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'Competent jerks' have an office shelf life
ANJLI RAVAL, PAGE 15

Volcano watch Icelanders flee latest eruption

Smoke billows from a volcanic eruption on the outskirts of the Icelandic town of Grindavik yesterday, just hours after its residents were evacuated for the second time since November. It is the fifth volcanic eruption in two years in the Reykjanes region, south-west of capital Reykjavik. The last one occurred in mid-December. In recent weeks authorities have built barriers of earth and rock in a bid to prevent lava flows from reaching Grindavik, but the latest eruption has penetrated the town's defences. Iceland's President Gudni Thorlacius Johannesson said no lives were in danger, though infrastructure "may be under threat". Iceland has more than 30 active volcanoes. In 2010, ash clouds from the Eyjafjallajökull volcano spread across Europe, grounding thousands of flights. But experts do not expect the Grindavik eruption to cause similar disruption.



APF via Getty Images

Briefing

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Global reinsurers have begun inserting cancellation provisions into policies to protect against a full-scale conflict erupting in the region, a move that threatens to further drive up costs and increase risks for businesses operating in the area.— PAGE 6

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Banks say US consumers upbeat but poll shows voters fail to credit Biden

► 13% of Americans feel better off ► Iowa Republican caucuses today ► Haley closest Trump rival

JOSHUA FRANKLIN AND STEPHEN GANDEL — NEW YORK
CLAIRE JONES — WASHINGTON

The biggest US banks believe American consumers have weathered the Federal Reserve's cycle of interest rate rises in good shape, but voter surveys show Joe Biden is getting no credit ahead of this year's presidential election. "We see the consumer acting in a way that is consistent with the starting gun on the Republican presidential nomination process today by holding caucuses to select their choice. Former president Donald Trump is widely expected to land a commanding victory, easing his path to the party's nomination to face off against the incumbent Biden. Consumer confidence is widely expected to play a crucial role in the

contest, but a poll yesterday showed that just 13 per cent of Americans feel they are better off under Biden. Inflation declined from a high of 9.1 per cent in 2022 to 5.4 per cent in December, while unemployment stands at 3.7 per cent. And in recent days executives from the country's four largest banks — JPMorgan Chase, Bank of America, Citigroup and Wells Fargo — said during earnings calls that consumers

are resilient. "The financial health of our consumers remains strong," Wells chief Charlie Scharf told analysts. BoFA chief financial officer Alastair Borthwick said the finances of the bank's customers remained in good shape, even if most consumers' accounts were not quite as full as they were in the middle of the pandemic. "We see the consumer activity indicating that they're still in the game," Borthwick said. "They're still spending money."

Despite this, less than a third of those surveyed in an ABC/Washington Post poll published yesterday believe Biden is doing a good job in managing the world's largest economy. The lenders noted that savers had gone as they continue to spend, and defaults have started to climb. "While average deposit balances per customer continue to decline from their peak, they remained above pre-pandemic levels as wage growth has more than offset increased spending," Scharf said. "Having said that, there are cohorts of customers that are more stressed."

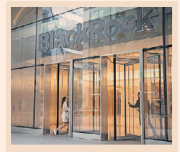
JPMorgan chief financial officer Jeremy Barnum said retail banking customers were "fine" but loan losses and cash reserves had returned to the same levels as before the start of government stimulus programmes during the pandemic. "That means that consumers have been spending more than they're taking in," Barnum told analysts. US consumers have had more cash in

the bank than in the past thanks to unprecedented government stimulus programmes to cope with the economic fallout from the pandemic. The result has been record low loss rates on loans by the banks. Bankers warned that keeping the unemployment rate low — about 3.7 per cent — would be crucial to ensuring loan losses remained at manageable levels. "A very strong labour market means, all else equal, strong consumer credit," Barnum said. Nikki Haley has emerged as Trump's top Republican rival in Iowa, moving into second place over the past week. She performs better among university-educated moderate and independent voters who are less inclined towards Trump's economic populism.



Iowa can reverse accepted wisdom around an election, even if temporarily. The caucuses can generate shocks, lift underdogs and shift momentum

Big Read Page 19



BlackRock deal to redraw investment landscape

Analysis ► PAGE 8

China	RMB30
Hong Kong	HK\$33
India	Rupee20
Indonesia	Rp45,000
Japan	¥65,000 (inc JCT)
Korea	₩4,500
Malaysia	RM150
Philippines	Peso140
Singapore	S\$58,000 (inc GST)
Taiwan	NT\$140
Thailand	Bht140

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Goldman steers buyout bosses 'back to the future' as cheap money runs dry

HARRIET AGNEW — LONDON
JOSHUA FRANKLIN AND BRODIE MASTERS — NEW YORK

Private equity can no longer rely on borrowing cheap money to fuel returns, and will have to go back to its roots by sourcing good deals and making operational improvements, according to the head of Goldman Sachs's investment business. "Private equity will look different over the next 10 years than it looked over the past 10 years," said Marc Nachmann, global head of asset and wealth management at the US bank. "It will be a little bit back to the future in a sense."

The decade-and-a-half of low interest rates that followed the 2008-09 financial crisis heralded a boom in private equity, as managers made use of cheap and plentiful debt to embark on acquisition sprees. Falling interest rates raised asset values and cut the cost of capital. "Over the past 10 years you could rely on lots of leverage, cheap cost of capital and multiple expansion, and you made your returns that way," said Nachmann. "That will be harder to do going forward."

While there is growing optimism among investors that US interest rates have peaked after the biggest rise in decades, they are likely to remain high for some time. Nachmann warned that private equity would need a different model of ops from the one it had thrived on in the past decade. "When private equity started out, it was about really good deal sourcing and then doing a lot of operational things to improve companies," he said. "This goes back to the old days when people targeted undermanaged divisions of large companies or private companies that could be improved. A lot of the returns will come from sourcing really good opportunities and then the operational improvements."

World Markets											
STOCK MARKETS			CURRENCIES			GOVERNMENT BONDS					
	Jan 12	Jan 5	Prev	Wtd Chg		Jan 12	Jan 5	Yield (%)	Jan 12	Jan 5	Chg
S&P 500	4772.83	4796.24	-0.18	-0.18	\$/£	1.097	1.098	6/3	6.912	6.911	0.001
Nasdaq Composite	14840.58	14819.19	-0.25	-0.25	\$/€	1.776	1.775	6/3	0.768	0.764	0.004
Dow Jones Ind	37511.38	37711.02	-0.53	-0.53	\$/¥	0.658	0.661	6/2	1.164	1.162	0.002
FTSEurofirst 300	1881.92	1887.63	-0.77	-0.77	\$/¥	144.725	144.140	N/A	158.689	158.244	0.445
Govt 10yr US	4.018	4.442	0.76	0.76	\$/¥	164.689	163.909	F index	62.154	61.818	0.336
Govt 2yr US	3.624	3.624	0.00	0.00	\$/¥	0.933	0.930	5/1c	1.086	1.081	0.005
FTSE All-Share	4187.02	4149.73	-0.85	-0.85	\$/¥				0.00	0.01	-0.02
CAC 40	7465.14	7481.82	1.68	1.68	\$/¥				0.59	0.60	-0.01
Nikkei	16794.56	16847.03	0.95	0.95	\$/¥				1.57	1.58	-0.01
Hong Kong	16244.88	16302.04	-0.35	-0.35	\$/¥				2.52	2.62	-0.11
MSCI World \$	3157.32	3161.50	-0.13	-0.13	\$/¥				2.18	2.20	-0.02
MSCI EM \$	994.75	988.97	-0.58	-0.58	\$/¥				2.39	2.42	-0.03
MSCI ACWI \$	722.80	722.83	-0.06	-0.06	\$/¥						
FT Wilshire 2500	6191.42	6198.35	-0.11	-0.11	\$/¥						
FT Wilshire 5000	4822.40	4829.80	-0.12	-0.12	\$/¥						
Oil WTI \$	73.18	74.00	-0.11	-0.11	\$/¥						
Oil Brent \$	78.86	78.99	-0.42	-0.42	\$/¥						
Gold \$	2029.15	2029.55	-0.51	-0.51	\$/¥						

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INTERNATIONAL

Gaza conflict

Netanyahu declares 'nobody will stop' Israel

Premier brushes aside ceasefire calls and hits at South African claims

NEEM ZILBER — TEL AVIV

Benjamin Netanyahu has vowed to continue Israel's war in Gaza "until total victory" as he marked 100 days of conflict against Hamas, with pressure on his government mounting through protests at home and criticism abroad.

Speaking at a press conference on Saturday evening, Israel's prime minister defiantly brushed aside calls for a ceasefire and blasted South Africa's allegations that Israel is committing genocide in Gaza, brought at The Hague-based

International Court of Justice. "Nobody will stop us — not The Hague, not the [Iranian-led] axis of evil and not anybody else," Netanyahu said.

"The hypocritical onslaught at The Hague against the state of the Jews that arose from the ashes of the Holocaust... is a moral low point in the history of nations," he added.

Despite the combative stance taken by the long-serving Israeli premier, international and domestic pressure is growing on his government to stop the war in Gaza, at least temporarily, and secure the safe return of the remaining Israeli hostages.

Josep Borrell, the EU's foreign policy chief, on a visit to Egypt yesterday called for a halt to the fighting to better

address the "massive" humanitarian needs inside the devastated Palestinian enclave and "organise the release of the [Israeli] hostages".

Borrell also hinted that if conditions worsened inside Gaza, which international aid groups have called a humanitarian "disaster", much of the enclave's more than 2m residents "will not have any other solution than to try to escape the trap" by fleeing to Egypt.

More than 25,000 Palestinians have been killed so far in Gaza, according to health officials in the Hamas-controlled territory, with about 85 per cent of residents displaced from their homes and UN officials warning that "famine is around the corner".

"The massive death, destruction, displacement, hunger, loss and grief of the last 100 days are staining our shared humanity," Philippe Lazzarini, commissioner-general of the UNRWA, the main UN relief agency in Gaza, said on Saturday night.

"The crisis in Gaza is a man-made disaster compounded by dehumanising language and the use of food, water and fuels instruments of war," he added.

Relatives of the Israeli hostages staged a mass rally in Tel Aviv on Saturday night, drawing tens of thousands of people, to mark "100 days of hell" since the Hamas assault and called on Netanyahu

to do whatever was necessary to secure the release of the captives.

The demonstration continued for 24 hours, including a 100-minute "solidarity strike" yesterday morning by the Histadrut national labour union, academic institutions and various private sector companies. Demands from hostages' relatives to completely stop the war to facilitate a comprehensive release deal with Hamas have grown more vociferous in recent weeks.

Large parts of the media and even opposition politicians have come out in support, arguing that the safe return of more than 130 Israelis still in captivity had to take precedence over the government's mission to "destroy" Hamas. *Additional reporting by Heba Saleh*

Ukraine war. Winter offensive

Russian air onslaught piles pressure on Kyiv

Defences struggle to cope as Kremlin boosts arsenal with Iran and North Korea missiles

JOHN PAUL BATHONE — LONDON
CHRISTIAN DAVIES — MOSCOW
ROMAN OLEARCHYK
AND CHRISTOPHER MILLER — KYIV

The deep subway tunnels of the Lyskyi anivka metro station in central Kyiv make for an ideal air raid shelter. The building lies just across the street from the Artem weapons factory and was damaged when Russia targeted the area last month in one of its biggest air strikes of the war.

Ukraine has had a tough start to 2024. The country is exhausted after two years of fighting, the temperature in Kyiv has dropped to minus 14C and the ground offensive, having failed to recapture significant swathes of occupied territory, is all but frozen.

Meanwhile, Russian air attacks — supplemented with Iranian drones and, according to the US, North Korean ballistic missiles — have hotted up.

The second big strike of the year came last Monday, when Russia launched 59 drones and missiles and Ukraine's air defences shot down about half of them, compared with their usual 80 per cent interception rates.

The scale and sophistication of Russia's latest air strikes are of a different order from last winter's attacks, according to officials and military analysts.

Russia fired more than 500 drones and missiles between December 29 and January 2 alone, said officials in Kyiv. Increasingly, the main targets appear to be in Ukraine's defence industry, such as Artem, rather than the energy grid that Russia tried to destroy last winter.

The attacks have been carefully planned, with staggered waves of drones and missiles designed to overwhelm Ukraine's air defences.

On December 30 and January 2, they were augmented by short-range ballistic missiles sourced from North Korea, one of which flew 460km from its Russian launch site, the White House said last week. Ukraine's mish-mash of air defence systems and surface-to-air missiles has struggled to cope.

The first layer of defence — mobile units that are often a Humvee mounted with Stinger surface-to-air missiles or heavy machine guns — has been a cheap



Taking shelter:

Kyiv citizens inside a metro station during an air raid as the scale and sophistication of Russia's latest strikes increase from last winter

Alamy/Reuters

and effective way of taking down drones and occasionally cruise missiles too, according to Oleksandr, a soldier who has manned a mobile defence team outside Kyiv.

But such units are now struggling to manoeuvre in deep snow, leaving the next layer of Ukraine's air defences, which includes medium-range systems such as the German-provided IRIS-T and SAM/PT from France and Italy, to intercept the missiles and drones.

Russia's alleged use of North Korean ballistic missiles in Ukraine, which would violate UN sanctions, has underlined how the balance of supplies may be moving in Moscow's favour, said officials and military analysts.

Yang Uk, a defence expert at the Asian Institute for Policy Studies in Seoul, said North Korea could have reserves of up to 100 KN-25s, most of which it might transfer to Russia for the right price.

Kyiv's allies, led by the US, condemned North Korea's arms transfers this week. Russian officials have called the allegations US "disinformation".

Moscow was also in "actively advancing" talks with Tehran to acquire close-

range ballistic missiles, said US national security spokesman John Kirby. Iran had the largest ballistic missile programme in the Middle East and could supply Russia "with a few hundred" just to start, said Behnam Ben Talebu, senior fellow at the Foundation of Defense for Democracies, a US think-tank.

With its economy on a war footing, Russia now makes more than 100 long-range missiles a month, compared with around 40 at the start of invasion, and around 500 attack drones, according to Ukrainian and western officials. That is not enough to sustain the current pace of attacks, which were only possible after Russia stockpiled missiles for months. But Iranian-supplied drones and North Korea missiles make up some of the shortfall.

The EU has also fallen short in fulfilling existing pledges made to Kyiv, sending less than half the 1m rounds of ammunition it promised last year. But Ukraine's situation was far from hopeless, stressed officials and military analysts. Tokyo has said it will ease weapons export curbs to allow Japan-made Patriot missiles to be shipped to the US,

"The west needs to make decisions now so that Ukraine can reconstitute its military in 2024"

which in turn would allow Washington to send more of its own stocks to Ukraine. The UK's £2.5bn military aid package announced on Friday included a significant commitment to procure and produce drones.

Kyiv has also developed a missile with a claimed 700km range, and aims to make more than 11,000 medium and long-range attack drones this year.

Ukrainian president Volodymyr Zelenskyy is also lobbying Germany for its Taurus long-range, "bunker buster" cruise missile that could help Kyiv destroy the Kerch bridge linking Crimea with mainland Russia.

Asked by the Financial Times about Ukraine's air defence deficit during a press conference with UK prime minister Rishi Sunak on Friday, Zelenskyy said: "We don't have enough Patriot systems... and other long range systems... there is definitely a lack of appropriate [defence] systems."

"Something is on the way, we agreed on something new," the president added, referring to recent discussions with western partners, but he said it was too soon to reveal the details.

Zombie businesses

Up to 30% rise in German insolvencies projected for this year

MARTIN ARNOLD — FRANKFURT
GUY CHAZAN — BERLIN

German companies are expected to go bust at a higher rate this year following a sharp increase in insolvencies in 2023, as businesses hit by high energy costs and the end of pandemic aid throw in the towel.

Restructuring experts warn that many so-called "zombie" companies kept afloat after the pandemic by generous government aid and a suspension of the obligation to file for bankruptcy — causing insolvencies to drop to unusually low levels — are now collapsing.

Already since the start of this year, several well-known German companies have filed for insolvency, including the department store chain Galeria Karstadt Kaufhof and Hamburg-based bag maker Bree, whose customers include chancellor Olaf Scholz.

The ranks of struggling companies have been swelling due to Germany's economic stagnation, combined with high interest rates, rising wages, elevated energy prices and government budget squeeze. This is expected to push insolvencies up between 10 and 30

per cent this year, experts warn, taking them above pre-pandemic levels.

Steffen Müller, head of bankruptcy research at the Halle Institute for Economic Research, said the monthly rate of German insolvencies it tracks, which excludes unregistered companies that have few employees, has risen since last summer above the pre-pandemic average for the first time. In December, it hit its highest level for at least seven years.

Figures released last week by the federal statistics agency showed the number of companies filing for bankruptcy in district courts had increased more than 24 per cent in the 10 months to October, compared with the same period of 2022.

Germany's economics ministry said the business environment was "challenging" but played down the scale of the problem, saying: "In the longer-term perspective, and in comparison to the period before the pandemic, corporate insolvencies are currently not at a noticeably high level."

Wolfgang Steiger, head of the opposition CDU party's economic council, blamed the government's "disastrous economic policy" for causing Germany's

insolvency rate to rise faster than many other countries. "High costs for energy and labour, which are a home-made problem, combined with the skills shortage, are causing financial distress for an increasing number of companies in Germany," he said.

The German economist contracted 0.4 per cent in the third quarter compared with the same period a year earlier after sharp falls in retail sales, exports and industrial production.

Growth in the country is expected to pick up to 0.6 per cent this year, according to the Organisation for Economic



One casualty is department store operator Galeria Karstadt Kaufhof

Turkey censorship

Ankara tells providers of web services to restrict VPN access

ADAM SAMSON — ANKARA

Turkey is tightening its censorship of the internet months before an important election, highlighting concerns that President Recep Tayyip Erdoğan's government is further restricting civil liberties.

Documents seen by the Financial Times show that Turkey's Information Technologies and Communications Authority (BTK) told internet service providers a month ago to curtail access to more than a dozen popular virtual private network services.

At the same time, social media site X said last week it had "taken action" against 15 posts as a result of a court order that also targeted several of the group's rivals. X said it would have faced a ban in Turkey had it not complied with the order.

The latest interventions against online content, which come ahead of local elections in March, have fuelled concern that the government is further stifling independent sources of news and information in the country of 85m people. Human rights groups and Turkey's western allies say they fear that Erdoğan, the country's leader for the past two decades, is backsliding on democratic norms.

"Widespread VPN blocks only take place in the most authoritarian of regimes," said Andy Yen, chief executive of Proton VPN, one of the services that was targeted by Turkey's internet regulator. "Blocking... the use of VPNs in Turkey is a very concerning move for internet freedom and privacy and is a breach of people's fundamental human rights."

Yen said that Turkey's new attempt at restricting access to popular VPNs placed the country on a par with Iran and Russia. He added that sign-ups for Proton VPN had soared around the May 2023 presidential election and following the February earthquake when government censors briefly interfered with access to X.

The BTK told internet providers to block access to 16 VPN services, including TunnelBear, Surfshark and CyberGhost, and report back to the regulator on their progress, according to the documents. The BTK did not respond to a request for comment.

VPN — which allow users to route online traffic through an encrypted virtual tunnel — are widely used in Turkey and many other countries to circumvent censorship and make it more difficult for governments, companies and individuals to track browsing activity.

Among the countries with the tightest controls on VPNs is China, where internet users try to bypass the "Great Firewall" that separates the highly censored domestic internet from the rest of the world.

