultations and commissioned reviews from grandees that, if printed, would fill forests. There have been extravagant promises of streamlined reporting, harmonised regulations and centralised supervision. In what may eventually be a radical step, Britain's government is mulling plans to force some retirement savings to be invested at home.