While VPNs are used in more technologically literate parts of Turkish society, many Turks will never use such services and rely on online news media and television that is largely state-controlled or aligned with the government.

"VPN usage is not a criminal activity — people rely on it to secure their communications," said Fıran Akdeniz, co-founder of the Turkish Freedom of Expression Association (TFOD), a rights group.

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INTERNATIONAL

Beijing rhetoric highlights falling support for DPP in Taiwan poll

Party's presidential win offset by solid showing for Kuomintang in legislature

KATHRIN HILLE — TAIPEI
JOE LEAHY — BEIJING

Before Taiwan's voters went to the polls on Saturday, the Chinese Communist party made sure they knew its preferred outcome, calling for the "right choice" between peace and war and denouncing the Democratic Progressive party's Lai Ching-te as a dangerous separatist.

But now that Lai has won the presidency, Beijing has toned down its rhetoric. Commenting on Lai's victory with 40 per cent of the vote and the DPP's loss of its legislative majority, China's Taiwan Affairs Office said the result showed that "the DPP can by no means represent mainstream public opinion on the island".

In the complex world of cross-Strait relations, Beijing's response could be interpreted as good news. Many analysts see the reaction as evidence that despite the DPP's unprecedented winning of a third term in office, Beijing might feel reassured by the sharp drop in voter support for the party it refuses to engage with because the DPP sees Taiwan as an independent country separate from China.

Beijing claims Taiwan as part of its territory and threatens to attack it if Taipei resists unification indefinitely.

"The statement justifies the line of Xi Jinping towards Taiwan by arguing that it was successful in pushing the DPP from its huge majority into the role of a minority government," said Lai I-chung, president of government-backed think-tank Prospect Foundation in Taipei.

Carla Freeman, an expert for the China programme at the United States Institute of Peace, said: "For the mainland, if the DPP had to win, these circumstances are not a terrible picture."

The Chinese government might "feel positive about the lower margin of Lai's election, and they are probably also pleased that there is a divided government and such a strong showing in parliament for the Kuomintang."

Beijing maintains exchanges with the KMT because that party says Taiwan belongs to a greater Chinese nation.

Beijing's response to the DPP victory, Freeman said, could translate into a more calibrated approach to Taiwan and make Chinese military action towards Taiwan less likely.

Despite China's muted reaction to the poll result and expectations by Taiwan's government and experts that a Chinese attack is unlikely in the coming years, experts believe Beijing will be unrelenting in its pressure.

The public framing of Lai's government as a minority not representative of Taiwan's public makes the chances of any dialogue with the DPP government lower than under incumbent president Tsai Ing-wen, analysts said.

"They didn't even wait for the inauguration speech to see if it might be acceptable to them," said the Prospect Foundation's Lai.

Exchanges are expected to pick up between Chinese officials and members of Taiwan's parliament. The DPP's seats in the 115-strong legislature dropped from 61 to 51 while the KMT



The lower victory margin of the Democratic Progressive party's Lai Ching-te is likely to please Beijing, as is the prospect of a divided government in Taipei
Associated Press/Getty Images

increased its number of lawmakers from 38 to 52.

The parliamentary balance is held by two independents leaning towards the KMT and eight seats for the Taiwan People's party, an upstart force that ran on an opposition agenda but is prepared to co-operate with either of the big parties on specific issues.

One decisive moment will be the election of the speaker in early February. The KMT wants Han Kuo-yu, a populist China-friendly politician who lost the last presidential election to Tsai.

Although the post is not particularly powerful, it could play an outsized role in cross-Strait relations. This is because the speaker is also chair of the Taiwan Foundation for Democracy, a state-backed non-profit through which Taipei conducts exchanges with western democracies with which it does not have diplomatic relations, including on

issues those countries deem too sensitive or political to discuss on a governmental level.

DPP politicians said a transfer of control over the Taiwan Foundation for Democracy to the opposition could entail a shift in its activities from outreach to other democracies to dialogue with China.

Under Ma Ying-jeou, the last KMT president, part of the Taiwan Foundation for Democracy budget was used to fund local officials' visits to the mainland or hosting China officials, they said. Stepping up contacts with a larger number of Taiwan lawmakers fits into Beijing's strategy of what Xi has branded "integrated development".

The Taiwan Affairs Office said on Saturday that China would continue to work with "the relevant political parties, groups and people from all walks of life in Taiwan to promote cross-

Strait exchanges, deepen integrated development, jointly promote Chinese culture, promote peaceful development of cross-Strait relations, and push forward the great cause of unification of the motherland".

Parliament will play a large role in other policy areas that are vital to enhancing Taiwan's security in the face of Xi's more assertive stance.

Although both the KMT and the Taiwan People's party have expressed support for further increases in defence spending, KMT politicians disagree with the DPP over the details of military strategy and which arms to procure from the US.

"Lai won't be able to do a lot of new stuff unless he has support from one of the other of the two opposition parties," said Nathan Batto, a political scientist at Academia Sinica, the Taiwan research institution. "The big question everybody is talking about is arms procurement. If the opposition dig in their heels and veto arms purchases, they will have to make their case publicly though, because the average voter does not understand the nuances of weapons and military strategy."

During the last DPP minority government 20 years ago, the KMT blocked budgets for weapons purchases across the board. However, it was unlikely to do that this time around, analysts said, because China's military power had increased drastically since then and the Taiwan public perceived a more acute threat.

Despite the constraints on Lai, many Chinese observers do not harbour illusions that this marks a long-term drop in support for the DPP.

Wang Yiwei, an international relations scholar at Renmin University in Beijing, said the DPP victory was no surprise for China, as the party had gradually become more deeply embedded in Taiwan politics. He dubbed it the "LDP-isation" of the DPP, a reference to Japan's Liberal Democratic Party, which has, with the exception of six years, held power since 1955.

Beijing did not expect Lai to cross its red lines, such as changing Taiwan's constitution or name, though he might occasionally tread near those lines, Wang said. As long as Lai did not take steps towards formal independence, "the Taiwan status quo will be kept until there is a power shift between China and the US", he said.

See FT View

'Lai won't be able to do a lot of new stuff unless he has support from one of the other of the two opposition parties'

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INTERNATIONAL

Policy outlook

Fed official warns against early rate cuts

Atlanta president points to potential inflation see-saw if easing occurs too soon

CLAIRE JONES — WASHINGTON

A top Federal Reserve official has said inflation could "see-saw" if policymakers cut rates too soon, warning that the descent towards the central bank's 2 per cent goal was likely to slow in the months ahead.

After surging to its highest level in decades during the summer of 2022, US inflation fell sharply over the second half of last year, paving the way for rate-setters to consider lowering borrowing costs from their current 25-year high of

5.25 to 5.5 per cent. However, Raphael Bostic, the Atlanta Fed president who will vote on the Federal Open Market Committee's decisions this year, said he was "expecting to see much slower progression of inflation, moving forward".

There was, he said, "some risks that inflation may stall out altogether".

Bostic's remarks came ahead of a December consumer price index reading, which showed headline inflation drifting up to 3.4 per cent from 3.1 per cent in November.

While the Atlanta Fed president acknowledged that price pressures had fallen faster than he had expected last year, he still thought inflation was likely to be about 2.5 per cent by the end of 2024 and only hit the Fed's goal in 2025.

Bostic said after the Fed's December policy vote he thought rates would need to remain on hold until after the summer. "Inflation must be firmly and surely getting back to our 2 per cent target," he said. "It would be a bad outcome if we started to ease and inflation started to rise up and down like a see-saw. That would undermine people's confidence in where the economy is going."

While rate-setters are growing increasingly confident that price pressures are returning to their pre-pandemic norms, most on the FOMC want to take their time in shifting from their current monetary policy stance.

Investors are hastier, with the market pricing in six quarter-point cuts this year, starting in March. That compares

with rate-setters' expectations of three cuts, while Bostic sees just two.

"Markets hear what we are saying — our projections for rate cuts have been pretty clear," he said. "But it's my sense that they believe inflation is going to come down faster than I do."

The Atlanta Fed president warned that a recent surge in shipping costs on the back of disruption to traffic in the Suez Canal caused by the targeting of vessels by the Houthis would need to be watched "very closely".

The cost of shipping a 40ft container from the Far East to Europe has soared almost 150 per cent over the past month, according to data from Xeneta, a logistics research company.

"It will be very interesting to see to

what extent the Middle East conflict and attacks on the container ships are starting to show up in the cost structure for businesses in my district," he said.

Bostic believed that, with unemployment at just 3.7 per cent, the labour market remained too strong for the Fed to shift its focus from inflation to job creation. "If we look at our employment mandate, we're hitting that very firmly today," he said. "But that is not the case for price stability."

The labour market was no longer as hot as it was, however, with job creation largely confined to the healthcare and government sectors. "There are signs underneath the hood that some segments of the economy have weakened," Bostic said, citing manufacturing.

South Africa. Poll run-up

Opposition seeks to build on Cape Town success

Democratic Alliance must win over sceptical black voters if it is to prevail over ANC

DAVID HILLING — CAPE TOWN

Cape Town mayor Geordin Hill-Lewis gazed from the window of his office on to a dilapidated train station that has been neglected by South Africa's government and vandalised by criminal gangs.

"The network has been all but stripped bare," Hill-Lewis, a rising star of the main opposition Democratic Alliance, said of the state-run rail system that now carries a fraction of the passenger numbers it did five years ago.

Reversing this decline is just one of the tasks that have kept Hill-Lewis busy since he was elected leader of South Africa's second city two years ago. The 37-year-old has over that time built a reputation for jettisoning ideology in the interests of solving problems, and doing so broadly across racial lines.

As the DA prepares to challenge President Cyril Ramaphosa's African National Congress in a pivotal national election this year, his successes are being deployed to show that South Africa's opposition can succeed where the ruling party has failed.

Yet even South Africans who recognise the DA's achievements in Cape Town doubt it would be able to replicate its pragmatic approach across the country, a concern that is reflected in national support levels that barely rise above 20 per cent.

Hill-Lewis's efforts to wrest control of the railways from national authorities have so far been rebuffed. But in electricity, up to now dominated by the national Eskom monopoly, he has fared better. Cape Town was the first city in South Africa to pay a "feed-in tariff" to private electricity generators supplying power to the grid, helping reduce black-out times to below the national average.

In areas where the mayor has more jurisdiction, such as housing, road maintenance and school transport, Hill-Lewis has worked to overcome the idea that the DA gives priority to rich suburbs over working-class areas.

"Part of my role here is to try to address that perception by showing that there are massive benefits to poor, mainly black, residents by having a government that just focuses on getting things done," he told the Financial Times in an interview.



Cape Town Mayor Geordin Hill-Lewis is a rising star of the main opposition Democratic Alliance

The DA has run Cape Town, a city of 5m people famed for its spectacular coastline, outright since 2011. As many of South Africa's cities, including Johannesburg, have fallen apart, Cape Town has gained a reputation for economic growth and improved services.

That is despite the fact that the city's wealth, which makes up 70 per cent of the wider Western Cape area's relatively prosperous economy, belies a much darker reality of impoverished townships blighted by chronic unemployment, crime, deprivation — and the enduring legacy of apartheid.

Herman Mashaba, who quit as DA mayor of Johannesburg four years ago, has accused his former party of "cutting grass in the suburbs instead of providing toilets and water tanks in poor communities". And, nationally, the DA is still viewed with suspicion by many black voters who see it as an irredeemably white party — an impression exacerbated when it ejected its charismatic black leader, Mmusi Maimane, in 2019.

Former leader Helen Zille's comments about how colonialism had brought benefits did not help either.

"I accept that the DA has a lot of work to do to build trust with black voters," he said. "We've tried to hammer away at that for many years now with very mixed success."

But he also said voters were becoming less concerned with race, and more interested in good governance.

Lawson Naidoo, of the Council for the Advancement of the South African Constitution, agreed that Hill-Lewis had done much to overhaul the DA's reputation. "In the past that criticism was deserved," Naidoo said of the view that the party was focused on white areas. "Hill-Lewis is starting to address that. He seems to be out from a different cloth from the rest of them."

This is reflected in local polls. According to a recent survey by the Social Research Foundation, the DA is likely to lift its vote in this year's general election from 55 per cent to 66 per cent in the Western Cape. By comparison, the party

'We have to do more to convince people that the DA is a real alternative government for all South Africans'

scored only 21 per cent in the 2019 general elections, underlining its difficulty in translating provincial success to a national stage.

Still, some South Africans are voting with their feet, with wealthy people from Johannesburg selling up and moving to Cape Town. Poorer people from the Eastern Cape, one of the country's most deprived provinces, have also long come to the Western Cape to work in agriculture, tourism and other jobs lacking at home. Cape Town's unemployment rate of 25 per cent, while still high, is nearly 10 percentage points below the national average.

Hill-Lewis said at least 3,000 people were arriving a month, putting school and housing budgets under strain.

But Hill-Lewis insisted his progress could yet influence the general election. "You can look to what's happening in Cape Town, even if you live in Nelson Mandela Bay or Johannesburg," he said. "We have to do more to convince people that the DA is a real alternative government for all South Africans."

Additional reporting by Joseph Cotterill

Central America

Guatemala's new president must fight tough odds to make good on anti-corruption promise

CHRISTINE MURRAY — GUATEMALA CITY

During a fraught, months-long transition from the previous government, Guatemala's president-elect received one very visible sign of support: indigenous groups camped in tents outside the public prosecutor's building to help ensure he could take office.

"We are all here for the same reason, the resistance, for democracy," said 54-year-old Santos Brígido Menchú in the camp in Guatemala City this week. "The will of the people must be respected."

Anti-corruption advocate Bernardo Arévalo faced a series of attempts by prosecutors to block him from taking office. But following backing from the US as well as grassroots supporters, Arévalo was inaugurated yesterday as the first Guatemalan president in decades considered an outsider from the political and business establishment.

Voters in Central America's largest economy hope the moderate former diplomat can root out deep-seated corruption and create jobs to halt the flow

of hundreds of migrants a day to the US. "Guatemala is suffering the blows of political groups that have co-opted institutions," Jonathan Menkos, Arévalo's chosen finance minister, told the Financial Times.

"Our focus will be, in four years, delivering a country with a better democracy with modern, transparent public institutions where pathways to corruption have been closed."

Arévalo, known as a consensus-builder who speaks English, French and some Hebrew, must govern a country where many citizens have lost confidence in the state and journalists and human rights defenders live in fear of persecution.

Since his shock victory in August, prosecutors — who have co-opted radical rightwing groups in the country — have filed a number of cases against Arévalo and his party and tried to cast doubt on the results, leading the EU and other international bodies to raise the alarm over what they called an attempted "coup".

Guatemala's tense transition is taking place as advocates worry about democratic backsliding across the region and as the US is laser-focused on trying to stop migrants heading for its border.

Arévalo, who some supporters call "Uncle Bernie", has a popular mandate — he won 58 per cent of the vote — and the freedom to shift around the country's budget.

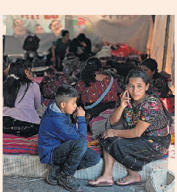
But he is likely to face hostile prosecutors and a public with a history of discontent against its governments, while his party lacks a national political structure and experience. Arévalo's party will be the third-largest in congress with only 25 of 160 seats, so support from other groups will be crucial.

Arévalo's election marked a watershed moment for Guatemala's tempestuous politics, which went into overdrive when the CICIG UN-backed anti-corruption mission began prosecuting members of the elite, including then-president Otto Pérez, in 2015.

The CICIG was kicked out in 2019, and its period of operation was followed by a

fierce backlash against prosecutors and journalists involved, many of whom fled to exile or were imprisoned.

Arévalo's Movimiento Semilla grew out of a protest movement that gained momentum during this period, though he has a more conciliatory style than the leaders of some neighbouring countries. Conservative business leaders are



The leader's indigenous supporters camp outside the prosecutor's office

now mostly sanguine about Arévalo, several people said, though a small group still believed prosecutors' claims of electoral fraud.

"I think Arévalo has also sent messages... that there won't be a frontal collision with the private sector. Hopefully [that] won't mean [enabling] their privileges, monopolies and abuses," said Roberto Arzú, a Guatemalan businessman who had previously sought to run for president.

Guatemala's economy is broadly stable but its per capita output is still one of the region's poorest. Thanks to its geographic position it could benefit from the realignment of global supply chains away from China and closer to the US.

It is also the most populous country in the world that still diplomatically recognises Taiwan, a tie that Arévalo has vowed to maintain while also seeking to increase trade with China.

Rating agency Moody's scores Guatemala's sovereign debt just one notch below investment grade, a level Menkos said he wanted to reach by the govern-

US politics

Kerry winds down climate role to help Biden win re-election

AIME WILLIAMS — WASHINGTON

John Kerry, the chief US climate diplomat and former presidential candidate, will retire in the coming months, shortly before a US election in November that could return Donald Trump to the White House.

Kerry, who turned 80 last month, told staff on Saturday that he would remain in his post until the end of winter or early spring, according to a person familiar with his message.

According to Axios, which first reported that Kerry would step back, the former Massachusetts senator, 2004 Democratic presidential nominee and former secretary of state will switch to helping Joe Biden gain re-election.

Kerry's retirement comes at a time of political threat to Biden's climate agenda, with the possibility of a second Trump presidency looming.

Biden has pledged to lower US emissions by 50-52 per cent of 2005 levels by 2030, and passed a landmark package of \$369bn in green subsidies through Congress in an effort to roll out clean energy across the US.

Trump campaign officials have said the candidate would gut Biden's climate law if elected, increase investment in fossil fuels and roll back regulations aimed at speeding up the transition to electric vehicles.

The former presidential candidate will remain in his post until the end of winter or early spring

Kerry was appointed to the role of special climate envoy by Biden in 2020, and has since worked to mend the US's tattered credibility on climate change after Trump withdrew the country from the 2015 Paris Agreement.

As Biden's climate envoy, Kerry forged a close working relationship with his Chinese counterpart, Xi Zhenhua, pressing for US engagement with China on efforts to limit global warming even as geopolitical tensions between the two countries increased.

Kerry and Xi spearheaded an agreement by the world's two largest polluters to back a tripling of renewable energy capacity globally by 2030, and to include a broader array of greenhouse gases — including methane — in their climate targets.

At the recent COP28 UN climate summit in Dubai, countries — including the US and China — for the first time reached a deal to transition away from fossil fuels in an attempt to reach global net zero emissions by 2050.

Global emissions are estimated to rise another 2 per cent this year. By contrast, a cut of 45 per cent is required by 2050 if the world is to stick to the 2015 Paris agreement to limit warming to 1.5C.

The US has also become the largest global exporter of LNG, and its oil production is hitting record highs.

It is now producing more oil than any country in history even as Opec+ countries curb supply in a push to bolster prices.

In voicing this, recent analysis shows that US emissions declined 2 per cent year on year in 2023, and are now 17 per cent lower than 2005 levels.

The state department did not respond to a request for comment.



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Companies & Markets

Reinsurers in pullback from Middle East regional risk

- Get-out clauses placed in contracts
- Threat of rising cost for businesses

IAN SMITH — LONDON

Global reinsurers have begun inserting cancellation provisions into policies to protect against a full-scale Middle East conflict, a move that threatens to further drive up costs and risks for businesses operating in the region.

The pullback from reinsurers reflects mounting concern in the financial sector over the direction of the war between Israel and Hamas.

The get-out clauses had been inserted into some contracts drawn up with insurers as part of turn-of-the-year policy renegotiations, four market participants said.

Such clauses were new and had not been used before, two of them said.

If triggered, it would mean that the insurer would not from that point have insurance coverage for any newly underwritten premises or other assets such as a commercial building damaged by a rocket attack.

The risk of something going out of control is extremely high, said an executive at a big reinsurer.

The insurance industry has a problem in that region for the foreseeable future.

The insurance sector has about \$10bn of exposure to Israel through such political violence and terrorism policies, according to industry estimates.

One reinsurer broker said it was "bizarre" that some insurers had accepted such cancellation clauses, which they said would fuel uncertainty

and raise "a number of concerns such as who or what defines escalation".

Reinsurers had also demanded higher prices, and pushed primary insurers to cap the amount of coverage they provide clients in Israel and neighbouring countries such as Lebanon and Jordan, the people said.

Aon, one of the biggest insurance brokers, noted in a report this month that reinsurers had looked to "increase price and reduce coverage in a meaningful way" for Israel and the region.

In the event, some businesses had opted to renew insurance policies without including cover for Israel assets, relying on a state compensation fund, according to two market sources.

Reinsurers have between them about \$600bn in capital and have been raising prices after years of losses from inflation, natural catastrophes and the Ukraine invasion. It has helped push up the price of cover for businesses.

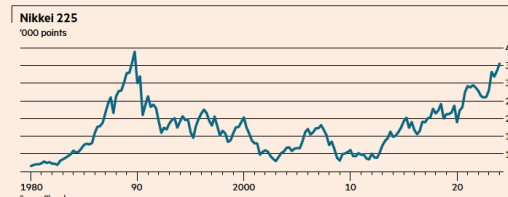
The moves follow similar actions after the Ukraine invasion, where reinsurers responded more severely by excluding countries from contracts.

Manich, Re, Swiss Re and Scor declined to comment. Hanover Re said it had taken a "bespoke and differentiated approach by client depending on the underlying portfolio".

The marine market has been affected by a rise in the cost of travel through the Red Sea and Suez Canal as a result of attacks by Houthi. Shipowners already had to notify their underwriters before moving through a designated portion of the Red Sea and pay an additional premium. These added charges have risen 10 to 15 times in recent months.

Red hot Bullishness on economy and waning rate fears push Tokyo stocks to 33-year high

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STEPHANIE STACEY — LONDON

Japanese stocks have avoided Wall Street's new year hangover to rise to their highest since 1990 as investors increasingly rule out a near-term rate rise by the Bank of Japan that could strengthen the yen.

The Nikkei 225 has gained 6.5 per cent so far in 2024 while the Tokyo stock index has risen 5.4 per cent. The S&P 500 and Nasdaq, by contrast, remain close to flat since the start of the year, after a steep rally at the end of 2023.

China's CSI 300 has so far slipped 4.3 per cent, the Hang Seng has dropped 4.7 per cent and South Korea's Kospi has slipped 4.9 per cent.

The economic impact of the earthquake that shook the country's west coast led traders in swaps to lose confidence that the Bank of Japan will soon exit its decades-long ultra-loose policy — a move that analysts say would bolster the yen but suppress equities in the export-heavy market.

Governance reforms and a rise in

activist campaigns have boosted investor confidence in Japan, say analysts, while foreign investors have been seeking an alternative to China.

Saxo Bank's head of FX Strategy, Charu Channana, said the rally was likely to continue because "significant gains in the yen remain unlikely unless the Fed begins easing sooner than expected".

But she said that Japanese stocks would struggle to replicate their out-performance last year. The Nikkei 225 gained more than 28 per cent in 2023, outpacing major indices in Asia and Europe, as well as the S&P 500.

Koji Toda, a fund manager at Resona, was also cautious, saying the strong start to the year was mostly a catch-up to the robust gains US equities made in December as concerns about a stronger yen weighed.

The question was "whether the investor expectations are sustainable or not. The main premise of rising shares in Japan is the continuing resilience of the US economy".

Others remain bullish. "Less than

24 hours after a 7.5 magnitude earthquake, bullet train lines were running again in the same region," Bank of America analysts wrote on Tuesday.

"The Japanese economy is resilient, undervalued and becoming more productive,"

Bank of America's chief Japan equity strategist Masashi Akutsu believes a combination of sustained inflation, corporate reforms and relatively low valuations could push the Nikkei 225 to surpass its all-time high — hit in 1989 — this year.

Maya Funaki, a portfolio manager at RBC Global Asset Management, said she still saw upside from undervalued equities in Japan.

"While the market has exhibited strong performance over the past 12 months, it continues to be undervalued in a global context," she said.

"In 2024, as more investors gain confidence in Japan's virtuous cycle from positive inflation with rising corporate earnings and total shareholder return, we expect the market to continue to outperform."

SoftBank boss used Silicon Valley home as loan security

RYAN MCMORROW — WOODSIDE

SoftBank founder Masayoshi Son has piled debt on the Silicon Valley mansion he acquired for a record sum, using the showpiece house as security for a multimillion-dollar loan.

Son tapped his nine-acre estate in Woodside, California, for cash in December 2019, at a time when his company's fortunes were cracking under the weight of a failed WeWork initial public offering and Son was struggling to raise billions for a second Vision Fund.

Public records show SV Projects LLC, the Delaware-registered entity Son used to buy the estate, mortgaged the house to secure a \$10bn loan — worth \$92m at the time — from Japanese bank Mizuno to another Delaware entity, called SV America Inc. Details of the loan have not previously been reported.

Son bought the Woodside mansion 11 years ago, paying \$11.5m — then the most for a US residential estate — to acquire the property from Tully Friedman, co-founder of private equity giant Hellman & Friedman. The new owner was originally cloaked by his limited liability company, but Son was revealed to be the buyer a few months after the purchase by the Los Angeles Times.

While not necessarily indicative of the market value, the price Son paid was nearly six times the home's assessed value for property taxes at the time, according to public records. Even today, after a real estate boom in the area and a remade mansion, it is perhaps worth even less than the debt on the property.

Property site Redfin estimates the home is worth \$55m, although real estate agents in the area said recent comparable sales would probably put its value in the range of \$75m-\$90m.

In recent years, the SoftBank chief has prodigiously traded the Japanese group's assets for cash, at one time or another encumbering everything from its shares in UK chip designer Arm to a chunk of its Alibaba stake.

Son also likes to borrow personally from SoftBank to foot the bill for his investments in the group's second Vision Fund, Latin America fund and short-lived hedge fund unit SB Northstar. By the end of September, his personal debt to the tech group exceeded \$50m.

Son, SoftBank, and Mizuno declined to comment. Friedman did not respond to a request for comment.

Additional reporting by Robert Smith in London and Kana Inagaki in Tokyo

Technology. Semiconductors AI helps drive revival for chipmakers

Analysts see a "turning point" for the \$600bn sector but question speed of recovery

TIM BRADSHAW — LONDON
CHRISTIAN DAVIES — SEOUL

The semiconductor industry has begun the year with growing confidence that it left its latest cyclical downturn behind in 2023, as analysts hail a "turning point" for the \$600bn market.

But behind headline forecasts of a double-digit recovery in chip spending this year lies uncertainty about how broadly based that bounceback will be, as rising demand for the high-priced processors designed for artificial intelligence is offset by a more muted outlook in other parts of the tech sector.

The latest figures from the US-based Semiconductor Industry Association, which represents a majority of global chipmakers, said worldwide sales climbed to \$48bn in November, rising on both an annual and quarterly basis for the first time in more than a year. Monthly sales peaked above \$50bn during the first half of 2022.

John Neuffer, SIA chief executive, said the data was "an indication that the global chip market is continuing to gain strength" after its World Semiconductor Trade Statistics unit forecast a "vigorous upswing" in 2024, with global revenues rising 15 per cent to \$88bn.

But Malcolm Penn, founder of chip consultancy Future Horizons, said the revenue growth figures — which were measured against a bad year for the sector — were not matched by an uptick in unit shipments. "It's very hard to see

how you'll get unit growth until the second half of 2024," he said.

The chip industry has swung between shortages and surpluses for decades. The latest downturn began in the summer of 2022, with the industry overcoming supply problems exacerbated by the Covid-19 pandemic just as customer spending — both by consumers on PCs or smartphones and by cloud providers on new servers and switches — started to feel the pinch of inflation.

The speed of the recovery remains in question at a time when rampant spending by cloud providers is offset by more caution from consumers and businesses. The exception has been investment in artificial intelligence. A handful of deep-pocketed cloud and consumer internet companies have been buying up high-performance chips as generative AI took off following ChatGPT's breakout success.

Taiwan Semiconductor Manufacturing Company, the world's largest chip producer, last week reported fourth-quarter sales that were flat on the previous year, exceeding analysts' expectations of a decline. TSMC has benefited from its position as the go-to supplier for the most advanced chips for companies such as Apple and Nvidia, which are prepared to pay more to get competitive edge in products that their own customers are willing to shell out for.

Even though Apple's iPhone sales have been under pressure alongside the rest of the smartphone market, Nvidia's customers have been lining up to buy its high-powered AI processors. It is only just starting to catch up with demand.

Executives at Nvidia, whose stock tripled in value during 2023, said at the Consumer Electronics Show in Las

Vegas last week that they expected sustained demand to propel further sales growth throughout 2024 and into 2025.

That confidence echoed comments in mid-December by the head of Micron, the US-based memory manufacturer that is often seen as a semiconductor bellwether because it typically reports its earnings a month sooner than others in the sector. The memory market has been hit particularly hard by the sector's latest downturn but HSBC analysts now forecast 59 per cent year-on-year growth in 2024.

"The improved supply-demand environment in the current calendar quarter gives us additional confidence in the trajectory of our business," Sanjay Mehrotra, Micron chief executive, said last month.

Researchers at Taiwanese consultancy TrendForce predict that average selling prices for Dram memory chips used in smartphones and other devices will rise by 18-25 per cent this year. They increased by 13-18 per cent in the fourth

quarter. During a year-long supply glut between 2022 and 2023, Korean memory chipmakers SK Hynix and Samsung both slashed production as they suffered multibillion-dollar losses.

But now Kwak Noh-jung, chief executive of SK Hynix, which has pioneered the development of so-called "high bandwidth memory" chips used in AI servers, is more optimistic. He said the South Korean memory chipmaker was aiming to double its market capitalisation over the next three years, as it sought to exploit demand for components in the systems needed to train AI systems.

Samsung, which produces both logic and memory chips, this month reported its smallest year-on-year decline in profits in five quarters.

Share prices of some of the world's biggest chipmakers, including Intel, AMD and Nvidia, generated big gains during 2023 as investors anticipated the turn in the cycle. "We model the semiconductor cycle accelerating through 2024 to peak in [the first half of] 2025, resulting in [roughly] 20 per cent growth this year and a mid-teens growth in 2025," said analysts at Jefferies in a recent note to clients.

But at a time when unit volumes were languishing, a rise in average selling prices had been the decisive factor in the return to revenue growth, said Penn of Future Horizons. "What is unclear at the moment is whether the ASP growth is so strong," he said. While Nvidia can charge tens of thousands of dollars for its AI systems, they sell in relatively small volumes.

"AI is not a smartphone and that's the problem," he said. "It's not big numbers in the overall scheme of things."

Chipmaker SK Hynix is seeking to exploit demand for AI systems

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BlackRock's \$12.5bn GIP deal set to recast sector

Partners are counting on infrastructure investments driving growth as private capital enters phase of consolidation

BROOKE MASTERS AND ANTONIO GARA
NEW YORK

BlackRock chief executive Larry Fink has been searching for years for the right private markets partner to make his \$10tn money manager as formidable a participant in alternative investments as it is in traditional asset management.

His overtures to private equity, private credit and hedge funds rarely got beyond the first meal. Often the cultures or business models clashed. When the alternatives businesses became intrigued by the idea of a tie-up, they proved unwilling to give BlackRock the majority control it wanted.

Global Infrastructure Partners was different. When Fink and GIP founder Adebayo Ogunesi met for an October dinner at Fasano, an Italian restaurant steps away from Rockefeller Center in New York, the menu included plans for a combination that could shake up the investment management industry.

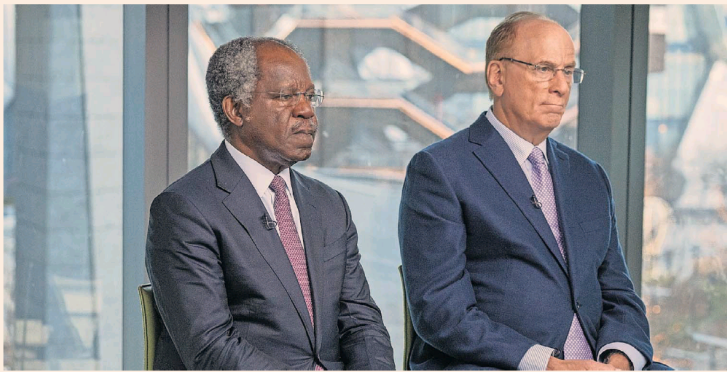
Oguesi had built GIP in less than two decades into one of the standout firms in the lucrative private investment industry. With just 400 people, his infrastructure investment outfit had grown to hold \$106bn in assets, including stakes in airports in Sydney and London, ports, green energy, and large pipelines.

Fink's challenge was to persuade the publicity-shy Ogunesi that his teams would thrive inside a 20,000-employee business whose every move comes under a microscope. The dinner was a hit. Fink called Martin Small, BlackRock's chief financial officer, from his mobile phone shortly afterwards.

"That felt like my breakfast with Stan O'Neal and the menu," he said, referring to a meeting with the then Merrill Lynch chief executive and the prop they used to sketch out plans for BlackRock's 2006 acquisition of Merrill's investment management business for more than \$9bn, its first big deal.

For his part, Ogunesi told Raj Rao, GIP's president, that he wanted to get the deal done.

Fink and Ogunesi, who met when they worked at First Boston before it was bought by Credit Suisse in the 1980s, shared a vision that infrastruc-



Adebayo Ogunesi, head of Global Infrastructure Partners, with BlackRock boss Larry Fink. The move is likely to force other independently owned firms to consider whether they need a partner or the extra muscle of a public listing

(left) (right)

ture investments would be what Small called "the fastest-growing part of the private markets" in the coming years.

They also believed that private capital, an industry started decades ago by small teams of mercenary dealmakers, was entering a phase of consolidation in which size, resources and the ability to win access to the largest companies would be paramount.

Fink told analysts on Friday that the combination would feed and meet growing demand for infrastructure from wealth funds and rich individuals. "BlackRock and GIP will be able to connect our clients with bigger and better opportunities while also accelerating growth, diversifying revenues and generating earnings for our shareholders," he said. "We could not be more excited."

Deal talks began straight after the October dinner, with BlackRock giving its target the code name of "Apple" and GIP dubbing the larger firm "Banana".

They moved at warp speed: by Thanksgiving at the end of November, the leaders had reached a handshake agreement that would see BlackRock buy all of GIP for \$12.5bn in cash and stock. In December, top BlackRock managers hosted their GIP counterparts at the larger firm's Hudson Yards headquarters. The "camaraderie" gave the evening gathering the feel of a Thanksgiving dinner, Small said.

The firms are no strangers. BlackRock is an investor in some GIP funds, and the two have competed for deals. As Fink built BlackRock into a force in traditional asset management, Ogunesi rose to head of investment banking at Credit Suisse before founding GIP in 2006 with other alumni of the now-defunct bank, who will also join BlackRock.

The GIP purchase will immediately double BlackRock's management fees from private markets, underscoring that Fink has found the headline-

grabbing deal he has been seeking. "Transformative M&A has arrived," Jefferies analyst Dan Fannon wrote in a note. Rao said that the deal would enable GIP to take infrastructure to the top of the agenda for a wider world of investors and, at the same time, offer current investors a quantum leap in terms of a broader range of products and solutions.

Still, as a publicly traded asset manager, BlackRock had to balance the need to retain and motivate GIP's top talent with the interests of its shareholders.

The compromise it struck was that BlackRock would receive 100 per cent of the management fees on GIP funds, as well as 40 per cent of the performance fees from all future funds. GIP employees would retain 100 per cent of the carried interest in its existing funds and those it is raising. BlackRock is also paying most of the \$12.5bn purchase price in stock, handing GIP's six founders

investors would be offered 'a quantum leap in terms of a broader range of products'

7mn shares now and 5mn more in five years. The six plan to share some of that with employees as part of a retention package. Collectively, the GIP team will become BlackRock's second-largest shareholder, tethering them to the continued success of its new owner.

The deal's impact will be felt across the private capital sector, forcing other prominent independently owned firms to consider whether they need a partner or the extra muscle of a public stock listing. Private equity groups including CVC Capital Partners and General Atlantic have prepared plans to go public in what dealmakers say will be a second wave of listings following the crisis-era floats of Blackstone, Apollo, KKR and Carlyle.

By bringing in public shareholders or combining with larger organisations, the private equity groups hope to expand in areas such as debt or infrastructure investment that are seen as beneficiaries of higher interest rates and beyond corporate buyouts, which have slowed as financing costs have surged. Asset managers including Franklin Templeton and T. Rowe Price have also been snapping up private markets specialists as they seek to counteract the growth of ultra-low fee index funds.

Rapidly rising interest rates made many investors cautious, stemming commitments to new funds and slowing the deployment of existing ones, creating new reasons for independent firms to consider finding larger partners.

Money managers that hope to capitalise from the expected flow of money from rich individuals into private markets will need to invest heavily in new products and distribution networks as well as technology to deal with the impact of artificial intelligence.

For BlackRock, the question is whether this deal can finally unlock a sector where it has long struggled to gain lift. "Our acquisition philosophy has always been about growth," Fink told analysts. With GIP, "I truly believe that this will be the case again." BlackRock's shareholders and its industry have billions of dollars riding on whether he is right.

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Financials

Enterprise Ireland hunts for hidden unicorns

JUDE WEBBER – DUBLIN

When SoftBank took a 51 per cent stake in Cubic Telecom in December, valuing the vehicle-technology provider at more than €1bn, Ireland's biggest homegrown tech deal was validation for one of Cubic's early investors, Enterprise Ireland.

The state agency that channels seed capital and other funding to companies seeking to emulate successful global businesses – such as building materials giant CRH and Kingspan, food company Kerry Group, packaging business Smurfit Kappa, and low-cost airline Ryanair – took an early punt on Cubic.

The agency reckons it has spotted more "hidden" Irish unicorns. "I'd say we have quite a few and we have a lot of quietly ambitious family-owned firms that are growing very strongly," said Leo Clancy, chief executive of Enterprise Ireland.

Ireland has made attracting inward investment one of its most successful economic policies in recent decades: annual capital spending by foreign companies in Ireland increased 49 per cent in 2023 to €15.5bn, according to IDA Ireland, the state agency responsible for attracting foreign direct investment.

The world's top global tech and pharmaceutical companies have set up in the country and are major contributors to state coffers via their taxes. But domestic businesses still account for two-thirds of Irish jobs. Enterprise Ireland's mission is to help those companies grow, export and expand internationally.

Enterprise Ireland is by far Europe's most active venture capital fund by deal count, according to PitchBook, a VC and private equity platform. It tallied 988 investments by Enterprise Ireland between 2018 and the first half of 2022.

That put the agency 42 per cent ahead of its closest rival in terms of volume of deals, French public sector investment bank Bpifrance.

"We made 161 investments in 2022 versus 125 in 2021," Clancy said. "We set a target that we would grow that to 150 – and we've exceeded it."

Companies backed by Enterprise Ireland achieved record exports in 2022 of more than €32bn, and in 2023, companies it supported employed a record 225,495 people. But much of the agency's business is at the seed or pre-seed stage.

"There are other state VCs [like Bpifrance and Scottish Enterprise] out there but we're investing more at earlier stages. We're seeing companies invested

in by institutions once we get the investment flow moving," Clancy said.

"Investment has slowed in the past 18 months – you've seen that around the world – it's harder to clear rounds. But the best companies are still attracting funding," he said. "We're writing lots of small cheques to lots of companies but that's very good because those companies wouldn't be funded in any other way if we weren't there."

Only around a quarter of the 90 high-potential start-up companies in which Enterprise Ireland made pre-seed investment last year managed to get matching funding from other VC companies, with the rest relying on families,

'I think we can certainly be the most innovative small island in the world'

Leo Clancy, agency chief

friends and other private investors, he said.

Enterprise Ireland's budget was some €450mn in 2022 and is expected to have been about €480mn in 2023. Seed rounds are typically in the region of €200,000 to €300,000, matched 100 per cent by private investment raised by the company. It invested €850,000 in Cubic in 2011 and 2013.

Pre-seed investment is much smaller – some €100,000 from Enterprise Ireland plus €100,000 from founders' funds. "Almost no one [else] would fund this," Clancy said. The agency made 70 such investments last year.

Since the early 1990s, Enterprise Ireland and its precursors have invested €700mn of funds, a sum which has leveraged €2.6bn of fundraising from com-



Leo Clancy says the agency aims to make early-stage investments – Robert Schrad



THE DAVOS DAILY SHOW

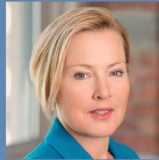
Insider Insights from the
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16 – 18 January 2024

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COMPANIES & MARKETS

Financial services

McKinsey suffers drop in US federal work

Revenues feel squeeze as firm faces scrutiny over role in opioids scandal

STEPHEN FOLEY — NEW YORK

McKinsey's work as a prime contractor to the US government fell last year to the lowest level since 2014, new data shows, even after the consulting firm was put back on a list of preferred suppliers.

The consultancy has been in the crosshairs of Congress after its marketing work for the opioid maker Purdue Pharma was blamed for contributing to addiction and overdoses. The data

shows that 2023 was the third consecutive year that it was frozen out of contracts for the US drug regulator.

McKinsey's revenues as a prime contractor to the federal government fell to \$54.9m in the fiscal year to September 30, from \$71.1m the previous year, according to a government database.

That compares with a peak of almost \$142m in 2018, when the Food and Drug Administration was McKinsey's biggest government client and before politicians levelled accusations that its work with Purdue represented a conflict of interest.

An FDA official told Congress in 2022 that McKinsey would get no more work

from the agency while the allegations were being investigated.

The firm's standing in government also took a hit in 2019 after an inspector-general report uncovered improper pricing in McKinsey's "multiple award schedule" contract, a kind of master agreement designed to make it easier to hire preferred suppliers by using pre-negotiated billing rates.

A government procurement director had breached ethics rules to help McKinsey justify inflated rates, according to the report, which led to the contract being cancelled.

McKinsey was able to negotiate a new schedule contract that went into opera-

tion shortly before the start of the last fiscal year, but it has not so far generated significant work, according to another government database.

Projects totalled less than \$10m in the 2023 fiscal year.

Partly compensating for the decline in prime contracting work in recent years, McKinsey has increased its presence as a subcontractor on projects led by others, particularly technology companies including IBM and the defence sector specialist CACI International.

Taken together, its prime contracts and subcontracting work increased in 2023 for the first time in five years, to more than \$100m.

A person familiar with McKinsey's government business pointed out that contracts can be large and infrequent, making year-to-year comparisons difficult. The person added that its US public sector practice overall increased revenues last year. McKinsey's total revenue for 2023 was \$16bn.

The consultancy's contracts with the US government are concentrated in the defence sector, where the Air Force was its biggest client in 2023, accounting for more than half the total.

McKinsey declined to comment on its contracting or subcontracting work, but confirmed it had negotiated a new schedule contract.

Media

Internal probe at Business Insider calls Ackman wife story accurate

SAM JONES — BERLIN

Reports of plagiarism against the academic Neri Oxman, wife of billionaire hedge fund manager Bill Ackman, are "accurate and well documented", the chief executive of Business Insider has told staff.

In a memorandum sent to Business Insider reporters yesterday, a copy of which was seen by the Financial Times, chief executive Barbara Peng said an internal review into the financial news website's reporting this month – which led to a war of words on social media between Ackman and the platform – had found it to be rigorous and fair.

"We are a journalism organisation with high standards and a commitment to truth and fairness," wrote Peng. "There was no unfair bias or personal, political, and/or religious motivation in the pursuit of the stories."

Axel Springer, the German media conglomerate that owns Business Insider, confirmed the memo was accurate. It said: "We note that Business Insider's chief executive has published a statement on the matter. Axel Springer stands by Business Insider and its newswoman."

In two reports on January 4 and 5, Business Insider claimed Oxman's doctoral thesis had been "marred by plagiarism". Oxman is a former professor of material sciences at MIT. The claims drew an explosive response from Ackman, who spent much of December locked in a battle to unseat the president of Harvard University, Claudine Gay, in part over allegations of plagiarism.

Ackman had been angry with Gay since her controversial comments to a US congressional committee investigation into campus antisemitism in the wake of the Hamas attack on Israel in October. Asked whether threats of genocide against Jewish people made by students would be in violation of Harvard's code of conduct, Gay gave an equivocal response that drew widespread condemnation.

When claims of plagiarism against Gay surfaced weeks later, Ackman – a prominent Harvard donor – led a campaign online to force her from office. She resigned early this month.

Following Business Insider's claims, Oxman apologised on social media platform X for errors she had made in not clearly identifying quotations in her work, but said she had properly credited all original sources at the end of paragraphs and in her thesis bibliography.

Ackman escalated the disagreement, however, and attacked Business Insider's reporting, questioning the integrity of the stories' authors and accusing the platform's owner, Axel Springer, of making misleading statements. On X he also sought to draw in private equity firm KKR, Axel Springer's largest shareholder. "How can KKR be the ultimate controlling shareholder of a totally unethical and sleazy media company," he railed.

Journalists at Business Insider were themselves angered by Axel Springer's decision to order an internal review into the reporting as a result of the controversy. A spokesperson for Ackman and Oxman did not immediately respond to a request for comment on the internal review's findings.

Market questions. Week ahead

Economists look for fourth-quarter rise in China GDP

How fast is China's economy growing?

China's economy will take the spotlight this week as Beijing releases its fourth-quarter reading on gross domestic product – and markets are expecting an uptick in growth following underwhelming readings.

Official data released on Friday showed Chinese consumer prices remained in deflationary territory for a third straight month in December, adding to the pile of challenges for policymakers.

But even in the face of falling prices, tepid trade and property market woes, a median forecast from economists polled by Bloomberg points to expectations of a year-on-year rise of 5.2 per cent for GDP in the fourth quarter.

That would be an improvement over growth of 4.9 per cent during the previous three months – partly helped by a flattering base effect because of a severe drop in economic activity in late 2023 during the final throes of China's zero-Covid isolation. Some analysts have pencilled in an even larger jump for fourth-quarter growth, released on Wednesday, with Standard Chartered forecasting a rise of 5.8 per cent.

Economists at Natixis said the fourth-quarter reading was likely to ensure China could deliver annual growth in line with Beijing's target level of "about 5 per cent". But they warned "maintaining the same growth target will be demanding for 2024 because there is less tailwind from base effect and the structural deceleration continues".

Hudson Lockett

Is UK inflation still falling?

UK inflation data on Wednesday will provide the latest clue to investors as they assess how quickly the Bank of England will cut interest rates this year.

The faster than expected easing of inflation to 3.9 per cent in November from 4.6 per cent the previous month prompted markets to bet that the BoE would cut more aggressively than previously expected.

Economists polled by Reuters forecast that the downward path of inflation slowed in December, with annual price growth easing to 3.8 per cent.

Samuel Tombs, economist at Pantheon Macroeconomics, expects inflation to remain unchanged from November. That would still be well below the 4.6 per cent forecast for December by the Bank of England. But Tombs added it would be unlikely to prompt a dovish pivot in the central bank's language at



Light note: despite falling prices, tepid trade and property market woes, a poll of economists points to a year-on-year rise of 5.2 per cent for China's GDP in the fourth quarter

next month's policy meeting because "wage growth [is] currently still much too rapid for the committee to tolerate indefinitely".

Ellie Henderson, an economist at Indefinito, expects price growth to have eased to 3.5 per cent because of lower fuel prices and declining food inflation. She also forecast a decline in core inflation, which excludes food and energy, to 4.7 per cent in December from 5.1 per cent the previous month. The consensus is a milder easing to 4.9 per cent.

Henderson expects "some bumps" on the road to the BoE's 2 per cent target, with a rise in January due to base effects on energy and risks heightened by the crisis in the Red Sea.

But an increasing number of economists expect gas prices, which have dropped significantly from November, to bring inflation below 2 per cent by April.

Among them is Andrew Goodwin, economist at Capital Economics, who

forecast inflation to settle just below 2 per cent from April onwards. "The UK inflation outlook has been transformed by steep falls in oil and gas prices and the recent softening in core price pressures," he said. *Valentina Ramei*

Will US consumers remain resilient? December's retail sales data, also to be released on Wednesday, will offer insight into the health of the US consumer at a moment where the cost of borrowing for Americans is at its highest level in decades.

Economists polled by Reuters forecast that the Census Bureau will report a 0.3 per cent increase in overall retail sales in December from the previous month, the same rate of increase as in November. Excluding the more volatile auto sector, retail sales for December are expected to have increased 0.2 per cent month on month, also unchanged from November.

Consistent growth in retail sales

"The UK inflation outlook has been transformed by steep falls in oil and gas prices and the recent softening in core price pressures"

would suggest that consumer spending remains strong in the face of elevated interest rates.

"The cost of borrowing for consumers remains high and student loan payments restarted in October, but job growth is still strong and wages growth is still strong and higher incomes are ultimately the key driver for retail sales," said Torsten Slok, chief economist at Apollo Global Management.

Those sentiments were reiterated on Friday by JP Morgan chief Jamie Dimon who said the bank expected US consumers to remain resilient.

The retail sales figures will be part of the Fed's calculus when it meets at the end of this month.

While no change in interest rate policy is expected, a big surprise in retail sales data – particularly one showing that US consumers are far weaker than the consensus – could help make the case for earlier cuts in interest rates this year. *Kate Duguid*

Energy. Rising consumption

Resurgent demand for electricity puts pressure on power grids

Emerging technologies drive growth as regulator warns on risk of US network outages

JAMIE SMYTH AND EVA XIAO
NEW YORK

US electricity demand is booming after years of stagnation, driven by emerging technologies such as artificial intelligence and electric vehicles and prompting warnings over the stability of the power grid.

Retail sales of electricity will total nearly 4bn kilowatt-hours this year, a record, the government's energy analysis agency forecast last week.

The North American Electric Reliability Corporation, a regulatory body, has sharply increased projections for peak power demand for the next decade, reversing steady or falling growth rates from previous years.

Expectations of greater consumption come as extreme weather tests power networks around the country. A deep freeze that was due to sweep across the

central US over the weekend put grid operators on high alert from Ohio to Texas.

Utilities are also being forced to change how they meet demand as power plants switch away from coal and nuclear fuels to natural gas and intermittent solar and wind energy.

Jim Robb, NERC's chief executive, said projected demand growth over the next 10 years was now nearly double what it was five years ago. "The explosion in data centres is very, very real... a lot of utilities are having issues keeping up with that demand," said Robb, whose organisation is focused on improving the reliability of the bulk power system in North America.

Robb added that electricity networks stretching down the centre of the country from Minnesota to Louisiana already faced "high risk" of outages, particularly during severe weather events.

US power demand rose gradually for almost two decades as efficiency gains offset the effects of population and economic growth. But that trend is now poised to change as more energy tech-

nologies run on electricity. Demand is getting an extra boost from the Inflation Reduction Act, the climate and tax law passed in 2022 that provides subsidies to attract inward investment and accelerate the energy transition.

Grid Strategies, a US consultancy, said that nationwide forecasts for electricity demand growth over the next five years had "shot up" from 2.6 per cent in 2022 to 4.7 per cent 2023, in a report based on an analysis of utility filings to the Federal Energy Regulatory Commission.

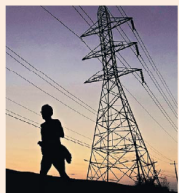
"This is likely [to be] an underestimate of demand," said John Wilson, co-author of the report titled *The Era Of Flat Power Growth Is Over*, adding that some utilities had publicly expressed higher demand expectations than they had reported in filings to regulators.

Wilson said the largest driver of increased electricity demand was \$481bn in industrial projects that had been announced since 2021, including the manufacture of chips and batteries. Another big driver was the expected construction of \$150bn in new data centres by 2028 and clean technologies.

Nerc forecasts peak winter electricity

demand growth of 11.6 per cent in the decade between 2024 to 2033, compared with 5.4 per cent between 2019 and 2028. Summer peaks over the same time periods are now forecast to rise by 9.2 per cent, compared with 5.2 per cent in the earlier forecast.

One of the most visible examples of the rise in electricity demand is "data centre alley" in northern Virginia, home



Electricity demand in Texas broke records repeatedly last summer

of the world's largest concentration of internet servers. Incentives offered by the state government have attracted more than 250 data centres supporting operations run by Amazon, Microsoft, Google and other internet giants.

Peak power required by the industry doubled between 2018 and 2022 to 2,767 megawatts, according to Dominion Energy, the main utility in the region.

This provides a growth opportunity for utilities such as Dominion, which makes about a fifth of its electricity sales to data centres. But it also poses reliability challenges, which in 2022 forced Dominion to temporarily stop connecting new data centre customers.

The company has since resumed making new connections, but is rationing electricity to some customers due to constraints on transmission lines. Dominion recently forecast electricity demand would grow by 85 per cent in its service territory over the next 15 years, which is nearly five times faster than the growth over the previous 15 years.

Texas, another state with rapidly rising power demand, imposed blackouts on 4.5m customers during a winter

storm in 2021. Demand during a blistering, lengthy heatwave last summer repeatedly broke records.

Regulators say a combination of changing generation fuels and growing demand make reliability planning more complex, and they are calling on utilities to boost investment. But obtaining permits to build generation, transmission and storage projects and connecting them to the grid is challenging. At the end of 2022 there was a queue of more than 2,000 projects awaiting interconnection and average wait times were about five years, according to Ferc.

Robb said there was an urgent need to build more transmission lines to connect more renewable generation to the grid while adding more natural gas generation to boost reliability, at least in the short term. In future, investment in new battery technologies could provide large amounts of energy storage to provide reliability, he said.

Falling to meet the investment challenge would result in more electricity providers "crying uncle" – shutting down supplies to customers and threatening economic growth, said Robb.

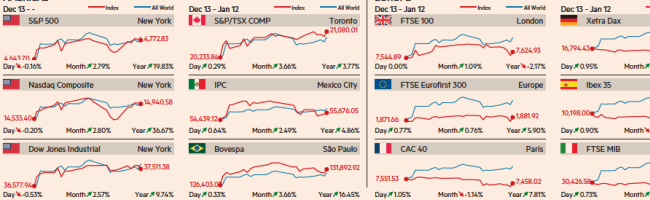
MARKET DATA

WORLD MARKETS AT A GLANCE

Change during previous day's trading (%)
S&P 500 -0.16%, Nasdaq Composite -0.20%, Dow Jones Ind -0.53%, FTSE 100 No change, FTSE Eurofirst 300 0.77%, Nikkei 1.50%, Hang Seng -0.35%, FTSE All World \$ 0.22%, \$ per € 0.1835%, \$ per £ 0.3933%, £ per € -0.846%, £ per € 2.87%, Gold \$ 0.12%

FT.COM/MARKETS/DA7A

Stock Market movements over last 30 days, with the FTSE All-World in the same currency as a comparison



ASIA
Dec 13 - Jan 12
Nikkei 225 Tokyo: 33,307.84, Day % 1.50%, Month % 6.49%, Year % 34.53%
Hang Seng Hong Kong: 16,422.79, Day % -0.35%, Month % 0.27%, Year % -24.22%
Shanghai Composite Shanghai: 2,968.76, Day % -0.10%, Month % -3.65%, Year % -8.85%



Table with columns: Country, Index, Last, Previous, Change, % Change. Lists various regional indices like Australia, Canada, China, etc.

Table with columns: Country, Index, Last, Previous, Change, % Change. Lists various regional indices like India, Indonesia, Japan, etc.

STOCK MARKET: BIGGEST MOVERS

Table showing biggest movers in the stock market, categorized by sector and region. Includes columns for stock name, price, change, and volume.

UK MARKET WINNERS AND LOSERS

Table showing UK market winners and losers, categorized by sector. Includes columns for stock name, price, change, and volume.

CURRENCIES

Table showing currency exchange rates for various countries including Australia, Canada, China, etc.

FTSE 100 SUMMARY

Table providing a summary of the FTSE 100 index, including sector performance and key statistics.

FTSE 100 LEADERS & LAGGARDS

Table showing FTSE 100 leaders and laggards, listing top performing and bottom performing stocks.

UK STOCK MARKET TRADING DATA

Table showing UK stock market trading data, including volume, value, and turnover for various sectors.

UK COMPANY RESULTS

Table showing UK company results, including company names, revenue, profit, and other financial metrics.

UK RECENT EQUITY ISSUES

Table showing UK recent equity issues, including company names, issue size, and issue type.

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MARKET DATA

FT 500: THE WORLD'S LARGEST COMPANIES

Table with 12 columns: Stock, Price/Share, % Change, P/E, Dividend Yield, Market Cap. Lists major global companies like Apple, Microsoft, Amazon, Google, etc.

FT 500: TOP 20

Table with 12 columns: Stock, Price/Share, % Change, P/E, Dividend Yield, Market Cap. Lists top 20 companies by market cap.

FT 500: BOTTOM 20

Table with 12 columns: Stock, Price/Share, % Change, P/E, Dividend Yield, Market Cap. Lists bottom 20 companies by market cap.

BONDS: HIGH YIELD & EMERGING MARKETS

Table with 12 columns: Bond Name, Price, % Change, Yield, Maturity, Rating. Lists high yield and emerging market bonds.

BONDS: GLOBAL INVESTMENT GRADE

Table with 12 columns: Bond Name, Price, % Change, Yield, Maturity, Rating. Lists global investment grade bonds.

INTEREST RATES: OFFICIAL

Table with 12 columns: Country, Rate, Change, Term. Lists official interest rates for various countries.

INTEREST RATES: MARKET

Table with 12 columns: Instrument, Rate, Change, Term. Lists market interest rates for various instruments.

BOND INDICES

Table with 12 columns: Index Name, Value, % Change, Volatility. Lists various bond indices.

VOLATILITY INDICES

Table with 12 columns: Index Name, Value, % Change, Volatility. Lists volatility indices.

GILTS: UK CASH MARKET

Table with 12 columns: Instrument, Price, % Change, Yield, Maturity. Lists UK cash market instruments.

COMMODITIES

Table with 12 columns: Commodity Name, Price, % Change, Unit. Lists various commodities like oil, gold, etc.

BONDS: INDEX-LINKED

Table with 12 columns: Bond Name, Price, % Change, Yield, Maturity. Lists index-linked bonds.

BONDS: TEN YEAR GOV. SPREADS

Table with 12 columns: Country, Spread, % Change, Yield, Maturity. Lists ten-year government spreads.

GILTS: UK FTES ACTUARIES INDICES

Table with 12 columns: Index Name, Value, % Change, Yield, Maturity. Lists UK FTES actuaries indices.

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Large advertisement for FT Financial Times featuring a portrait of a man, the text 'FT FINANCIAL TIMES', and 'SWAMP NOTES'. Includes a call to action: 'The FT's newsletter on US politics and power. Sign up now at ft.com/newsletters'. Also features a Tradeweb logo and a 'POWERED BY' logo.

MANAGED FUNDS SERVICE

SUMMARY

FT.COM/FUNDS

Summary table with columns: Winners - Europe ex-UK Equity, Losers - Europe ex-UK Equity, Morningstar Star Ratings, Global Broad Category Group - Commodities. Includes fund names, YTD returns, and star ratings.

Advertising Feature section containing performance charts, risk measures, and a warning: 'All series on a given axis must be of the same data type'. Includes logos for Candriam, DWS, and Fidelity.

Table with columns: Fund, Bid, Offer, % Yield, 1Y, 3Y, Fund. Lists various funds and their performance metrics.

Logos for LGT Wealth Management (UK) Limited, Blue Whale Growth Fund, and other financial institutions.

Logos for Candriam, DWS, and other financial institutions.

Logos for Fidelity International and FundsSmith Equity Fund.

Algebra Investments logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Brooks Macdonald logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Guinness Global Investors logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Artemis logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Brown Advisory logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Dragon Capital logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Ashmore Group logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

CP Global Asset Management logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Findlay Park logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

CP Global Asset Management logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

CP Global Asset Management logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Findlay Park logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

Janus Henderson Investors logo and a list of fund performance data including YTD returns and 1Y/3Y yields.

MANAGED FUNDS SERVICE

Table with columns: Fund, Bid, Offer, +/-, Yield, 1Y, 3Y, 5Y. Includes various fund names and their performance metrics.



Table listing various fund managers and their performance metrics, including Lazard Asset Management and Mirabaud Asset Management.

Table listing various fund managers and their performance metrics, including Ram Active Investments SA and Stonehage Fleming.

Table listing various fund managers and their performance metrics, including Slater Investments Ltd and Ram Active Investments SA.

Table listing various fund managers and their performance metrics, including Oasis and Ram Active Investments SA.

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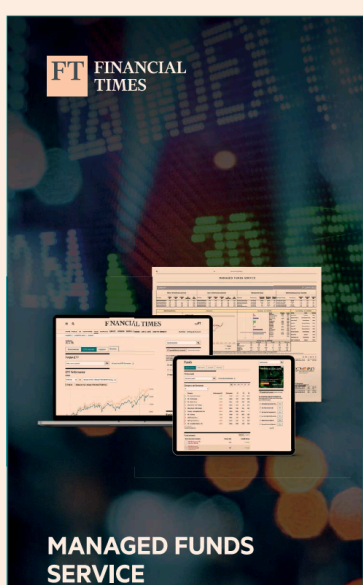
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Wrapped in red tape
Can government bureaucracy be reinvented into a positive force?
● WORK & CAREERS

Competent jerks have a shelf life in the office

Anjali Raval
Business Life



Everyone knows at least one. The office jerk who is such a high performer they get away with being horrible to their colleagues. They are gossiped about and resented by their peers but seem to be on an ever upward trajectory.

Why? Because these so-called "competent jerks" are good at managing up. They get results for their bosses and don't mind putting a few noses out of joint to get there.

There are endless examples in a typical workplace. At one point pharmaceutical company Pfizer even set out a "no jerks" policy.

It can be cruel, rude and small-minded, rather than annoying but trying to do the right thing, such as know-it-all on Zoom calls. It could be the worker who diminishes others' achievements, the manager who lands their status over junior team members, or the employee who wants things done their way and is vocal when it doesn't work out.

The problem for these individuals is that they are likely to hit a ceiling.

They may have progressed through their organisation with little clue about their effect on others. Some even see

themselves as mavericks, Elon Musk types, who believe these around them have to embrace negative behaviour.

But when many of these competent jerks reach a certain level, their poor relationships and reputation for being impossible to challenge or confront finally catch up with them.

"They don't realise they are not explaining themselves or taking people with them," says Harvard Business School professor Linda Hill, one of the world's top experts on leadership.

Their ability to succeed alone, when combined with excessive ambition, "blinds them", she adds. As they don't question themselves, they don't develop empathy skills as fast and are less self-aware. "If you've been a star and rarely failed, you probably haven't done the work on yourself."

At some point relationships with peers count in a more meaningful way, Jean-François Manzoni, president

●● **Some see themselves as mavericks, Elon Musk types, who believe others should have to embrace negative behaviour** ●●

of the International Institute for Management Development, says entry into the executive committee is often when tensions are starkly revealed.

This is when these (usually alpha) personalities have to leave the comfort of their fiefdoms and work with others who have also risen up with them.

One chief people officer for an industrial company recalls an individual who had progressed to the executive committee but, when they were evaluated for the role of CEO, it became clear they were seen as a bully.

"Until that point the higher-ups just didn't know. At that point they were automatically ruled out," he says.

Ultimately such individuals' behaviour will affect how top teams function, how they think about strategy and how well — or not — they work with the board. At some point they are likely to become a problem.

"How do you create a team with this set of individuals who meet relatively infrequently, and you're meeting to discuss complex issues by definition, often all with competing priorities, in a limited amount of time," says Manzoni.

Examples exist of people disliked by staff who have risen to the top. Oddi Aasheim, a partner at FirstHuman,

a leadership coaching company, says some corporate sectors value traits such as ruthlessness more than others. There are numerous examples across banking, law and market traders. But in most industries, he believes competent jerks will reach a point of being "unpromotable".

Increasingly, publicly listed companies are realising the benefits of more empathetic leaders. People are drawn to those who do things for others, not just themselves. In fact, these individuals often create greater value, personally and for organisations.

Adam Grant, a professor of organisational psychology, explores this theme in his book *Give and Take*. He says the common narrative is that outperformers reach the top through hard work, talent and luck. But success ultimately depends on how they interact with others. "When takers win, there is usually someone else who loses." For givers, when they succeed, this "spreads and cascades".

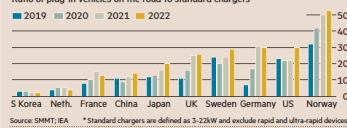
Anyone who has felt miserable at the hands of a competent jerk in the office, fear not, they will probably get their comeuppance.

anjali.raval@ft.com

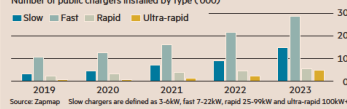
Lex.

Electric vehicles: charge sheet

Britain's middling rank on charging infrastructure



Installations up sharply in UK last year



The debate about electric vehicles in the UK comes with scare stories about hidden costs, suspect environmental credentials, battery lifetime and combustibility.

Carmakers also want an increase in public charging facilities to help meet new green targets. BT, the telecoms group, has declared plans to convert roadside cabinets — traditionally used for cables — into EV chargers.

In total, the UK has nearly 54,000 public charging points compared with 1m fully electric vehicles, a ratio of just over 18:1. But charging app Zapmap estimates that there are also more than 680,000 domestic and work charging points, the locations at which most drivers top up batteries.

The UK actually ranks mid-table in a group of 10 large economies when comparing the ratio of plug-in vehicles on the road, including hybrids, to standard chargers.

Ratios are imperfect, however, given that EVs are a relatively new technology, says Ralph Palmer of campaign group Transport 5 Environment. It is not yet clear what an EV-dominated UK market would need. These measures also mask the impact of charger speeds. An ultrafast charger at a forecourt would serve more cars in

a day than a slow kerbside alternative. UK ministers are aiming for 300,000 public chargers by 2030. Rollout rates are improving. Last year, more than 16,600 points were added, Zapmap says, a year-on-year rise of 45 per cent. If annual additions rose at the same rate, the 300,000 ambition would be surpassed by the end of 2028.

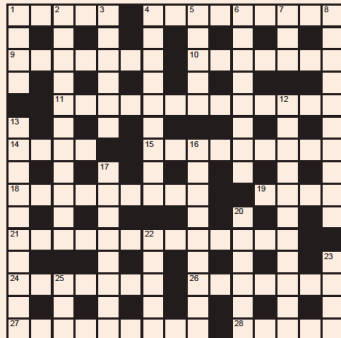
Higher numbers are harder to sustain as markets become more saturated. But BT is not the only company with ambitions in this area: the oil majors are also rolling out chargers, particularly at forecourts.

Shell is committing 500m a year in capital expenditure in 2024-25 to expand its EV charging footprint globally. Privately owned Osprey, which installed 400 chargers in the UK between 2018 and 2022, upped its annual rate to 600 in 2023.

Ministers have agreed a £450m fund that will allow local authorities to subsidise charging points in underserved areas. Importantly, a government fund will provide support for local authorities that do not have the resources to draw up charging plans. While public charging needs to expand, the cost of EVs, not charging infrastructure, is the real barrier to adoption.

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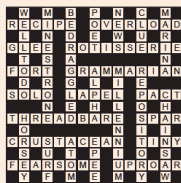
ACROSS

- American buffoon returned, remote in manner (3)
- Easy to name donkey (9)
- European seabird by a lake unaffected by time (7)
- Disciplined person's skill during bridge (7)
- Singer and graduates likewise, in favour of enjoyable party (5,8)
- Produced round cheese (4)
- Toast made by Shakespearean character having drink (7,2)
- Engulfing rear of rectory, bad weather spoils prayers (4,5)
- Awfully loud children's game (4)
- Bishop always tracking rook in accurate finish (5,8)
- I caught it sitting next to poorly criminal (7)
- Perhaps Hadrian's mood heading off with enlisted men (7)
- Flip one's lid and crack crackers (2,7)
- Look at first of Yorkshires made beforehand (5)

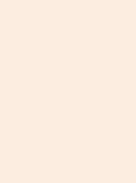
DOWN

- Primate by crown (4)
- Haughty and dogmatic concerning department (11)
- Best penalties, ultimate in sport (6)
- Shop stocks nothing but drink in here? (6,3)
- Someone like Scrooge can cause endless grief (5)
- A golf rep arranged game (8)
- Thrifty carry toddler (3)
- Silly-billy's wages short after note found on deck (10)
- Foreign name sounds about right for this popular aria (6,5)
- Misleading clue embarrassed Holmes, initially slipping up (3,7)
- Cheap flat (9)
- Messaging symbol illustrates feeling when nursing cold (8)
- 20 follow holding very soft peat (6)
- 22 Scoffed at during poetic evening (5)
- 23 Ancient city, partially destroyed (4)
- 25 Not quite striking rising tennis shot (3)

Solution 17,627



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WORK & CAREERS

Companies scramble to fill CFO roles as departures hit decade high

Employers are having to expand their searches and pay more to attract top candidates, writes **Brooke Masters**

Decade-high turnover among chief financial officers in the UK and elevated departure rates in the US and Europe have left large companies scrambling to fill the role, forcing many to expand their searches, rethink requirements and pay more to their top choices.

Twenty-nine FTSE 100 businesses, including Unilever and Schroders, changed their CFO in 2023 – the most since at least 2013, when data became available. Changes remained at the higher than normal level of 17 per cent across the big European markets and the S&P 500, according to research by Russell Reynolds, the leadership advisory firm.

The churn was particularly high in US consumer and financial services groups, where one in five of the big US companies that are members of either the S&P 500 or the Fortune 500 changed CFOs, according to headhunter CristKolder Associates' most recent report.

The trend is proving complicated for boards that do not have a strong succession plan in place for this critically important position. Not only are they struggling to find experienced candidates who meet all of their requirements, but they are having to pay more, make offers more quickly and accept flexible working arrangements.

"Folks are having to get a lot more competitive with sign on and retention bonuses," says Shawn Cole, president of search firm Cowen Partners. "A couple of years ago everybody wanted stock options. Now it's cash, please."

Median pay, including cash and equity, for CFOs in the S&P 500 jumped 15 per cent to \$4.7m between 2021 and 2023, according to data from Zagade and the Conference Board, and the five best paid US finance chiefs all make more than \$25m.

Some of last year's turnover was due to rising enthusiasm for promoting CFOs to chief executive or to chief operating officer in preparation for potential elevation to CEO. More than 5 per cent of chief executives were promoted directly from the CFO position last year, up from about 6 per cent the year before, according to the CristKolder data.

"We are at an all-time high of CEOs who have sat in a CFO chair," says Clem Johnson, CristKolder's president. "These days it is the second most important [role]. Historically it had been



more relegated to finance and being a steward of the company. [Now] IT, legal and functional roles will report in to the CFO and even operational issues such as supply chains are graded on to the CFOs responsibilities."

At the same time, some CFOs are being forced out by boards and investors unhappy with how companies have performed over the past two years amid high inflation, rising interest rates and rapid advances in artificial intelligence. "Businesses and shareholders are very reluctant to change the CEO so the

CFO becomes the person who takes much of the blame," says Mark Tomley, who leads the CFO team at headhunters Drax.

Even when investors are willing to take the drastic step of changing the chief executive, that can still lead to CFO turnover, as the new chief often opts to bring in his or her own team, while CFOs who lose out to another candidate might depart. A big spate of UK CEO changes in 2022 helped drive CFO turnover to new heights in 2023, according to Russell Reynolds.

"When a CFO hits an age or a certain tenure and they don't get the CEO role, they will often say I'm going to leave because I didn't get it," says Jim Lawson, a US leader in Russell Reynolds' CFO practice. "And when we try to get them excited about another CFO role, they're already having their mind set, maybe I'm going to be a CEO."

Headhunters also report that some public company CFOs are being lured away by private equity-owned businesses as they prepare for initial public offerings, and by companies that are splitting in two. "There have been a lot of conglomerate break-ups [and] ... that then leads, of course, to new executive and leadership team buildouts," says Alyse Bodine, global

head of the financial officers practice at recruiter Heidrick & Struggles.

Recent regulatory changes requiring companies to provide official reports on a wider range of subjects – depending on the jurisdiction, these involve climate change, diversity policies and cyber security – have also made CFO jobs less attractive to some people.

"It's a dramatic expansion of the responsibilities of CFOs. It was already a challenging role ... Now the responsibilities that are going to rest on CFOs are enormous," says Paul Washington, executive director of The Conference Board's ESG Center. "CFOs [do] want additional responsibilities, but they want a choice of which ones."

Faced with a growing list of vacancies, executive search firms are having to persuade clients to broaden the range of candidates they are willing to consider. Traditionally, large public companies prefer to recruit people who have already held a CFO job, usually in the same sector or at a company in similar stage of growth. But over 65 per cent of the CEOs appointed last year by S&P 500 companies, and 57 per cent of new CFOs at large UK and European groups were serving in the role for the first time, the Russell Reynolds analysis shows. Many of today's CFOs are not inter-

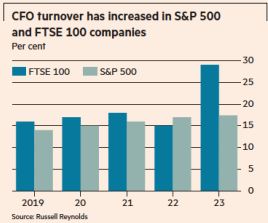
ested in doing the job again. Some are nearing retirement age, part of a larger demographic shift, and may be tired of the quarterly earnings grind.

CFOs "are retiring at higher rates to go plural, to build a varied portfolio that might incorporate advising a fund, might include sitting on a charity board, might sit alongside a couple of other interesting listed companies," says Ben Jones, a UK leader of Russell Reynolds's CFO practice. "CFOs make very good chairs because of the role they've had to play advising the CEO. They tend not to want to be the smartest person in the room."

Heidrick's Bodine says she has been touting the merits of first-time CFO candidates who are "ready now", combined with coaching and support that her firm can provide: "Maybe they've done a rotation through treasury, so they understand the balance sheet, [or] they've done a rotation in investor relations. They have a well-rounded background that has actually helped them to develop the toolkit that a public company CFO would be expected to have."

The wider net is proving to be positive for efforts to diversify corporate leader-

FT The CEO in conversation with the FT's best business writers. High-profile bosses reveal the challenges they face and the leadership styles they apply ft.com/work-careers



Folks are having to get a lot more competitive with sign on and retention bonuses. A couple of years ago everybody wanted stock options. Now it's cash, please'

Government

Can bureaucracy be refashioned into a force for good?

Skilled staff are using innovative ideas to make hated public sector administration something to love. By **Leyla Boulton**

Charles Landry's first career as a Brussels bureaucrat ended with a failed exam for a permanent contract at the age of 27. The experience gave him an enduring dislike of big organisations, but he has spent the rest of his life thinking about how to fix them.

Landry, now 75, is leading a march to overhaul public sector bureaucracy. By bringing innovation and private sector ideas to often bloated, inefficient, state systems, he wants to make them more attractive to employees and better at serving citizens.

He says a range of government officials, academics, entrepreneurs and private sector advisers from across the world are now treating "public sector innovation as both an imperative and an opportunity ... from policy design to service delivery".

Bureaucracy has never enjoyed a good reputation. Philosopher Hannah Arendt called it the "most cruel form of rulership"; novelist Joseph Conrad, the killer of "anything that breathes the air of human endeavour".

For a growing number of leaders and practitioners, however, cumbersome systems in public, and sometimes pri-

rate, sectors are fertile ground to grow something better. They are experimenting with new kinds of bureaucracy, from crack creative teams to job swaps and tech tools.

At stake is not just taxpayers getting value for money but the survival of democracy, says Mexican-born Tatiana Muñoz, a board member of PD, a consultancy set up by the German government to streamline the country's notorious bureaucracy.

As a volunteer mayor in the town of Mainz, Muñoz tried to bring humanity to government, through a strategy called active listening – speaking with the intention of digging deeper, rather than simply responding.

She heard from constituents disillusioned with mainstream politics after encountering obstructive bureaucracy such as delays to documents that prevented families from travelling.

"People started to complain about politics, telling me they would vote for the far-right Alternative for Germany party or not at all," she says. "It turned out they'd had a bad experience with a public service ... these seemingly little things have a real impact on people's lives. The only defence tactic they have is their vote."

One morning she was rewarded by a big Danke (thank you) chanted on the pavement outside her house. "I still get positive feedback from people on the street. Many times I wasn't able to resolve their problems. But many still told me 'The feeling I'd been seen by a politician was precious to me'."

Active listening was also key to

upgrading Peru's waste collection when Albina Ruiz, a researcher turned environmental minister, started asking the country's waste pickers how to stop garbage piling up in Lima's streets. The exercise ultimately led to a clean-up of corruption in waste management spending, and improved conditions for workers who became recognised as "recyclers" with legal protections.

In her previous job as a procurement lawyer, Anja Theurer was unfamiliar with agile working. But becoming the chief financial officer of the German armed forces' cyber unit forced her to

quickly learn to assemble cross-functional teams to test and assess new technology.

"We wanted to show it is possible to do procurement quickly and in a way that's compliant with EU law," says Theurer. Insulated from business-as-usual, the innovation unit offered a liberating framework where administrators could "freely decide what to do to make things succeed", she says.

"You detect a cool tech, you see it's procured, you see a unit that's willing to test and you see your work has meaning."



Charles Landry hopes to overhaul public sector bureaucracy – **Geoff Wan, Jansett**

Fear of failure remains an obstacle in much of the public sector, particularly in Germany where, Theurer says, "if you fail as a civil servant, you get your head chopped off".

Politicians' low tolerance of risk further "limits the ability of bureaucrats to learn from, and adopt successful private sector practices," explains Tom Burke, co-founder of environmental consultancy E3G.

Finland's response more than a decade ago was to declare a National Day of Failure, the brainchild of student entrepreneurs who realised that to succeed, the country needed to try new things out and risk-taking wrong.

"We love stories of superheroes who get results with brute force and their superior excellence," says Tommi Laiho, who worked in a Finnish local government for ten years before becoming a fellow at Johns Hopkins University. "But true creative bureaucracy is a rigorous process of collaborating with others to get things right."

Another motivation for change is competing for talented staff with the private sector.

"To recruit the best, the bureaucracy needs to shift its culture and become more open-minded and accessible," says Landry. Purpose, he adds, can trump pay as a motivator for young people "who do not want to work in organisations that do not align with how they operate in the rest of their lives".

In Lithuania, a government outfit is luring professionals working abroad to return home for six-month "sprints" in the state sector.

"When you look at the state from outside it feels clumsy and slow, but when you get into it ... there are people willing to do things differently," says Monika Merkyte, head of Create Lithuania. The programme also increases the value of existing public workers. "You start to understand how the country and the system is run."

Artificial intelligence, with its potential to liberate officials from repetitive chores, is the final piece of the creative bureaucracy challenge, says Dutch consultant Colin Van Noord.

"For governmental organisations, this requires strategic thinking, planning and acting on what kind of government of the future it wants to become: one still versed in old-fashioned processes or one that is future-proof, with a motivated staff with higher quality services than even the private sector?"

With the right safeguards, augmenting professional experience with data insights is an ideal combination, says Van Noord. One example is OUI, a tool that helps the Estonian Unemployment Insurance Fund tailor recommendations for jobseekers.

For Landry, the mission is still a work in progress. But it is one that is growing. An annual Creative Bureaucracy festival, co-launched with publisher Sebastian Turner in Berlin, has been running since 2018.

"As aspiring talent looks for purpose, public service has an incredible asset – if only the structures allow imagination, change and enthusiasm," says Turner. "This is what creative bureaucracy is all about."

FEATURES

The Henry Mance Interview

'You can coerce by economic means'

JOSEPH NYE

Harvard professor who coined term 'soft power' says turmoil facing the US and college where he works was worse in the 1960s



Bryce Vickmark/FT

For several decades, Joseph Nye has been one of the influential thinkers in international relations. He coined the term "soft power" and, with academic Robert Keohane, argued that countries can become so economically interlinked that military force is no longer the most decisive factor between them.

But in his memoir, *A Life in the American Century*, Nye interprets the US's current volatility with a simpler idea: politics is cyclical. "People will say to me today, have you ever seen a period as bad as this? I say, yes, the 1960s were worse. We had major assassinations, cities on fire, two failed presidencies [Lyndon Johnson and Richard Nixon]."

So too at Harvard, the university at which Nye has spent most of his career and where he mentored the diplomatic elite at the Kennedy School of Government. Its president, Claudine Gay, resigned this month after being criticised for her answers at a congressional hearing on antisemitism and being accused of plagiarism. Bill Ackman, the staunchly pro-Israel hedge fund billionaire, is demanding further changes.

"Compared to the turmoil in Harvard in the 1960s, what we're seeing today is sad but modest," says Nye, surrounded by fishing memorabilia at his home in Lexington, Massachusetts. During protests over Vietnam, a bomb was placed in his centre's building. "My office was ransacked three or four times, with bookshelves pulled down

'Launching policy ideas outside of government is like dropping pennies into a deep well'

and typewriters thrown through partitions. I remember one time calling the police and saying there's a mob attacking our building. [They said:] "We know that, but there's nothing we can do about it."

Doesn't it worry Nye that there is a novel threat to Harvard — a drive by senior figures in politics and business to undermine elite universities? "When billionaires try to micromanage the university, rather than simply have their names put on buildings, that's a very dangerous path to go down." Banning certain groups is also "dangerous" for free speech. "But I prefer those problems, because I think they're more soluble than when bombs are going off."

Nye served in the Carter and Clinton administrations. He predicted the first Trump administration would be a "serious road accident but not a fatal crash" (resonant words, given that in 2015 Nye survived a car crash after losing consciousness at the wheel). Today he has guarded optimism about the fallout from a possible second Trump term.

"If history's any example, we should be able to overcome it. After all, in the 1950s, Franklin Roosevelt thought there was a danger that democracy could be lost in America... There's enough resilience in the institutions, and in the civil society, that we will probably recover [from a second Trump term]. But that doesn't mean we're not

going to go through a very nasty decade.

"Americans have done some foolish things: the Vietnam and Iraq wars in particular. There's no reason as a realist not to think that we could do stupid things again."

Nye started off researching African politics, but, seeing post-independence misgovernment, decided he did not want to become "a carping critic of African leaders for the rest of his life". He refocused closer to home.

In 1987 British historian Paul Kennedy claimed the US was doomed to decline. In response, Nye came up with the idea of soft power — to argue the US would still be able to exert influence, albeit of a different type.

Soft power is "the ability to get what you want through attraction, rather than coercion or payment". It includes the cultural appeal from "Harvard to Hollywood". (The concept has been distorted as it has entered the mainstream: "unfortunately a lot of the people who use it think it means anything other than military power. You can coerce by economic means.")

Soft power captured the imagination of Chinese leaders in the early 2000s. But events in Ukraine and Gaza have underlined the importance of hard power. Was soft power overrated?

"When you're dealing with wars, you'd be foolish not to start with military power. But that's not the whole story. In Ukraine, Zelenskyy realised that wearing a green T-shirt and appealing to victimhood would develop sympathies. [He] was brilliant at using soft power, and that translated into hard power, in the form of shipments of military equipment. Hard power is the core, but soft power plays an auxiliary role."

Nye gives five reasons why the US will not necessarily be eclipsed by China: geography and friendly neighbours; domestic energy supplies; the dollar-based financial system; demographics; and tech leadership.

None of these factors, Nye notes, includes soft power. Nye says that is because they are intended to meet his critics on their own terms. But he argues that China, despite 20 years of investing in Confucius Institutes to promote its perspectives, lags behind on soft power too. "Few polls show the US is more attractive than China to other countries in Asia and in Latin America, Australia and Europe."

"Why is China unpopular in its own region? Because it is seen as a threat. It's very difficult to develop soft power in New Delhi by establishing a Confucius Institute if your troops are killing Indian troops on the Himalayan border."

"From a strategic point, it's equally mistaken to underestimate and overestimate your opponent. And right now what's popular in Washington is overestimation [of China]. He identifies not with the hawks (who, he argues, overestimate the Chinese threat), or the doves (who underestimate it), but as an "on". War between China and the US is not probable, he argues.

Even so, the US can seem powerless. It has failed to convince its ally Israel to act with restraint in Gaza. Could it have done in the past?

"It's not clear that they could have done it 20 years ago. George HW Bush initiated [in 1991] that American aid could be cut and that may have helped to stimulate the Oslo process, but that

didn't bring about two states." Nye adds that "Israel's not the only ally that has proved quite capable of resisting the US", pointing to Saudi Arabia among others. For the moment, "Israel is hurting its own soft power, and by extension that's hurting American soft power."

Nye spent two years pushing nuclear non-proliferation under Jimmy Carter. But he preferred the ability to think freely in academia, even if his influence fell. "Launching policy ideas from outside government is like dropping pennies into a deep well," he writes in his memoir.

Under Clinton, he chaired the National Intelligence Council, and was "surprised to find how much of the [president's daily brief] I could have learnt by reading *The Economist*, the *Financial Times*, or the *Washington Post*". He moved to the Pentagon, where his "Nye Initiative" committed the US to a security partnership with Japan, rather than demanding trade concessions from Tokyo and withdrawing US troops from the region.

'I'm in favour of diversity and inclusion, but it should be more as a norm than a bureaucracy'

He gently criticises Carter for being too focused on details and Obama for not responding with cruise missiles to Bashar al-Assad's use of chemical weapons in Syria.

Biden's foreign policy is driven by Obama-era veterans, such as Jake Sullivan and Antony Blinken. Have they learnt from previous mistakes? "They hadn't thought [the 2020 Afghanistan withdrawal] through. In that sense, I don't think you see an improvement on Obama. Obama on Syria, Biden on Afghanistan — I think they are in the same category." Both Obama and Biden have maintained the US's alliances: there is no "huge difference" between their records.

Biden's approach to China has been "sensible but firm". "If I had to fault him on his Asia policy, it's that it's weak on the economic leg. By not going ahead with [the Trans-Pacific Partnership], he deprived the United States of presence in the economic sense." Biden's foreign policy merits "a B or B-".

Nye argues Biden was too old in 2020 and is making "a mistake" by running for re-election. "Biden would have been better if he'd served one term and gone down as the hero in American history who saved America from Trump and then prepared the way for a younger generation of Democratic party politicians."

"People in their eighties don't have the same degree of energy that they did in [their] sixties or seventies," says Nye, himself 86. "Who knows what will happen to his health, but if you just look at actuarial tables, probabilities about onsets of various diseases, these are reasons not to go too far into your eighties."

At Harvard, he initially supported Gay, after she said that calling for the genocide of Jews would only break Harvard's harassment rules "depending on context". "She was technically correct, under first-amendment purposes. But

she mistook giving a legalistic answer for what was really required in political theatre. She should have given a values statement. That's simply a misjudgment and she could have survived that."

But he believes instances of alleged plagiarism, which Gay has called "citation errors", were sufficient to merit her resignation. "You can't have one standard for students and another standard for the president. Even if the charges of

plagiarism were based on sloppiness, rather than an intent to defraud, that's still not sufficient to leave her in office."

Is this a moment for Harvard to reset the diversity policies championed by Gay? Nye argues there is a pro-diversity norm shared by "the country or at least in half the country". His "concern" is the creation of bureaucracies to enforce the norm: "Bureaucrats always have to find things to do, and that can lead to policies

that are unduly rigid. I'm all in favour of diversity and inclusion, but I think it should be more as a norm than a bureaucracy."

Ackman is backing outsiders to join Harvard's board of overseers. "There have been successful protest candidacies at [that] level before and I have no objection to his proposal as an alumnus," says Nye. Where others see upheaval, he prefers to see resilience.

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ARTS

Neglected sculptor comes back into the light

Trailblazing British artist Kim Lim has her first major retrospective in more than two decades at Hepworth Wakefield. Maya Jaggi visits it

Kim Lim's painted-steel arch, "Day", radiates an otherworldly glow in a Yorkshire garden, the flat, white arc narrowing to a silver as the viewer circles it. A beguiling monument on an approachable human scale, it was first exhibited in *Sculpture in the Open Air* at London's Battersea Park, in 1966, alongside work by Henry Moore, Barbara Hepworth, Anthony Caro and Elisabeth Frink.

In her lifetime, Lim was a relatively successful British artist – the only woman in the Hayward Gallery's annual show in 1977, with a solo survey at the Roundhouse two years later. After her death from breast cancer in 1997, her art fell from view. An anomalous talent as a Singapore-born sculptor – "female and foreign", in her own words – she made her mark, yet disappeared from art histories and curatorial surveys blind to her transnational contribution to post-war British art. That she was married to the Scottish sculptor William Turnbull may have further eclipsed her in some eyes.

A Sotheby's show co-curated by Bianca Chu (now adviser to the Kim Lim Estate) reignited interest in 2018. Now Lim's first major museum solo since 1999 runs until June 2 at the Hepworth Wakefield in Yorkshire – which acquired "Day" for its garden in 1983. Curated by Abi Shapiro, *Kim Lim: Space, Rhythm & Light* spans more than 100 works created over four decades. Together with an impending retrospective at the National Gallery Singapore in September, the show reaffirms her as a key figure in late-20th-century sculpture and printmaking.

Her white-marble "Kiss" (1959) pays



Clockwise, from above: Kim Lim's 'Day' (1966); 'Kiss' (1959); and 'Romit' (1963) (Photo of Kim Lim/Turnbull Studio, OACS 2023. Photo not provided)

homage to Brâncuși's "The Kiss" (1907) – and his influence remains on her later stone sculptures. But while the Romanian's fused lovers are hewn from a single block, her couple's discretely carved heads barely touch, the tight space between them charged with sexual tension. This narrow gap filled with possibility – as crucial as the silence between musical notes – recurs in the abstract red sculpture "Minerva" (1964) and the print "Red Split" (1969). Lim considered space a "physical substance – to be

articulated, manipulated", and Chu likens her work to Zen Buddhist gardens in which "empty space is pregnant with more energy". Lim's interest in negative spaces may also have to do with her in-between state. Born in 1936 in Singapore (then part of British Malaya) to Peranakan Malay Straits Chinese parents, she grew up there and in Malacca and Penang under colonial rule. She came from a "syncretic culture", Chu tells me, with several world views and languages even before she arrived in London in 1954 to study fine art. "Resisting categorisation was something important to her."

Declining an invitation to show in *The Other Story: Afro-Asian Artists in Postwar Britain* (1989) at the Hayward, Lim said she did not want to "other herself". At St Martin's School of Art in the 1950s, she was taught by Frink and Caro, but when Caro opposed her turn to abstraction (having yet to adopt it himself), she transferred to the Slade – where the Sudanese artist Ibrahim El-Salahi was among classmates.

Travel, she wrote, "was my art education, not art schools". Before and after her marriage to Turnbull in 1960, she made stopovers between London and Singapore in Italy, Greece, India, Cambodia and Japan. A photograph of her London studio shows a row of maquettes beneath a pinboard of her photographs, ranging from Greek and Egyptian statuary to Hindu temple carvings and Stonchenge. Not belonging to one place, Lim wrote, gave a "certain feeling of detachment from which one could view both east and west". Sensing "important similarities and sympathies", she rejected a hierarchy of "primitive art... leading up to the kind of epitome of western art, which is the Renaissance". There were,

she felt, "other things equally good".

Her early titles reflect this openness, from the abstract bronze "Pegasus" (1962), with hinged, semi-circular wings, to the wood assemblage "Samurai" (1961). She credited a Basque artist with teaching her to handle wood, and indeed the sturdily industrial, bolted-together sculptures recall the great Basque sculptors Eduardo Chillida and Jorge Oteiza. The wood-and-metal "Ronin" (1963), a Samurai warrior wandering without a master, subliminally evokes Japanese architecture and costume. Though Lim grew up under Japanese occupation in Penang (where her father was a British-educated magistrate), she embraced pan-Asian culture. Chu says, "She had an ability to see, unlettered by prejudice."

Her two sons, musicians who run their parents' estates, recall growing up in a rambling house in Camden Square,



Kim Lim at work on "Twice" (1968)

London, where each artist had a studio, with a garden where Lim, in boiler suit and face mask, would wield a mallet. Their father, Alex Turnbull tells me, was "from the Dundee shippards", while their mother was "trying to run away from the rigid expectations of a woman from a good family in Singapore". There was a "two-way influence".

Colourful sculptures in industrial materials, such as the stainless-steel, two-tone "Blue Note" (1966), were in her first solo show at London's Axiom Gallery. As her work grew more conceptual, her concerns, she wrote, were "not so much for volume, mass and weight, but rather with form, space, rhythm and light". A 1976 series of "paper cuts", printed on transparent acrylic sheets, plays with light and shade. Ballet training in Singapore and tap-dance in London led works steeped in rhythm: the print "A Minor" (1979) resembles a leaf, with silver lines emanating from a stem. Modular sculptures, such as the four mahogany slats of "Interstices II" (1977), allow for site-specific variations, like music.

Titles such as "Borneo I" and "Irrawaddy" hint at an abstraction that "looks non-figurative but", Lim wrote, "comes from the seen and felt world."

The heads in "Kiss" barely touch, the tight space between them charged with sexual tension

The large organic fibreglass shapes of "Tregannu I" (1968), on the floor, reference a Malaysian beach. The small bronze "Water Piece" (1979), whose terraced mould of irregular concentric rings catches rainwater and light, suggests memories of monsoons.

After the Roundhouse survey in 1979, Lim became prolific in stone, creating some of the most compelling works in the show. She took inspiration from patterns in nature, especially wind and water. She made "Spiral I" (1983), a broken circle in Portland stone, having observed sea turtles laying eggs in the sand in Malaysia, while the delicate "Rainstone" (1994) evokes runnels in rock.

Her stone sculptures might appear monumental in photographs, but they are small-scale, tactile and intimate. "Wind-Stone" (1989), among the highest here, scarcely reaches head level. Though Lim's left arm was damaged in a car accident in the 1970s, and she worked without assistants, hers were aesthetic choices. She embarked on the physically challenging "Riverstone" (1990-91) soon after spinal surgery. "She made her biggest stone sculpture when she was weakest," Chu says, adding that, for Lim, "carving was a act of faith."

A vitrine with her photographs of Zen gardens and Cappadocia caves and sketchbooks harbouring pressed flowers illustrates how wandering enriched Lim's visual vocabulary, feeding a unique abstraction informed by experience and memory. Ultimately, I was left wanting more of this fascinating material from her life – not to limit her art to the biographical, but to reveal its breathtaking expanse.

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Travels with a man and his 'mad' thoughts

PODCASTS

Fiona Sturges

Self Help, the new podcast from audio artist, writer and presenter Scottie, is probably not what you think it is. Podcasts aimed at self-improvement, whether through meditation techniques, diets or new exercise regimes, are ten-a-penny and, for this grouchy listener, frequently irritating. But, despite its title, this short series is not one of those.

Scottie, who goes by his first name only and who some listeners may know from BBC Radio 4's *Loose Ends*, is not a healthcare professional. He has, however, spent five years in therapy, not to say months at a time unable to get out of bed. He is therefore an expert in the complex problems of his own brain and the agony of moving through the British mental health system.

As such, his podcast is "a collection of thoughts, feelings, intuitions and ideas from a life spent clinically mad" and experienced through the lens of his class, queerness and neurodiversity. His

plan, over five episodes, is to see what happens when he is left alone with the voices in his head – "Something doctors are always trying to stop me from doing." And so we join him on long walks around rural Scotland, sometimes in thunder and rain (Scottie's co-star here is the weather) as he delivers monologues on his experience of mental illness.

Each episode is built around a specific theme. In "Sanity", he looks at what it means to be "sane" and how doctors often measure it by how palatable and valuable a person is to society. "Self-care" looks at the multimillion-pound industry that has sprung up around achieving short-term happiness. "Diagnosis" examines the impulse to label our afflictions and the harsh judgment that often accompanies diagnoses of conditions such as ADHD and autism.

"I think [increased diagnoses] demonstrates how many people would like to live happier lives," Scottie reflects. "I wonder how it might sound if we replaced ADHD or autism with cancer? 'Oh everyone's got cancer, it's just a fad.' It sounds so vicious, doesn't it?"

Amid these meditations, sometimes we simply sit with Scottie and the weather. "I'm sodden. Why am I doing this? Anybody?" he asks, to the sound of rain hitting cagoule. "I've got two horses staring at me like 'I'm crazy. I am!'"

The final episode, "Landscape", considers the "mad artists" who spent time outdoors to quell the storms raging in their heads and sees Scottie reflecting on his own compulsion to walk and "how us nutjobs are constantly being fucked over out of our beds and into the hills." All this is delivered with thoughtfulness, candour and lots of laughter. The result is a warmly intimate and generally delightful series that not only conveys what it is like to live with mental illness but makes the listener feel as if they are Scottie's sole companion out in the wild.



Alone with the voices in his head: Scottie presents 'Self Help'

FT BIG READ. US POLITICS

The former president is the presumptive party nominee for the 2024 general election but the Iowa caucuses and upcoming New Hampshire primary can spring surprises and reward underdogs.

By James Politi and Lauren Fedor

Can any Republican dethrone Trump?



In the aftermath of January 6, on the third anniversary of his supporters' assault on the US Capitol, Donald Trump travelled to a school gymnasium on the banks of the Mississippi River to ask voters to send him back to the White House — and rattle the world like they did in 2016.

The battle begins in Iowa, it begins here, Trump told the crowd assembled in Clinton, a town of nearly 25,000 on the eastern flank of the state. "With your help, we're going to bring back our country — we're going to bring it back from hell."

The Iowa caucuses — to be held on Monday night — will mark the Republican party's first step towards picking its challenger to face Joe Biden, the 81-year-old Democratic president. Fewer than 200,000 voters out of America's population of nearly 335m are expected to brave the subfreezing temperatures to cast the first ballots of the 2024 presidential election cycle and set the tone for the race.

Three years ago, it seemed improbable that Trump would even be a contender. But the 77-year-old former president is the overwhelming favourite to win the Republican nomination. And although general election polling is unreliable so far ahead of the November vote, Trump has a very narrow edge nationally over Biden in a head-to-head match.

If the dynamic holds, and Trump emerges victorious and unscathed from the nomination battle, it will cause deep unease among some of America's closest allies around the world heading into the presidential election. Biden has sought to rebuild America's commitment to its traditional partners, from Europe to the Indo-Pacific, after the ruptures of the Trump administration. Those ties would once again be jeopardised.

The prospect of a nail-biting rematch for the White House — the first since Dwight Eisenhower and Adlai Stevenson squared off for a second consecutive term in 1956 — has already caused Biden to begin directly attacking Trump and cast the race as a battle to save American democracy.

But the Iowa caucuses — and the New Hampshire primary, which will be held next week — can often reverse the conventional wisdom of a presidential election, even if temporarily. They can generate surprises, reward underdogs, and shift the momentum.

For a long stretch last year, it was Ron DeSantis, the Florida governor, who was in pole position to take advantage of any cracks in support for Trump, particularly in Iowa, where he campaigned assiduously.

But his bid has languished. Though DeSantis remains in the race, it is now Nikki Haley, a former US ambassador to the UN, who is better placed to emerge from the next 10 days as Trump's top contender. Not only has Haley been rising in the polls in Iowa, but she is within striking distance of beating Trump in New Hampshire, which would shatter the sense of inevitability around his eventual victory in the Republican nomination fight.

"Nikki Haley has a shot. It is a long

shot, obviously, it is like drawing an inside straight in poker. But it is still a shot where you can see a path for her," says Whit Ayres, a veteran Republican pollster at North Star Opinion Research.

Domestically, historians are already issuing stark warnings about the consequences of a second Trump administration for the survival of the US political system as we know it.

Lindsay Chervinsky, a senior fellow at the Center for Presidential History at Southern Methodist University, says that America is potentially starting at "an election to determine if we have more elections that are meaningful."

"I'm not saying that Trump would be able to implement all the threats he has made. But there's no doubt that the second term would be so different [from] the first and would be unlike anything we've ever seen," she says. "And there is so much space for a president who doesn't care about norms and precedents and following the law to obliterate the system. And I have no doubt that he would try."

Regardless of the Iowa result, it may be Republicans in New Hampshire who step in and act as a bulwark against the former president.

In the New England state, which has a much greater share of moderate Republicans and fewer evangelical Christian voters, Trump's lead is far narrower than in Iowa, making it possible that he could be defeated by Haley.

Her chances were further bolstered when Chris Christie, the former governor of New Jersey and ardent Trump critic, dropped out of the Republican race on Wednesday, paving the way for most of his supporters to move her way.

"Things can change quickly if you get an upset," says Bill Kristol, a prominent conservative Trump critic who worked in the Ronald Reagan and George HW Bush administrations.

Haley, who is 51 and also served as the governor of South Carolina, in many ways embodies the traditional establishment of the Republican party, which is fiscally conservative, business friendly, open to international trade, hawkish on foreign policy — and wedded to institutions of government.

Some are openly bullish about Haley's prospects. "I'm feeling good about Iowa and glad about New Hampshire," says Eric Levine, a Wall Street bankruptcy lawyer and Republican donor who is backing Haley. "Trump can be stopped."

As she has gained in the polls, Haley has boosted her fundraising as deep-pocketed anti-Trump Republican donors from Wall Street and US business elites finance her run, which has allowed her to blanket Iowa and New Hampshire with adverts to promote her candidacy. Her supporters point to several polls that suggest she would outperform both Trump and DeSantis nationally and would win in a head-to-head match against Biden.

But many still doubt her ability to confront and defeat the former president in the double race. Even as he bowed out, Christie failed to endorse

any of the remaining Trump rivals, including Haley, and was caught on microphone warning that she would eventually be "smoked". "You and I both know it, she's not up to this," he was recorded saying.

A dwindling cast of Republican donors, lawmakers, former officials and lobbyists had been hoping that the party could be rescued from the isolationism and populism of Trump and that more traditional Republican policies could be restored.

But their efforts to expunge Trump and usher in a new era for the Republican party have failed so far, which has made it hard for alternative candidates like Haley to break through decisively.

These so-called Never Trumpers are divided on the causes of this failure. Some blame the reluctance of Republican lawmakers in Congress to turn their backs on Trump when he was at his weakest politically in the aftermath of the January 6 attack and the poor showing of the 2022 midterm elections.

Others blame poor and ineffective campaign strategies and messages. With the exception of Christie, most of the Republican candidates for president, including DeSantis and Haley, for a long time failed to confront Trump in a way that was consistent and effective.

Many take issue with big party donors, who struggled to coalesce decisively behind an alternative to Trump.

Yet others say it is the Democrats' fault. In the aftermath of the multiple indictments from prosecutors in New York, Atlanta, Washington and Miami, vast swaths of rightwing America rushed to Trump's defence rather than use the opportunity to look for a new leader. Their rage has been compounded by moves by Colorado and Maine to strip Trump from primary ballots on constitutional grounds because of his role in the January 6 attack.

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In the final stretch of campaigning in Iowa, Haley has marginally been more aggressive in attacking Trump. "If it's Donald Trump, there will be four more years of chaos," she said during a debate against DeSantis on CNN this week.

But it is unclear if she can weather the blast of attacks from both Trump and DeSantis, who are accusing her of being too close to the establishment and captive to "globalist" and "corporatist" interests.

"Voters are very clear about not wanting to go back to the Republican party before Trump," says Sarah Longwell, an anti-Trump Republican who conducts focus groups with voters.

Even on Capitol Hill, Trump has a growing legion of supporters among Republican lawmakers — and far more endorsements compared with either Haley or DeSantis.

Among them are House Speaker Mike Johnson, majority leader Steve Scalise and most recently John Barrasso, the Republican senator from Wyoming and the party's third highest-ranking member of the upper chamber of Congress,

where there is more widespread, often quiet, scepticism of Trump.

Lantz says lawmakers are reading the tea leaves and embracing him more out of political expediency than conviction. "They know what the outcome is going to be and they want to be on his good side. We've never had a presidential nominee with a bigger stick than Trump. If you don't bow at his feet, he [will] destroy you in the next primary, and they're afraid of that."

Kristol blasted that approach as "passivity and cowardice," and one that was doing "real damage" to hopes of defeating the former president even before the voting had started. "It just gives the Republican primary voter the impression that it is all over," he says.

At the White House, the sight of Trump comfortably leading the Republican pack is generating mixed emotions. On one hand, Biden and Democratic officials have long expected Trump to be their challenger in November and believe they have the right political recipe to defeat him, as they did in 2020.

On the other hand, recent general election polling, combined with Biden's low approval ratings and broad dissatisfaction with the direction of the country, have triggered anxiety among Democrats about the president's capacity to recreate that same winning coalition.

Biden's camp is betting that improving economic data and continued anger about abortion restrictions will help win over swing voters. But their main wager is that the president will get over the finish line by highlighting the fundamental danger to American democracy.

"I think this idea that democracy is on the line is real. I think it will resonate. There's going to be a choice," says Robert Wolf, a Democratic donor and former chair of USAs America who supports Biden.

The former president's own rhetoric has only boosted Biden's case. In rallies and on social media, Trump has called his opponents "vermin," has said that immigrants are "poisoning the blood" of the country and has described convicted January 6 rioters as "hostages".

Meanwhile, the impact of the criminal trials that Trump will have to face as he wages his campaign for a second term in office is a big wild card in the race. Some polls have suggested that voters, particularly independent and swing voters, will be far less open to Trump if he is found guilty in court. "Trump is very likely to be the nominee. I think he's also very likely to be convicted," says the senior Republican strategist.

Longwell, the anti-Trump Republican, expects that by election day Biden may have the edge simply because the former president remains such a toxic force in American politics beyond his large hardline rightwing base, even if he triumphs in Iowa.

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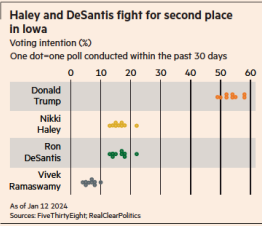
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I'm feeling good about Iowa and glad about New Hampshire... Trump can be stopped'

The FT View



FINANCIAL TIMES
"Without fear and without favour"

ft.com/opinion

The delicate geopolitical balance around Taiwan

Lai's presidential victory is a moment for all sides to exercise moderation

The victory in Taiwan's presidential election of Lai Ching-te – a man Beijing has described as a dangerous separatist – gives the ruling Democratic Progressive party (DPP) an unprecedented third term in office. On the eve of the polls, China's People's Liberation Army warned that it remained "on high alert to smash 'Taiwan independence' separatist plots in any form". But Lai's win broadly represents an endorsement for continuity from Tsai Ing-wen, who has held office since 2016.

In their initial statements after the elections, both Beijing and Lai sounded a relatively conciliatory tone. China's Taiwan Affairs Office said it would "work with relevant political parties, groups and people from all walks of life in Taiwan to promote cross-strait

exchanges and co-operation". Lai, for his part, appealed to Beijing to find ways to reduce tensions. In a news conference, he recognised an "important responsibility to maintain peace and stability" with China.

Such moderation is welcome. The tensions across the Taiwan Strait, the 180km body of water that separates the island from China, make this one of the world's most dangerous flashpoints. Beijing claims Taiwan as part of its territory and threatens to attack it if Taipei resists unification indefinitely. The DPP refuses to define Taiwan as part of China.

Yet in spite of the responsible initial rhetoric, the inflammatory nature of regional geopolitics remains unchanged. Beijing's restraint, as well as the fortitude and balance of Lai's administration, are set to encounter multiple and persistent tests. Both sides, as well as governments in the west, should clearly recognise the "red lines" in cross-strait relations and

avoid crossing them in word or deed. An early such test was the expected arrival in Taipei late yesterday of a high-level US delegation of former officials due to "convey congratulations from the American people".

Although China objects to any official contact between the US and Taiwan governments, the arduous construction of a delegation reveals sensitivity on Washington's part. In choosing former rather than serving officials, the US is maintaining an aura of unofficiality with Taiwan. The US visit also has ample precedent. Similar delegations were dispatched by the US governments to Taipei in 2000, 2008 and 2016 after polls in which Taiwan elected a new president.

China, however, should realise that its repeated and longstanding threats towards Taiwan, often issued in blood-curdling language, have been counterproductive to its own objectives and to preserving peace in the Asia-Pacific region. Although Lai received only 40 per cent of the vote and the DPP lost

Beijing should refrain from conducting threatening military manoeuvres

control of the legislature, the result still represented a message of defiance by Taiwan voters towards Beijing's pressure threats.

It is now incumbent on all parties to focus not only on how to preserve peace across the Taiwan Strait but also on how to reduce tensions. Beijing should refrain from conducting threatening military manoeuvres around Taiwan and tone down its threats of military action. Lai and other Taiwan officials should maintain the rhetorical discipline shown by Tsai during her presidency and seek to foster at least people-to-people exchanges with mainland Chinese counterparts. The US should carefully calibrate its official communications on Taiwan, taking care not to goad Beijing unnecessarily.

The current geopolitical balance around Taiwan is both inchoate and fragile. But it remains immeasurably preferable to the alternative: the eruption of conflict across the straits that could escalate into superpower war.

Opinion Society

What is the right age for a politician?

IAN HINDY



Miranda Green

When, in the closing weeks of 1783, Pitt the Younger became Great Britain's youngest ever prime minister at the tender age of 24 – a record he retains in today's UK – his government had a poor prognosis. It was dubbed "the mince pie administration" on the assumption it would not last much beyond the Christmas period, while satirists mocked the "infant Atlas". Was the nation safe with "a kingdom trusted to a school-boy's care"?

But Gabriel Attal, the fresh-faced 34-year-old appointed last week as French PM, should be encouraged by Pitt's example: before his untimely death, the Georgian premier went on to a successful near-20-year, two-term career in the top job and still makes the list of great political leaders.

Attal has not yet reached the dizzy heights of command: as number

Among western democracies preoccupied with youthful vitality, the US is a glaring exception

two to the French president, his mentor, he has been described as "baby Macron". Speculation is rife on whether the choice of a loyalist, subordinate in age (Élisabeth Borne, 62, female, and therefore never a Macron mini-me, resigned after less than two years), will end like Caesar's sponsorship of Brutus: in it a chance for the protégé to overtake or even betray the older man?

The promotion of Attal looks like a sign that Emmanuel Macron is banking on the French electorate having stereotypical assumptions about age and energy levels. The president, himself only 46, was the youngest ever to be elected in France in 2017, at 39. But these days his administration badly needs an injection of oomph.

However, do such Operation Young Bloods ever really deliver? "In presentational terms youth can be an advantage," according to Steven Fielding, emeritus professor of political history at Nottingham University. For an incoming administration or a hopeful challenger "it highlights the vigour you're going to bring to change".

But, Fielding adds, it won't work "at the end of a long spell of your party in power". It's a salutary warning not just to the French government but two of the UK's incumbent parties,

Conservative and Scottish Nationalist.

Both Tony Blair and John F Kennedy won power at the age of 43: Blair talked up a "young country"; JFK was the symbol of an optimistic future after two terms of Eisenhower, by then 70. David Cameron was also 43 when he became UK prime minister – no Pitt, but his smooth visage proved a useful, upbeat contrast during the 2010 election with Gordon Brown's careworn features, with 15 years of Labour in power etched on them.

In recent months, Tory strategists casting around for attack lines to use against the opposition leader Sir Keir Starmer have had a go at his age – the Labour challenger is 61 to Sunak's 43, the magic moment for Blair, Cameron and JFK. But it smacked of desperation, the attempt to portray Sunak as the change candidate has since been dropped.

As for the SNP, 38-year-old Humza Yousaf's hopes of offering a fresh start after taking over from Nicola Sturgeon as Scotland's first minister in March last year seem dashed: the party, which has been the largest in the Scottish parliament since 2007, is embroiled in scandals and down in the polls.

Steve Richards, author of several books on Britain's political leaders, disputes the idea of 43 as a modern ideal: it's good for establishing an aura of energy, he admits, but never having been part of a previous government proved a problem for both Blair and Cameron – "better for them to have been 10 years older with experience of government".

The ill health that plagued Labour's postwar administrations showed the danger of being too old, Richards adds, while Margaret Thatcher was lucky to be elected at 53: "A good age: previous ministerial experience, but fit and energetic... too energetic!"

The glaring exception among western democracies to this preoccupation with youthful vitality, is, of course, today's US. America's constitution demonstrates an opposite concern, blocking anyone under 35 from becoming president. This year's White House contest is likely to be the battle of the gerontocrats, pitting incumbent Joe Biden, now 81, against Donald Trump, 77. Both broke the upper age record when inaugurated the first time around. Observers are struggling to use even the dead, backhanded compliment "sprightly" about either of them with any conviction.

It is "a sign to make surrounding nations stare" as the satire on Pitt's premiership put it, but for the opposite reason. Perhaps the US should encourage Biden and Trump to look for some Macron-style mini-me protégés. Or perhaps in the latter case, we should pray they do not.

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Letters

Indian data may be overstating the economy's performance

In a recent FT article ("Modi has driven growth and helped poor but record on jobs is wanting", Report, January 10) John Reed and Andy Lin show, using data, that the last 10 years have been one of mixed economic success in India, a conclusion I broadly agree with. But the data in some ways overstates the performance or does not capture some of the problems.

For example, data for gross domestic product growth inadequately reflects the conditions in the informal sector, and it is that sector which was particularly harmed by the policies of demonisation and unnecessarily harsh lockdowns during Covid.

Similarly, the unemployment data does not consider the large numbers of low-productivity self-employed – who suffer from lack of alternative employment opportunities – and the increased numbers of discouraged labour force dropouts, not captured by the jobs data.

On poverty trends too the article uses World Bank data but that is only a modified estimate based on surveys from the Centre for Monitoring Indian Economy think-tank, which some statisticians believe underestimates numbers for the poor.

For many decades India has not carried out official surveys on

household income because in a country where a majority are self-employed informal workers, it is difficult to impute income. For the same reason the large expansion of the middle class mentioned in the article based on the survey by an independent think-tank is somewhat suspect without an explanation of how actually that imputation process has been resolved.

The article mentions the continuing decline in infant mortality, but not the very slow progress in child malnutrition (stunting, wasting, etc.). It also overlooks the decline in private investment and savings rates over the past 10 years. With that and without

any significant improvement in the quality of education and skills the rise in growth rates in future remains shaky for all the undoubted improvements in infrastructure.

Another basis of future productivity rise has to be research and development expenditure, the dismal performance of which the article duly notes. But this is not unrelated to the large rise of concentrated, oligarchic, crony-capitalism, which is good for profits but not for productivity. Pranam Bardhan Distinguished Professor Emeritus of Economics, University of California Berkeley, CA, US

Where is Italy in the taxonomy of political risk?

In "Macron attempts a reboot" (FT View, January 11) you rightly argue that "the rise of France's far right is part of a broader European phenomenon", adding that "the risk, though, is more serious in France than in parliamentary systems such as the Netherlands, Sweden, or even Germany, because of the powerful, directly elected president".

In reading this, one wonders what the place of Italy in this taxonomy of risk, at a moment when the government is trying to introduce a controversial constitutional reform to directly elect the president of the Italian council of ministers.

Is the risk inevitably weaker than in the Netherlands, Sweden or Germany? Giovanni Farese Rome, Italy

Trump is no Mafia don, but why chance it?

Gideon Rachman ("Why I still believe in America", Opinion, January 9) underscores his belief in America by absurdly quoting Amerigo Bonasera, a fictional character who was an equally fictional mobster's bailout in Francis Ford Coppola's *The Godfather*.

And then Rachman equates former president Donald Trump with Don Vito Corleone himself, Marlon Brando's character. Amerigo Vespucci, the Italian explorer and navigator whose name is said to be from where the term America is derived, must be spinning in his grave.

Trump is a trompe l'oeil candidate whose robust geopolitical ignorance, incoherent economic ideology and sheer divisiveness make him a threat to America's constitutional republic.

"The US is not Hungary" – as Rachman notes – and America can surely survive a second Trump term, but why chance it?

Opposition candidates ought to heed Nicolò Machiavelli: "The people, as Cicero says, may be ignorant, but they can recognise the truth and will readily living when some trustworthy man explains it to them."

Rosario A Iaconis Mineola, NY, US

Mexico's over-reliance on remittances is the problem

While Mexico president Andrés Manuel López Obrador celebrates the record remittances that he Mexicans living in the US, it's crucial to recognise that this increase is not an inherent achievement of the Mexican economy ("Suspicious grow over Mexico's \$65bn boom in US remittances", Opinion, January 10).

A more celebratory milestone would



Marlon Brando plays Mafia patriarch Don Corleone in 'The Godfather'

be reducing Mexican households' dependency on these remittances. Currently ranked second only to India in remittance receipts, Mexico's heavy reliance on these funds is a significant economic factor, but not necessarily a sign of domestic economic strength. Alyn Perez New York, NY, US

Let's hold Rio Tinto feet to fire on the Guinea mine

Fascinating to read about the Rio Tinto mining endeavour in Guinea ("Rio Tinto set to start world's biggest mine project", Report, January 8).

Firstly, I notice that Rio Tinto touts its environmental, social and governance programme, so I hope the FT's reporters will be looking especially at the environmental and governance consequences of this ambitious project.

Environment and governance do often go together, as I've seen around the world. I'm not in the forecasting business, but my guess is that ESG will in a few years reside on the slag heap of alphabet ideologies.

But I predict there will be a replacement for it. Scott Rasmussen San Francisco, CA, US

'The Ascetic' – my idea of an FT Weekend column

Your letter correspondent John Gaffney (Letters, December 16) brings a philosophical angle to HTS's 'The Ascetic' column and its section "In my fridge you'll always find" (HTS).

In my own fridge, you'll always find some items from the reduced shelf at my local Co-op shop.

Perhaps I might be the first to feature in a new column in the Financial Times: "The Ascetic". David Cole Dunmow, Essex, UK

Turbulence at Boeing is chance for real reforms

Peggy Hollinger is on target with her piece on Boeing but misses one important point ("Troubled Boeing's mid-flight drama is another severe blow", Opinion, January 9).

Boeing needs to be an engineering and manufacturing-driven company. The 1997 reverse merger with McDonnell Douglas put profit and cost controls above all else. Moving its headquarters from Seattle to Chicago and Virginia made sense if the defence contracting business were the cash cow and growth engine, as it is with Lockheed Martin Corporation and General Dynamics.

But that's not the case for Boeing, and this weakness will continue to wreak havoc on Boeing Commercial until everyone, including Southwest Airlines, switches to using Airbus, which will force Boeing to make the necessary changes.

The US government might not like Airbus having a monopoly on airframes, but you cannot force the airlines to buy Boeing aircraft – especially when passengers will fear their flight falling from the sky. Dennis Gerson Colleyville, TX, US

A chain-smoking Azores legend: my maths teacher

As a veteran reader of the FT, I agree with Richard Styles ("A farmer makes the case for teaching Pythagoras", Letters, December 30) about the usefulness of Pythagoras.

After starting secondary school in 1974, I noticed that my history teachers were excellent. I never forgot their names – Olimpia Gil, Francisco Maduro-Dias and Paula Cristina Lourenço. Maths teachers, on the other hand, were appalling. I can't remember any of them.

The only reason I didn't "fall off the ladder" was because of Manuel Vasco Montalverne Sequeira who, for 50 years, taught maths privately to 12 to 15-year-old students in Angra do Heroísmo. A legendary teacher, who never attended university and chain-smoked Marlboro cigarettes throughout tutorials, Mister Montalverne helped me to unlearn what I had "learned" throughout the week in school. One of his most memorable sentences was "One day Pythagoras of Syracuse told his grandchildren that the area of the square whose side is the hypotenuse is equal to the sum of the areas on the other two sides". Five decades later I still remember my Pythagoras.

Miguel Monjardino Visiting Professor of Geopolitics Institute for Political Studies Catholic University of Portugal Angra do Heroísmo, Azores, Portugal

Disqualification will not right Post Office wrongs

The Post Office scandal is just the latest in a series of corporate scandals that have led to public calls for senior executive accountability (FT View, January 9).

As with the financial crisis, public anger has been aroused by the contrast between the financial benefits enjoyed by executives and the losses suffered by individuals harmed by the activities of the institutions those executives led. Accountability – if achieved at all – is most likely to take the form of director disqualification. But this is wholly inadequate.

Disqualification is usually not imposed where directors are merely incompetent even if this causes great harm. Very serious incompetence is required, and this can be difficult to establish. As seriously, disqualification provides for neither financial penalties for directors, nor compensation for third parties such as post-masters. It does nothing to rectify the perceived injustice of executives benefitting financially while others are harmed. It is time that this accountability gap was addressed, and the law reformed, if justice and deterrence are ever to be achieved in the wake of these scandals.

A first step would be the introduction of a power to impose financial penalties to accompany disqualification which could be paid to those who had been harmed. A second step is for these expanded enforcement powers to be granted to the much-delayed Auditing, Reporting and Governance Authority rather than leaving disqualification to the Insolvency Service as currently proposed. While the Insolvency Service can take action against directors of solvent large companies, it chiefly focuses on small insolvent companies.

Yet as the Post Office scandal and the financial crisis demonstrate, the public demand for legal accountability is at its greatest, and the accountability gap is at its most glaring, in relation to those who lead our largest solvent companies.

Professor Joan Loughrey School of Law, Queen's University Belfast, Belfast, Northern Ireland, UK

Postscript to playwright's dire planetary prediction

With confirmation that global temperatures reached a new record in 2023 (Report, January 10), I am reminded of George Bernard Shaw's observation that "The longer I live, the more convinced I am that this planet is used by other planets as a lunatic asylum". Regrettably, we have written a postscript: "and now the inmates have set it on fire."

Ambrose Loughlin Dublin, Ireland

Opinion

Immigration crackdowns are good politics but bad economics

MARKETS

Ruchir Sharma



As migrants poured over the southern border last year, they became an even hotter political issue in the US, with many Democrats joining Republicans in calling for measures to control the illegal flows. The economic conversation, however, is heading in a different direction. It's about how the immigration surge helped explain the Goldilocks economy (neither too hot, nor too cold) of 2023, and how the political backlash imperils this windfall.

Driven by wars, hardship and the end of the pandemic, immigration jumped worldwide last year. The net increases, covering legal and illegal migrants, hit multi-decade highs in many of the most popular destination countries. Com-

pared with the average annual gains in the 2010s, net immigration roughly tripled in 2023 to 3.5m in the US and to 670,000 in the UK, while roughly doubling in Canada and Australia. In many countries, a backlash was already under way, and has accelerated predictably. The foreign-born population has been growing steadily in the US since 1980 and now accounts for almost 15 per cent of the whole, a peak last reached in 1910, when there was also a nativist streak unleashed in American politics and calls for stricter controls. Much of the current backlash is a reaction to the surge in illegal and dangerous crossings. It is animated in part by renewed hostility towards migrants and in part by a humane desire to fix the excess of suffering.

But in a period in which ageing populations are gutting workforces worldwide, migrants also provide a practical, much-needed boost in labour terms. Thanks to both immigrants and more Americans returning to work, the US labour force in 2023 grew three times faster than the underlying population. This helps explain why the widely

expected recession never arrived. The immigration surge contributed significantly to easing labour shortages, slowing inflation and lifting consumer demand. Net migration to the US accounted for roughly one-quarter of the increase in consumer spending – a healthy 2.7 per cent last year. In Canada and the UK, the surge added about 1 per cent to consumption growth.

The surge contributed to easing labour shortages, slowing inflation and lifting consumer demand

The exact impact on the labour force is more uncertain, since it is hard to know what share of new arrivals, particularly among those who entered illegally, got jobs. But the impact was large enough for Federal Reserve chair Jay Powell to mention in his December press conference, when he cited immigration picking up as one of the factors that eased supply bottlenecks last year.

That in turn reduced upward pressure on wages and inflation. In short, the conditions of 2023 – with unexpectedly high growth and a surprisingly rapid and significant retreat in inflation – are thanks in under-appreciated part to immigrants.

Now, the forces that boosted immigration are dissipating. The Biden administration is detaining illegal immigrants at the border in record high numbers, and has signalled its willingness to tighten enforcement further, if Republicans back new funding for Ukraine.

The US Border Patrol encountered and apprehended many fewer would-be immigrants in the last week of December than in earlier weeks. That may be a Christmas pause, or it may reflect the waning of the post-pandemic rush. Either way, an emerging immigration bust threatens the outlook for 2024, given that many people expect the Goldilocks conditions to continue.

The big risk is that legitimate concerns over illegal immigration spill over to restrict or discourage the flow of legal immigrants as well. The UK recently took steps to lower immigration by

more than half to 300,000. Australia still tightened visa rules for students and low-skilled workers.

Even Canada, which is raising its quota for permanent immigrants, is moving to limit the influx of temporary workers. France, imposing perhaps the toughest measures, is limiting welfare for foreigners, making it easier to remove migrants and ending automatic citizenship for children born in France to immigrant parents.

These steps may be good politics, in a world turning weary of outsiders, but they are questionable economics. By one recent count, the US would need to let in nearly 4m migrants a year, every year, to prevent its population growth turning negative in the coming decades. And most developed economies are much further down the road to population decline than the US. Smart politicians will need to find a balance between controlling the chaos of illegal immigration, and limiting the economic fallout of anti-immigrant policies.

The writer is chair of Rockefeller International

Victims of crime could benefit from a new ID system

Natalie Byrom

In 2013, Helen Pearson was repeatedly stabbed in a church yard after being given a new reference number for each of the 125 previous reports she had made against her stalker. The failure to link these reports meant that the police had missed vital opportunities to prevent her being attacked.

Had Pearson been given a unique ID number, against which all her interactions with the police were recorded, officers would have been able to spot the escalating pattern of harassment and accurately assess the risk posed by the stalker – giving them the chance to intervene before she was assaulted.

In some sectors of government, such as education and social care, IDs are increasingly seen as a crucial way to better services. In the justice system, however, the idea of unique IDs for victims is still just an idea.

In 2023, I worked with victims' groups to try to understand how issues with data were affecting our ability to help victims of crime. The findings were alarming – the groups reported that, at present, data on victims of crime is inconsistently collected and often not linked – within or across the agencies of the criminal justice system.

The failure to introduce measures to improve the way that data about victims is collected and shared has had serious consequences – particularly for those who are subject to offences characterised by patterns of repeat behaviour, such as domestic violence, stalking and antisocial behaviour.

The draft Victims and Prisoners bill,

making it your way through the House of Lords, promises to "put victims at the heart of the criminal justice system". It is difficult to see how it will achieve this aim, when existing data systems, which will not be reformed under the draft legislation, are set up to render victims' true pictures and history invisible.

Unique IDs for victims could also support the creation of new digital services, keeping victims updated on the progress of their case and tackling one of the key causes of the dissatisfaction they have with the criminal justice process. Such a system would also create the infrastructure for monitoring compliance with the Victims Code, which sets out what victims are owed, in law. Recording compliance with the code and linking it to the relevant victim ID would mean that those in charge could routinely monitor disparities in the experience of victims of different types of crime, or from different backgrounds – and act to address them.

In terms of improving the design of services and policy, better demographic data on victims of crime, linked to the reasons why they withdraw from prosecutions, could help to create effective support services – reducing victim withdrawals and addressing one of the key drivers of cost across the criminal justice system.

The failure to address existing issues with data is a problem of vision and ambition, not technical feasibility. Unique identifiers for both victims and defendants are already in use by countries such as Finland – which frequently appears near the top of comparison indices measuring the quality of justice systems in different countries.

Of course, there are potential downsides to introducing IDs, including the risk that detailed information will be shared inappropriately, or used for purposes other than the improvement of services. These could be managed by giving the victims commissioner for England and Wales a role in determining permitted uses of data associated with victim IDs.

Creating robust data governance is vital to maintaining public trust, and making changes will require investment. But in a context where the criminal justice system is at breaking point, and victim trust and confidence is low, politicians must weigh the cost of allowing the status quo to persist, against that of taking action.

The writer sits on the Civil Justice Council and the UK Ministry of Justice's senior data governance panel

America needs straight talk on trade

AMERICA

Rana Foroohar



Trade policy is where the rubber meets the road between Joe Biden's two favourite interest groups – American workers and American allies. Consider the recent statement about Japanese giant Nissan Steel's bid for US Steel by the president's top economic adviser, Lael Brainard. While Biden welcomes "manufacturers across the world building their futures in America with American jobs and American workers", she said, "he also believes the purchase of this iconic American-owned company by a foreign entity – even one from a close ally – appears to deserve serious scrutiny in terms of its potential impact on national security and supply chain reliability".

Translation: yes, we've told allies such as Japan that we want to hold them closer as we try to decouple from China in strategic areas like steel, chips, electric vehicles and so on. But we are still worried that they'll work with China, preference their own homegrown production in a pinch, or shift steel jobs to low-wage tight-to-work states where union organising is more difficult. And this will make the president look bad at a time when Donald Trump is about to

start campaigning on a hardline America First trade policy. These are legitimate concerns. Robert Lighthizer, the former US trade representative under Trump, has already been on Fox News decrying the deal. Lighthizer successfully put pressure on Japan to limit exports of steel, cars and other goods as deputy trade secretary in the Reagan administration. Now he is articulating a point that many on the left and in labour organisations would agree with. There is an inherent asymmetry between laissez-faire free-trade policy, which assumes an even playing field without subsidies or national security interests, and state-run economies that assume just the opposite.

Japan, unlike China, is not state run. But in some ways it presents a more complex challenge for the regulators at the Committee on Foreign Investment in the United States who're looking at the deal. Japan is an ally. But Nissan has dual Japanese nationality. This raises the question of just how much allies have to toe Washington's domestic policy line with Beijing to do business in the US in strategic sectors.

What's more, while Japan is ostensibly a free-market economy, the country's "keiretsu" system of interlocking corporate share ownership and business relationships (which tend to favour domestic players) presents a challenge. This US administration is committed, under section 232 provisions of the Trade Expansion Act, to raising domestic steel production output long term. Can a multinational company in Asia really be

guaranteed to do that? If there were, say, a natural disaster or war that disrupted global supply chains, who would get preference for Nissan's US steel production? Japan or America?

These questions can of course be finessed away with legal agreements should the merger be allowed to go through. But there is a deeper issue at stake. What, exactly, is the Biden administration's trade policy? And how does it differ from what Trump's would be if he were re-elected?

America's allies want to know. And they can be forgiven for feeling that they are being given mixed messages on this score. Friend-shoring is supposed to include friends, such as Japan. But when it comes to the most strategic industries, such as steel, perhaps that's not the case.

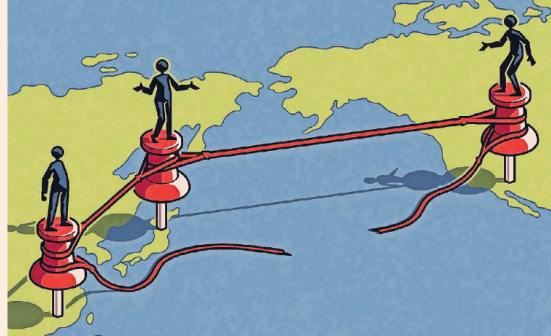
White House won't be able to sell its approach unless it puts more meat on the bones of Biden's policies

Or maybe it could be, if a company were to commit to unionised labour and no Chinese operations. Who knows? That's the point here – the world is desperate for more clarity from the US on trade.

Why hasn't it come yet? In part because of differences in how officials see a decoupling world. Some in the commerce and security sectors are eager to cut new trade deals with allies as a counter to China's economic power. Others, such as US trade representative Katherine Tai, have made the case for a "postcolonial" trade paradigm based on a shared approach to labour and the environment. This strategy acknowledges that the existing market system hasn't prioritised them, and that institutions like the WTO aren't purpose-built to do so.

I would agree with that, although some allies, such as the EU, do not. I would also argue that the White House won't be able to sell its approach to the rest of the world unless it puts more meat on the bones of how Biden's trade policies differ from Trump's, and why they are better than others.

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A grand bargain on the next EU budget is possible

ECONOMICS

Martin Sandbu



In the run-up to a summit on February 1, policymakers are still struggling to tie up loose ends in the mid-term review of the current EU budget, which runs from 2022 to 2027. Time spent on this is time not spent on looking ahead. Even if the next budget is years away, it is urgent that political leaders lift their eyes to that horizon.

On the normal schedule, the first proposals will have to be made next year. But on the normal schedule, leaders take years to haggle over hundreds of 1 per cent of gross domestic product, not over the strategic role a budget should play. In the pandemic, they showed strategic thinking by creating the Recovery and Resilience Facility, a separate one-off budget almost as big as the regular

one. The need for boldness, however, dies on your border. The next multiyear budget must be planned for an era of great strategic imperatives. It will have to be significantly larger than previous ones. In part, this is due to the political commitment to Ukraine's membership talks. Designing a budget going up to 2054 which did not provide for Ukraine joining by that point would be a political gift to Vladimir Putin, on top of being terrible financial planning.

The budget also needs to match the task of decarbonising and digitising the European economy and beef up the region's ability to defend itself. That requires massive investments, not enough of which will be done if left to national budgets. And to the extent that national budgets could do the job, unequally powerful states would run the level playing field between them.

The penny will drop sooner or later in northern Europe: when investment needs are huge, you cannot be both a frugal and a protector of the single market, any more than you can be both a fiscal

hawk and a defence hawk when war rages on your border. At the same time, how money is spent has to change. One consistent message from net contributors is that the next budget cannot just "add on" Ukraine – and the transfers that entails – while leaving everything else as it currently is. As the main priority changes from "solidarity" of rich with poor countries to addressing common threats and

In the pandemic, there was strategic thinking. But the need for boldness did not pass with the lockdowns

challenges, so must the composition of the budget.

Forging a new common vision of what the budget could do takes time. The later leaders leave it, the less opportunity they have even to contemplate how things could be changed fundamentally, let alone agree. Old political positions will be locked in and negotiations

limited to haggling over relatively small adjustments within the existing framework.

This is also a fruitful time to think big because of fresh or imminent lessons from other policies. One is the flirtation with separate budgets. It has been suggested, for example, that Ukraine could be funded on an intergovernmental "at 26" basis to overcome a Hungarian veto. The recent Franco-German group tasked with imagining treaty reforms opened the possibility of bespoke budgets for purposes not everyone was ready to endorse.

The RRF, which uses common borrowing to fund grants and loans to member states for projects agreed with the commission, has also shown that it is possible to do things in new ways. While the EU-funded national plans have not been without problems, there is a sense that the process of jointly agreeing projects has been constructive. Discussions persist of whether to seek an "RRF 2.0", and whether the common debt issued to fund the original version should be maintained rather than paid down. It is a mistake for northern

contributing states to want to simply shut these discussions down rather than engage on the merits within the broader framework.

The contours of a grand bargain between net contributors and net recipients is clear enough. It would involve a much bigger budget, but a markedly different composition, shifting spending from old to new priorities. It would prefer direct common procurement or RRF-style allocation methods over old-style transfers and co-funding. It would focus much more on pan-European public goods – think power grids and defence procurement – and might be a lot less redistributive.

Each element is anathema to some countries. That is why they must be agreed as a package or not at all. The role of statecraft is to get from the latter to the former. The task of democratic statecraft, moreover, is to involve citizens in the agreement.

EU voters go to the polls in five months. The moment to start the big budget debate is now.

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